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REPORT FROM THE COMMISSION

TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

2017 Annual Management and Performance Report for the EU Budget

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Foreword

While 2016 was a year of doubt for the European project, not least with the decision of the United Kingdom to leave the Union, 2017 was a year of renewed hope and perspective. The 60th anniversary of the Treaty of Rome provided the backdrop to a period of deep reflection on the future of Europe, and a chance to reaffirm our commitment to the values of the Union and define priorities for the Union of 27.

The European Union was able to focus on making the economic recovery sustainable. Growth rates for the EU and the euro area beat expectations in 2017 to reach a 10-year high at 2.4 %. It also had to tackle a series of challenges, from competitiveness, migration, security to solidarity and addressing some natural disasters.

The EU budget is a unique asset for the Union, helping translate ambitions into tangible results on the ground. It complements national budgets by delivering European added value in areas where a coordinated response is the most efficient and effective way to deliver on our priorities.

In the **Annual Management and Performance Report on the EU budget** we describe the many ways in which the EU budget contributed to the achievement of our common goals in 2017.

2017 was the fourth year of implementation of the current Multiannual Financial Framework and all the financial programmes are now fully operational. At the same time, with many unexpected challenges, the importance of a flexible approach to budget implementation was once more confirmed..

Boosting investment continued to be a top priority. The European Fund for Strategic Investments, part of the Investment Plan for Europe, has already triggered more than EUR 287 billion in new investment and has helped creating more than 300 000 jobs. In December, the European Parliament and Council decided to increase and extend the fund to catalyse investments of up to EUR 500 billion by 2020. Solidarity and support was also important with e.g. EUR 1.2 billion mobilised under the EU Solidarity Fund, the highest sum ever mobilised in a single instalment, following the earthquakes of 2016 and 2017 in the Italian regions of Abruzzo, Lazio, Marche and Umbria.

The EU budget also continued to underpin the comprehensive European response to the migration crisis and the management of Europe's external borders. Financed by the EU budget, the European Border and Coast Guard Agency with its extended mandate has significantly strengthened its presence at the EU's external borders with the aim of supporting the Member States in their border management activities and jointly implementing an integrated border management at EU level.

The EU budget also allowed the Union to play a strong role beyond Europe's borders during a period of turbulence in Europe's neighbourhood and global challenges such as climate change.

An optimal performance of the Union's budget has been a priority for the Juncker Commission from day one. We strongly support the increasing emphasis of the European Parliament, the Member States and the European Court of Auditors not only on how programmes are managed, but on whether they are delivering results in the areas that really matter for Europe's citizens.

The **Annual Management and Performance Report** reflects the European Commission's dual focus on the **performance of the EU budget but also on sound financial management.** This Report is part of the Commission's Integrated Financial Reporting Package and an essential part of our highly developed system of financial accountability. **Through this report, we take overall political responsibility for the management of the EU budget**. This is a responsibility we take extremely seriously.

Looking ahead, the Commission recently tabled its proposals for the future Multiannual Financial Framework. Building on a comprehensive Spending Review of the current financial programmes, these proposals show how the future EU budget will contribute to the ambitious agenda agreed by Leaders in Bratislava and in the Rome Declaration. It is a proposal for a more modern, streamlined and flexible budget, targeting those areas where pooling resources creates real added value for all European citizens. Performance and sound financial management are at the heart of these proposals.

The Commission will continue to play its role to the full, together with the Member States, to harness the potential of the EU budget investing in growth, create jobs and tackle common challenges.

Günther H. Oettinger
Commissioner for Budget and Human Resources

Executive summary

This **Annual Management and Performance Report** for the EU Budget presents the latest information on the results achieved with the EU budget (section 1) and on how the EU budget is managed and protected (section 2).

This report is part of the annual Integrated Financial Reporting Package, which provides detailed information on revenue, expenditure, management and performance of the EU budget, in line with best practices for transparency and accountability. This package is also the Commission's main contribution to the annual budgetary discharge process.

Section 1 of the Annual Management and Performance Report covers the results achieved with the EU budget across all budget headings and policy areas. It explains how the EU's financial programmes have contributed to the Union's political priorities and summarises the latest evaluation results on the performance of EU programmes in the 2014-2020 period.

2017 was the fourth year of the current Multiannual Financial Framework and the third of the mandate of the current Commission. The Commission proposed a budget reflecting and supporting the political priorities set by President Juncker, in particular contributing to the greatest extent possible to jobs, growth and investment, and providing a coordinated European response to the challenges of migration management and the fight against terrorism and organised crime. Besides these two clear priorities, through the EU budget and other instruments, the Commission will continue to progress towards a connected Digital Single Market, a resilient energy union, including climate action, a social Union and a stronger EU as a global actor and in the field of defence.

Jobs, growth and investments

The European economy continued to recover in 2017. Jobs are being created, public finances are on a much firmer footing, and structural reforms are laying the foundations for sustainable growth in the longer-term. Downside risks remain, for example in relation to the world economy and the volatility of global financial markets. The priority for the EU budget in 2017 was to build on the steady recovery, particularly focused on closing the European investment gap.

The **European Fund for Strategic Investments**, part of the Investment Plan for Europe, was at the heart of these efforts. By mid-2018, the Fund has already mobilised over EUR 287 billion in new investments in the fields of transport, digital, energy, health care, research and innovation throughout the EU. This helped already to create more than 300 000 jobs. Thanks to these investments, high-speed internet access has been provided for 11 million households, renewable energy for more than 4 million households and better health care for 1 million citizens[1].

It is estimated that projects financed by the European Fund for Strategic Investments will generate an increase of Gross Domestic Product in the Union of 0.7 % and create 700 000 new jobs by 20202.

There are also strong synergies between the European Fund for Strategic Investments and other financial instruments supported by the EU budget, for example the loan guarantee facility of the **Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme (COSME).** By the end of 2017, COSME provided financing to more than 275 000 small and medium sized companies (of which 50 % were startups) in 25 countries that would otherwise have struggled to secure private financing due to their high risk profile.

The **European Regional Development Fund** has also contributed to the success of small and medium sized enterprises, providing financing to more than 457 000 small and medium sized enterprises.

Around 156 000 jobs are expected to be directly created in small and medium enterprises supported by the European Regional Development Fund (projects selected by the end of 2016).

The **Connecting Europe Facility** is supporting targeted investments in infrastructure projects in the areas of energy, transport and digital services. 86 % of transport investment is allocated to cross-border projects that will lead to a significant improvement in European transport infrastructure and a strengthening of Europe's Single Market.

The Connecting Europe Facility contributed to:

- the upgrade of an important railway section in the North-East of Poland (Białystok-Ełk) as part of the Rail-Baltica global project;

- a new electricity line between Alytus (Lithuania) and the Lithuanian border with Poland which ended the energy isolation of the Baltic States;

- 16 Member States using the Core Service Platform of eHealth thus facilitating cross-border patient safety and continuity of care.

Europe's flagship **research and innovation programme, Horizon 2020** is key for promoting innovation and a knowledge based economy. For example, the Graphene Flagship is a striking example of the strong EU added value of Horizon 2020. Due to its unique combination of superior properties, graphene is a credible starting point for new disruptive technologies across a wide range of fields. More than 150 partners in over 20 European countries from both industry and academia are jointly developing applications in areas such as 5G mobile technologies, batteries, aerospace, medical applications, and automotive.

Thanks to the EU's research and innovation programme the first microprocessor for examining brain activity in high resolution was developed, a major boost to the fight against diseases like epilepsy.

Through Marie Skłodowska-Curie Actions the programme has funded 36 000 researchers at all stages of their career, regardless of their age or nationality, contributing significantly to keeping, developing and attracting research talents in Europe.

Agri-businesses also received strong support from the EU budget in 2017 through the Common Agricultural Policy. The benefits of this investment is the safeguarding of one of the EU's greatest assets, its rural industries, which despite a declining industry size, have maintained positive growth of nearly 9 % since 2005 while cutting greenhouse gas emissions by 24 % since 1990 and reducing fertiliser use with a positive impact on water quality.

By the end of 2016, Rural Development Programmes contributed to the restructuring and modernisation of almost 45 000 agricultural holdings.

The emphasis on the environment, climate and the wider rural context in which farming operates has been substantially increased within this Policy.

European response to the migration challenge and the fight against terrorism

For 2017, tackling the refugee crisis and the migration challenge has been at the top of the Commission's agenda. The EU budget has responded to this with financial support for effective border management and the integration of refugees. The flexibility of the EU budget to mobilise funds was used to the full, providing invaluable support to Member States in an areas where a coordinated European approach is vital.

Inside the EU…

The management of migratory flows within the EU is supported by the **Asylum, Migration and Integration Fund** and the **Internal Security Fund**. Between 2013 and 2017, the number of people provided with assistance (in reception and asylum systems) increased from 18 944 to 184 122.

By December 2017, 26 849 people in need of international protection have been resettled and 33 151 people were relocated. Specific support from the EU budget was earmarked in support of the two relocation schemes for Italy and Greece (EUR 651 million) and of the resettlement scheme (EUR 872 million).

Also in 2017 the EU budget has been mobilised to implement the 'hotspot' approach, whereby EU agencies work on the ground to swiftly identify, register and fingerprint incoming migrants. This work continued in Greece and Italy with a total capacity of around 5 600 places in Greece[3] and 1 850 in Italy.

At the end of 2017, over 45 000 refugees and migrants were still stranded in Greece. From mid-2016 almost 40 000 people benefitted in Greece from the Emergency Support to Integration and Accommodation programme and cash assistance scheme under the **Emergency Support Instrument.**

During the first semester of 2017, around 1 000 places for unaccompanied minors in dedicated shelters were covered by the Emergency Support Instrument.

As of August, the Greek authorities took over the funding of these shelters through their national programme under the Asylum, Migration and Integration Fund.

Effective border management is also important in response to the current migratory challenges. **Frontex, the European Border and Coast Guard Agency,** has become an essential actor in migration enforcement on the European level, taking on new responsibilities and tools related to returns of people who have exhausted all legal avenues to legitimise their stay within the EU. The pace of return operations organised by the Agency has continued to grow, reaching a total number of 14 271 persons returned in 2017.

The European Border and Coast Guard Agency contributed to rescuing 111 000 migrants that arrived in Italy via the Central Mediterranean Route.

External border control was also supported by further development of information technology systems, in particular the **Visa Information System** and the **Schengen Information System**. The Visa Information System contained information on 55 million short-stay visa applications at the beginning of 2018.

In this context, the **International Security Fund** contributed to the training of,8 134 law enforcement officials on cross-border-related topics (terrorism, organised crime, corruption).

Also, large scale infrastructure and space projects financed by the EU budget played a role in the response to the refugee crisis. **Galileo**'s Search and Rescue service drastically reduces the time to detect emergency distress beacons from up to three hours to just ten minutes, greatly improving accurate localisation.

…and in partnership with our neighbours

In addressing migratory challenges, fostering a coordinated and collaborative partnership with neighbouring regions and other third countries to address the root causes was vitally important. For that reason, an increasing share of the EU's non-humanitarian aid for Syria's neighbouring countries was provided through the **EU Regional Trust Fund in Response to the Syrian crisis, the "Madad Fund":** financing passed in 2017 the goal of EUR 1 billion.

Thanks to the Madad Fund, improved access to quality education, protection, and psycho-social support was obtained by more than 450 000 refugee and host community children and youths[4].

Libya remained the main country of departure towards Italy. As a response, the pace of implementation of the North of Africa window of the **EU Trust Fund for Africa** increased considerably with eight new programs approved for a total amount of EUR 232.5 million, as well as one cross-window program for EUR 8.6 million.

By the end of 2017 almost the full EUR 3 billion allocated to the **Facility for Refugees in Turkey** had been committed to projects which ensure that the needs of refugees and host communities in Turkey are addressed in a comprehensive and coordinated manner.

Almost two million people received access to primary healthcare services and around one million to rehabilitative mental health services thanks to the Facility for Refugees in Turkey[5].

The EU budget continued to provide strong support in 2017 to many other political priorities of the Union.

Besides these priorities, through EU spending programmes, the Commission has made progress in other fields as well, on for example the social Union, external action, a resilient energy union, including climate action, a connected digital single market and on defence.

Social investment and youth

Employment, Social Inclusion and Education was also an important priority for the 2017 budget. The **Youth Employment Initiative** focuses on decreasing youth unemployment throughout the Union. This programme provided support to young people living in regions where young unemployment was higher than 25 % in 2012. Its budgetary allocation was topped up in 2017 for regions with youth unemployment higher than 25 % in 2016.

Since 2014, about 790 000 people were back in employment, 820 000 had gained a qualification, 276 000 were in education or training following actions funded by the European Social Fund including the Youth Employment Initiative.

*As a result of all actions of the **European Social Fund** almost, 8 million people have been helped in their search for a job, training, or education between 2014 and 2016.*

Erasmus+ celebrated its 30th anniversary in 2017. Since 2014, over 1.8 million students have taken part in mobility activities, and more than 240 000 organisations are involved in cooperation projects. The mid-term evaluation indicates that:

Willingness to move abroad permanently is higher under Erasmus + participants (31 % more willingness compared to non-participants); also they identify themselves more as a EU citizen (19 % more).

Volunteering supported by the Erasmus+ together with eight other EU programmes and instruments contributed to the creation of further opportunities for young people under the European Solidarity Corps. One year since its launch, more than 42 000 young people from all Member States have signed up. By the end of 2017, one year since the opening of the online registration tool, more than 2 500 placements have been offered to the young people[6].

External action

The 2017 budget also contributed to **a stronger EU as a global actor.** The EU provided more than EUR 2.2 billion in **Humanitarian Aid** in 80 different countries[7]. Together with its Member States, the Union remained the largest donor of humanitarian aid in the world.

EU humanitarian funding has supported the education of over 4.7 million children caught up in emergencies in over 50 countries[8].

In 2017, an agreement on the **European Fund for Sustainable Development** was reached. This Fund is part of the External Investment Plan for Europe, which is tasked with scaling up private sector involvement in socio-economic development in partner countries. The response to the call for proposals for the first two investment allocations was very positive, 30 proposals from 12 partner institutions for a total value of more than EUR 2.5 billion were received.

Climate action and environment

The EU budget remained an important tool in the fight against climate change. To achieve this result, mitigation and adaptation actions are being integrated into all major EU spending programmes, in particular regional development and the Cohesion Fund, energy, transport, research and innovation, the Common Agricultural Policy as well as the EU's development policy.

In 2017 the total budget contribution to climate mainstreaming (i.e. budget spending on environmental projects) was estimated at 20.3 %.

Positive developments were also seen in the field of **energy efficiency in the Union**. The EU has set itself a 20% energy savings target by 2020 (when compared to the projected use of energy in 2020) – this is roughly equivalent to turning off 400 power stations.

*More than 2 000 Megawatts of additional capacity of renewable energy production and reduction of greenhouse emissions of more than 3 million tonnes of CO_2 equivalents is expected as a result of projects selected up to 2016 under the **Cohesion Fund**.*

Furthermore, a reduction of greenhouse gas emissions of 3 million tonnes of CO_2 equivalents is the estimated result of projects financed under the **European Regional Development Fund**.

Digital Single Market

The European Fund for Strategic Investments has also contributed to the completion of the **Digital Single Market**, along with the **Connecting Europe Facility.** Besides this, up to the end of 2017, around 5 500 projects were selected under the Cohesion Fund to support the achievement of a connected Digital Single Market.

1 million additional households had broadband access by the end of 2016 as a result of support from the European Regional Development Fund.

Defence

The launch of the European Defence Fund in 2017 marked the beginning of a new chapter in defence cooperation. This Fund will act to support Member States to spend more efficiently in joint defence capabilities, to strengthen European citizens' security and to foster a competitive and innovative industrial base.

Internal control and financial management

In addition to the results achieved through EU spending, the way the EU budget is managed has a major impact on its overall performance. This is why the Commission strives to achieve the highest standards in financial management in terms of efficiency, effectiveness and cost-effectiveness. This is the focus of Section 2 of the Annual Management and Performance Report.

A stronger internal control framework

The Commission further strengthened its internal control framework in 2017 based on international standards and best practices. The aim is to move from a compliance-based system to a performance-based system. This will ensure robust internal control while giving Commission departments the necessary flexibility to adapt to their specific needs and circumstances. Although 2017 was a transition year, already one third of departments have reported on the effect the new principles were having on the effectiveness of their controls. **Overall, all departments concluded that the internal control standards and principles were working well and implemented effectively**. The new internal control framework also allows for a more nuanced assessment; some departments indicated a need to improve effectiveness in the implementation of specific principles or standards.

The financial management and control systems for the EU budget have improved considerably over time. This achievement has also been recognised by the European Court of Auditors. For the first time, the European Court of Auditors in its most recent statement of assurance[9], gave a qualified rather than an adverse opinion on the legality and regularity of the EU budget payments. The level of error dropped in all policy areas, continuing the downward trend in the overall level of estimated error. The level of error was below 2 % for about half of EU spending, and no material error was found in revenue.

The Commission nevertheless continues to improve its control systems.

Effective management and protection of the EU budget

The Commission gives the highest priority to ensuring that the EU budget is well-managed and that all the necessary measures are in place to **protect taxpayers' money**.

Although management of the budget is the ultimate responsibility of the Commission, 68 % of expenditure is executed by Member State authorities under shared management, and 8 % through entrusted entities under indirect management.

The Commission has two main mechanisms for protecting the EU budget, i.e. EU spending, from undue or irregular expenditure:

- preventive mechanisms (e.g. ex ante controls, interruptions and suspension of payments); and
- corrective mechanisms (e.g. ex post controls; these are primarily financial corrections imposed on Member States but can also be recoveries of funds from the recipients of EU payments).

While errors may be detected in any given year, they are also duly corrected in subsequent years. A multiannual analysis of those errors and corrections is thus necessary and appropriate. **In the context of the Multiannual Financial Framework, the Commission's spending programmes, most control systems and management cycles are also multiannual by design.**

The 2017 overall amount at risk at payment is estimated to be 1.7 % of total relevant expenditure.

In 2017, in terms of financial corrections and recoveries, the Commission departments' multi-annual control systems have enabled them to **detect and correct** EUR 897 million before the funds were released and EUR 1 949 million after the funds were released.

The forward-looking overall amount at risk at closure, i.e. once all corrections have been made, is estimated to be 0.6 % of total relevant expenditure.

This result implies that the Commission departments' multiannual control mechanisms in general ensure appropriate management of the risks relating to the legality and regularity of the transactions and that the financial corrections and recoveries made in subsequent years do protect the EU budget overall.

In the meantime, further action is being taken for those programmes with persistently high levels of error to address their root causes and to prevent, detect and correct fraud[10]. In addition, the European Anti-Fraud Office is mandated to conduct independent investigations into fraud and corruption involving EU funds and to develop EU policies to counter fraud.

Management Assurance

In their 2017 Annual Activity Reports, all 50 Authorising Officers by Delegation declared that they had reasonable assurance that (i) the information contained in their report gives a true and fair view; (ii) the resources assigned to the activities have been used for their intended purpose and in accordance with the principle of sound financial management; (iii) and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

To ensure transparency, in the Annual Activity Reports, reservations are issued for those programmes for which the residual error rate has not (yet) fallen below 2 % at the time of reporting. 30 Authorising Officers by Delegation declared unqualified assurance, while 20 declarations were qualified with a total of 38 reservations for 2017 (37 in 2016). In all cases, the Authorising Officers by Delegation concerned drew up actions that need to be taken to address the underlying weaknesses and mitigate the resulting risks.

The financial impact of the reservations on management assurance has decreased to EUR 1 053 million for expenditure (EUR 1 621 million in 2016) and to EUR 431 million for revenue (EUR 517 million in 2016). The 'legacy' generation of the 2007-2013 programmes, which are phasing out, accounts for half of the number of reservations but only a minor share of the total amount at risk.

Another area of increased transparency concerns the EU Trust Funds. Given their increasing importance, the departments responsible for the trust funds now ensure complete coverage of the funds in their management reporting. This covers: (i) accountability for the contributions from the EU budget and the European Development Fund paid into the funds; and (ii) the management of the transactions made out of the funds (i.e. including other donors' funds).

Efficient, effective and cost-effective internal control systems

High standards of financial management require cost-effective measures to be in place to ensure the effective protection of the EU budget.

With this in mind, measures are taken to **develop synergies and seek efficiency gains**, for example by simplifying rules and procedures, improving and linking financial IT systems, and further pooling financial expertise. This ultimately leads to a lower bureaucratic burden, proportionate costs for controls on beneficiaries, lower error rates, improved data quality, and shorter payment times.

The **average payment time** of the Commission departments has **steadily decreased** over the years and is now below 30 days. The 2017 overall average net payment time is 20.4 days.

Increasingly, Commission departments are also taking measures to ensure that their control systems remain **risk-differentiated (i.e. more scrutiny and/or frequency is riskier areas, and less in low-risk areas) and cost-effective**. By the end of 2017, the periodical reviews carried out by all departments to examine their control systems had concluded that these systems were cost-effective.

Moreover, for the next generation of spending programmes, the departments are asked to justify (in the legislative financial statements annexed to their legislative proposals) why the proposed management mode(s), funding implementation mechanism(s) and methods of payment are considered to be the most appropriate solutions – not only in terms of the policy/programme objectives but also in terms of how they balance three of the internal control objectives, i.e. fast payments, low errors and low cost of control.

Introduction

The EU budget is key for implementing European policies and priorities. Investment from the EU budget delivers results in its own right and serves as a catalyst for additional investment from other public and private sector sources. It works hand in hand with other policy instruments at European and national level to address the many challenges, and opportunities, faced by the Union today.

Unlike national budgets, the EU budget is predominantly focused on investment. Its programmes are multiannual in nature, providing a stable and predictable framework which is ideally suited to supporting strategic investments over the medium to longer term. The EU budget focuses on areas where pooling resources to tackle common challenges can deliver results for all Europeans that could not be achieved as effectively or efficiently by Member States acting alone.

This applies in areas as diverse as cross-border infrastructure, external border management, large-scale space projects and pan-European research. In all these areas, the EU budget is uniquely placed to deliver for all Europeans. This is the essence of 'European added value'. It also applies to common policies such as the Common Agricultural Policy and Cohesion Policy.

The Commission plays a central role in the management of the budget, either managing programmes directly (e.g. in the areas of research or the mobility of young people) or in conjunction with Member States (for instance in Cohesion Policy).

The Commission is responsible for ensuring that the EU budget is managed responsibly and in compliance with the relevant rules in order to protect taxpayers' money. The Commission implements a robust system of governance and internal control to ensure that this is the case. The management of the EU budget is subject to external scrutiny from the European Court of Auditors.

The stronger record of financial management in recent years has allowed a reinforced focus on the **performance** of the budget: is the EU budget being put to the best possible use to deliver tangible results for all Europeans? The Commission cannot ensure this on its own – it is a joint responsibility with the Member States, regions, non-governmental organisations, project sponsors and all those involved in implementing the EU budget.

The **2017 Annual Management and Performance Report for the EU Budget** brings together both management and performance aspects into a single integrated report. It presents an overview of the latest information on the performance of the budget, and contains detailed reporting on issues arising in relation to the management and protection of the EU budget. This report is the Commission's main input to the annual 'discharge procedure' by which the European Parliament and the Council scrutinise the implementation of the EU budget.

Section 1 of the report describes, with examples, how the EU budget supports the Union's political priorities and provides the latest available data on results achieved up to the end of 2017. This reporting draws on information from the programme statements that form part of the budget proposal for 2019, the 2017 Annual Activity Reports produced by all Commission departments, and other sources such as implementation reports on EU programmes. For this year's Report, the mid-term evaluations have been a valuable additional source of performance information.

Section 2 reports on developments in relation to internal control, financial management and the protection of the EU budget in 2017. This is based on the Annual Activity Reports produced by each Commission department, in which the internal control environment and related issues are described in detail. Where issues were encountered in the course of the year the report describes how Commission departments have tackled these challenges. This section summarises information on the achievement of:

- **internal control objectives** (managing legality and regularity risks; the cost effectiveness of controls; and anti-fraud strategies);
- the **protection of the EU budget** and;
- the **management assurance** provided to the College of Commissioners.

This assurance is based on the conclusions of the Commission's management, which are based on statistical and non-statistical indicators on control results and corrections. These conclusions are also cross-checked against opinions from independent parties, including the Commission's Internal Audit Service (IAS) and the European Court of Auditors, as well as the conclusions of the work of the Audit Progress Committee.

The management assurance received from all departments and the assurance obtained through internal audit work form the basis for this report's overall conclusion. This conclusion enables the Commission, by adopting the report, to take **overall**

political responsibility for the management of the 2017 EU budget.

The report also incorporates the former **Communication on the protection of the EU budget**[1] and, as last year, will be part of the broader **EU budget Integrated Financial Reporting Package**, which also includes the annual accounts.

Section 1
Performance and results

2017 was an active year for the Union on many fronts, with positive results in job creation being seen throughout the Union on the back of the economic recovery. This allowed the **Union to focus increasingly on the efficient delivery of its political priorities in areas such as social policy, the digital single market and the completion of the Economic and Monetary Union**. Work continued on the development of a comprehensive approach to the internal and external aspects of migration and on the protection of the Union's external borders. New initiatives were launched to build up the Union's security and defence capabilities.

It was also a year for **reflection on the future of the Union** following the decision by the United Kingdom to leave the Union. The Commission's White Paper on the Future of Europe launched a Europe-wide debate on what the priorities should be for the future Europe of 27. The subsequent Reflection Paper on the Future of EU Finances looked at this challenge and put the key elements for discussion on the table.

In budgetary terms, 2017 was the fourth year of implementation of the current Multiannual Financial Framework. Most financial programmes are now fully operational following some initial delays and results are being seen on the ground.

Investment continued to be a major focus with the continued implementation of the European Fund for Strategic Investments to bridge Europe's investment gap. **The budget was also mobilised to support the development of a comprehensive European response to the internal and external aspects of migration, and to respond to growing and diverse security threats**. Being at mid-term in the implementation of current programmes, in 2017 a number of interim evaluations were finalised, providing a comprehensive analysis on the EU added value, relevance, effectiveness, efficiency and coherence of the programmes.

This section begins with a brief summary of the performance frameworks built into EU financial programmes. It then presents the latest information on results achieved with the EU budget up until the end of 2017. **The type of data reported depends on the level of maturity of the programmes, ranging from input data to the results of spending from the early part of this period**. Final evaluations on the impact of the programmes are not available yet, therefore definitive reporting will not be possible until a later stage.

The section is structured around the headings on the current Multiannual Financial Framework. The main programmes within each heading are covered. The report also describes how these programmes contribute to the Europe 2020 objectives and to the political priorities of the Juncker Commission. It also summarises evidence on the results achieved by the financial programmes but also on the areas where performance has fallen short of expectations or shortcomings have been identified in programme design by evaluations and audit work.

This information is used to inform implementation decisions on the current financial programmes but also to inform the legislators shaping the Commission's proposals for the future Multiannual Financial Framework, which were proposed by the Commission in past weeks. This report goes therefore hand in hand with the Spending Review accompanying the Commission's recent proposals for the future Multiannual Financial Framework[11]. Indeed, when formulating its proposals, the Commission has sought to draw lessons from the current and past financial frameworks in order to create high-performing programmes that will generate positive results for the European economy and society within their respective fields.

Performance of the EU budget

2014–2020 performance framework

A robust performance framework for the EU budget is a prerequisite for result-oriented and well-managed EU programmes. For the 2014-2020 Multiannual Financial Framework, performance frameworks have been included as a new compulsory feature in the legal basis of all financial programmes. This has helped a stronger focus on results across the budget. These frameworks entail the definition of clear and measureable objectives and indicators, as well as the necessary monitoring, reporting and evaluation arrangements. While there is scope for improvement, the Commission considers that indicators, together with other sources of performance information such as evaluations, provide a sound basis for monitoring progress towards programme objectives. They also help to anticipate and resolve problems in programme implementation when they arise.

During the early years of programme implementation, performance information is essentially based on inputs - i.e. the financial allocation to a particular programme - and, when possible, outputs. This type of information gives a good initial indication of how the EU budget is being spent and how it is contributing to the political priorities. As programme implementation progresses, information on the results and impact of spending will become available. However, it may be some time before the ultimate impact on the European economy and society can be assessed,

This year is the fourth year of implementation and many programmes are starting to report on direct results; however, some programmes have long implementation cycles and indicators on achievements are not yet fully available and reported in the Programme Statements i.e. this is notably the case for shared managed programmes.

Audits from the European Court of Auditors also help to improve the performance of programmes, as well as the efficiency and effectiveness of the operations, management systems and procedures of the bodies and institutions that manage EU funds. Nineteen recent reports for instance have confirmed the need to simplify rules and to strengthen or streamline the performance framework.

Lessons learned from audits and the practical experience of implementation, and findings from mid-term evaluations have fed into the comprehensive Spending Review accompanying the Commission's recent proposals for the future Multiannual Financial Framework and the accompanying sectoral programmes. Simplification and streamlining both of implementing rules and performance frameworks are an important theme of these proposals.

Performance reporting

In its 2016 Annual Report, the European Court of Auditors focused in particular on the quality of performance reporting in relation to the EU budget. Many of these reports are produced by the Commission. The analysis found that while the quality of performance reporting has improved considerably, there are several areas where further improvements could be made, for example:

- **Data quality**: in its performance reports, the Commission relies on the performance indicators that have been listed in the legal basis of the programmes and reported annually in the Programme Statements. The data is coming from a wide range of sources. The Court and the Internal Audit Service recommended disclosing those sources together with an assessment of the quality of the data collected. Acknowledging the importance of data quality, the Commission services paid particular attention this year to the quality of performance data when preparing their 2017 Annual Activity Reports. Data sources are clearly identified and any concerns regarding data quality clearly flagged. In certain cases, Commission services stopped reporting on some of the indicators where the available data was considered not sufficiently accurate or relevant.
- **Balanced reporting:** in its annual report of 2016 the Court recommended on the Annual Management and Performance Report of 2015 that the Commission make further efforts to ensure that performance reports provide a balanced picture, covering both programme achievements and challenges encountered. The Commission is committed to producing balanced reports and has, for example, provided extensive coverage in this report on the lessons drawn from the mid-term evaluations of financial programmes.
- **Links between performance frameworks:** the Court recommended that the Commission make more systematic use of cross-references between performance reports to bring out more clearly the links and complementaries between reports and between the performance framework for the EU budget (eg programme statements) and the framework for the Commission services.
- **Readability:** as the Court recommended, the Commission continued to improve the visual presentation of its reports, using visual aids,

graphs, diagrams, charts or text boxes where appropriate to present performance data and convey key performance messages.

Shared responsibility for results

Approximately three quarters of the EU budget is implemented under shared management with the Member States. Although the Commission has the ultimate financial responsibility for the management of the EU budget, **the responsibility for the results achieved with the EU budget is shared with a wide range of actors** at European, national and regional level. All have a part to play to ensure that every euro spent with the EU budget serves efficiently and effectively its intended purposes.

2017 EU budget

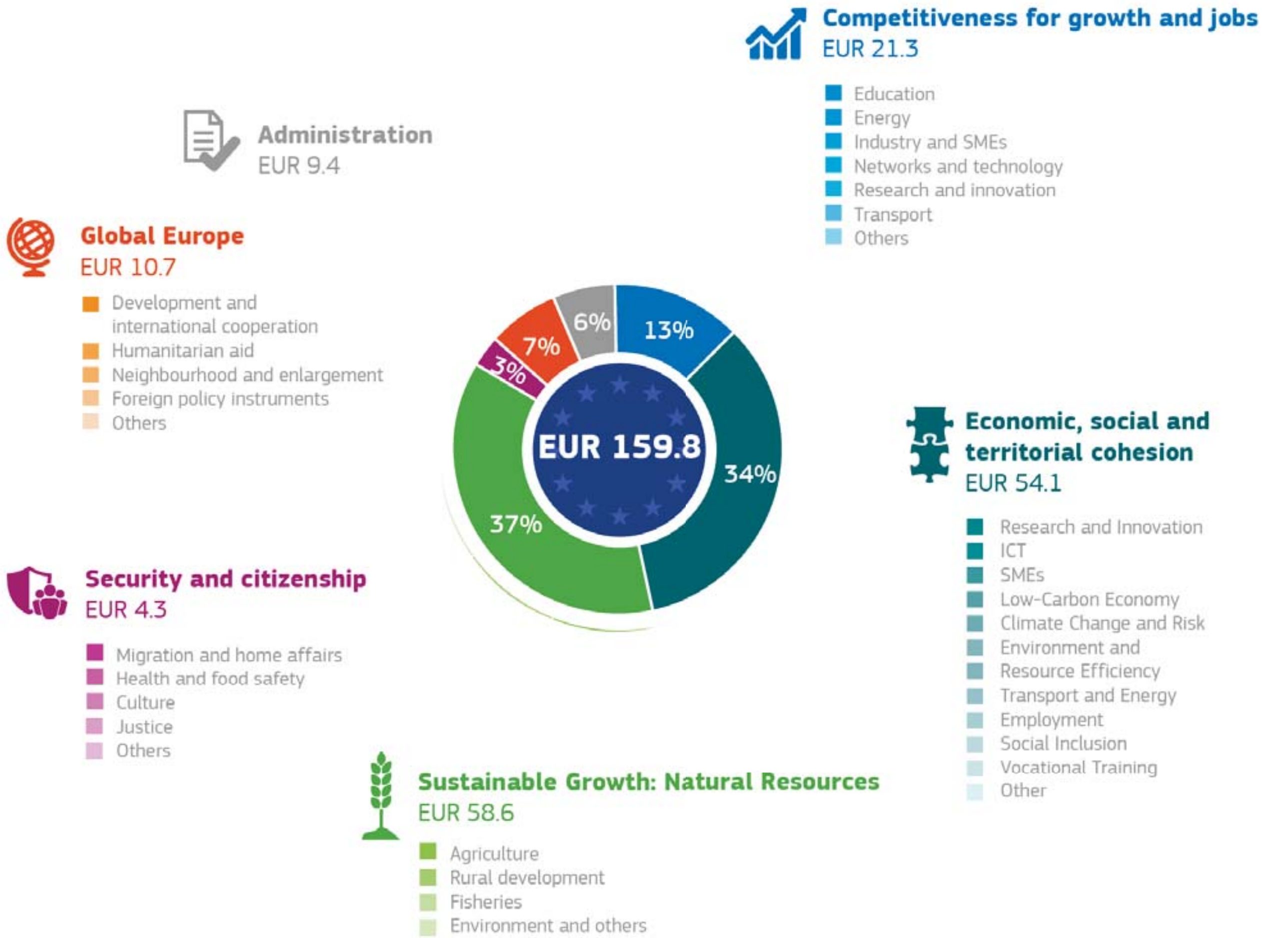


Chart: 2017 EU budget per budget heading. All amounts in EUR billion.

The EU budget, including amending budgets, amounted to EUR 159.8 billion in 2017. About half of this, EUR 75.4 billion, was allocated to smart and inclusive growth. Support to the European agricultural sector totalled EUR 58.6 billion. EUR 4.3 billion was spent on reinforcing the external borders of the Union and addressing the refugee crisis and irregular migration. EUR 10.7 billion was allocated to actions outside the Union and EUR 9.4 billion was spent on the administration of the EU institutions. In 2017 six amending budgets were adopted. Apart from the standard adjustments on the revenue side two draft amending budgets were adopted for the mobilisation of the European Solidarity Fund and adjustments were needed as a consequence of the adoption of the mid-term review.

Outside the ceilings of the Multi-Annual Financial Framework, there are Special Instruments; the Emergency Aid Reserve, the EU Solidarity Fund, the Flexibility Instrument and the European Globalisation Adjustment Fund.

Summary account of progress on horizontal issues

The EU budget and the Europe 2020 strategy

The current long term budget is designed to contribute to the Europe 2020 strategy for smart, sustainable and inclusive growth. The targets are a shared responsibility of the Union and its Member States and their achievement requires the combination of multiple policy tools, including the EU and national budgets.

The Europe 2020 headline targets are monitored by the Commission using nine indicators. Information on progress is regularly updated and published on Eurostat's website[12]. The table below presents the latest available data for these indicators.

Member States are making progress towards the goals they set eight years ago in the Europe 2020 strategy. Overall, the EU is approaching its targets on education, energy, climate and employment. 14 Member States have already achieved their national targets in reducing early school leaving and in increasing the share of tertiary educated population. 11 Member States have hit their renewable energy targets. The EU target of 75 % employment in 2020 is on track assuming the current trend continues and seven Member States have already attained their national goals. This is a remarkable achievement given the severe impact of the crisis on employment. However, the number of the people at risk of poverty or social exclusion peaked in 2012 and has since then decreased to around pre-crisis levels. As a result, the target is unlikely to be met in 2020. Likewise, the goal of 3 % of Gross Domestic Product investment in Research and Development is far from sight and will require major efforts to be met[13].

The contribution to Europe 2020 should not be confined within the limits of a single programme, but rather be seen as mutually reinforced contribution of the EU budget as a whole. It is estimated that 59 % of the EU budget commitments in 2017 are linked to the Europe 2020 strategy.

1. Increasing the employment rate of the population aged 20-64 to at least 75%	68.6%	72.3% (Q3-2017)	Target likely to be met
2. Increasing combined public and private investment in R&D to 3% of GDP	1.93%	2.03% (2016)	Target unlikely to be met
3a. Reducing greenhouse gas emissions by at least 20% compared to 1990 levels	14% reduction	23% reduction (2016)	Target likely to be met
3b. Increasing the share of renewable energy in final energy consumption to 20%	12.5%	17.04 (2016)	Target likely to be met
3c. Moving towards a 20 % target in energy efficiency	5.7% (for primary energy consumption)	16.0% (2016) (for primary energy consumption)	Target likely to be met
4a. Reducing school drop-out rates to less than 10%	13.9%	10.6 % (2017)*	Target likely to be met
4b. Increasing the share of the population aged 30-34 having completed tertiary education to at least 40%	33.8%	39.9 % (2017)*	Target likely to be met
5. Lifting at least 20 million people out of the risk of poverty and social exclusion	0.5 million increase (compared to the 2008 base year)	1 million increase (compared to the 2008 base year)	Target unlikely to be met

Table: progress towards EU2020 targets. Sources: https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-communication_en.pdf. and updates* from Eurostat :

http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_40&plugin=1; http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_41&plugin=1

Mainstreaming of climate action and biodiversity

The EU budget is also an important tool in the achievement of cross-cutting policy objectives such as climate action and biodiversity. To respond to challenges and investment needs related to climate change, the EU has decided that at least 20 % of its budget for 2014-2020 – as much as EUR 200 billion over the whole period − should be spent on climate change-related action. To achieve this result, mitigation and adaptation actions are being integrated into all major EU spending programmes, in particular regional development and the Cohesion Fund, energy, transport, research and innovation, the Common Agricultural Policy as well as the EU's development policy. Starting from the 2014 draft budget, the estimates for climate related expenditures have been monitored on an annual basis with EU climate markers, adapted from the OECD development assistance tracking ''Rio markers''. In 2017 the amount was more than EUR 31 billion, 20.3 % of the total budget. The brings the total cumulative amount for climate mainstreaming by the end of 2017 to more than EUR 100 billion.

The tracking procedure for biodiversity-related expenditure forecasted that 9.3 % of the 2016 budget and 8.1 % of the 2017 budget were allocated to limiting and reversing the decline of biodiversity in the EU, making an important contribution to the Europe 2020 sustainable growth objectives.

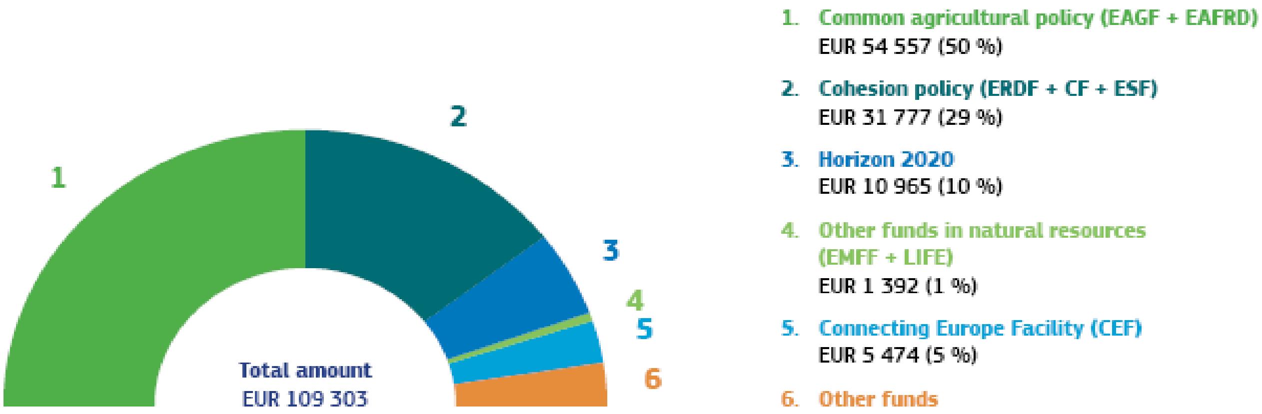


Chart: Mainstreaming of climate action (2014-2017). All amounts in the chart are in EUR million. Actual amount for the period 2014-2017 is EUR 109 billion; Budgetted amount for the entire period 2014-2020 is EUR 200 billion.

The EU budget and Sustainable Development goals

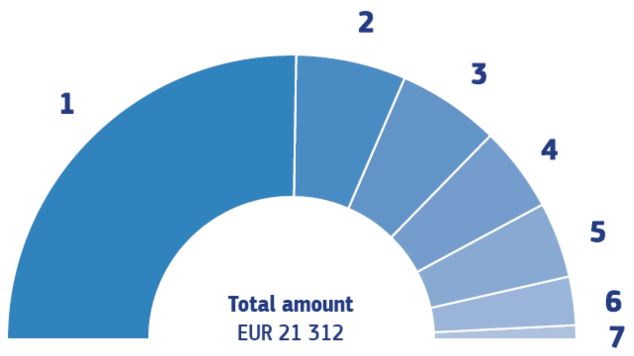
The 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) and 169 targets, adopted by the United Nations (UN) in September 2015, have given a new impetus to global efforts to achieve sustainable development. The EU has played an important role in shaping the 2030 Agenda, through public consultations, dialogue with its partners and in-depth research. The EU is committed to playing an active role to maximise progress towards the Sustainable Development Goals, as outlined in its Communication (COM(2016) 739) ''Next steps for a sustainable European future''. **The Sustainable Development Goals are firmly anchored in the European Treaties and mainstreamed in all its programmes, sectoral policies and initiatives.**

Each year the EU continues its efforts, via its policy and regulatory instruments, to pursue Sustainable Development Goals, and plays a key role in supporting, coordinating and complementing Member States' policies also in financial terms via the EU budget..

The 2018 Programme Statements highlighted in particular the most recent and relevant initiatives contributing to Sustainable Development Goals, although often in an indirect and not quantifiable way. These elements are provided for information purposes and do not constitute the official reporting on the EU budget contribution towards Sustainable Development Goals. As the Sustainable Development Goals are interlinked, many EU actions can contribute to several Sustainable Development Goals.

1.1. Competitiveness for Growth and Jobs (Budget Heading 1A)[14]

EUR 21.3 billion was allocated to the programmes for Competitiveness for Growth and Jobs (commitments in Heading 1A) in 2017, representing 13 % of total annual budget expenditure. Heading 1A consists of 23 different spending programmes. The main programmes under the budget heading 'Competitiveness for growth and jobs' are: Horizon 2020 Framework Programme for research and innovation, programmes for large infrastructure projects (Galileo, International Thermonuclear Experimental Reactor, Copernicus and the European Geostationary Navigation Overlay Service – EGNOS), the Erasmus+ programme funding education, training, youth and sport actions, the Connecting Europe Facility for developing trans-European networks in transport, energy and the digital sector and the European Fund for Strategic Investments, part of the Investment Plan for Europe.



1. **Research and innovation (incl. Horizon 2020)**
   EUR 10 765 (50.5%)
2. **European Fund for Strategic Investments (EFSI)**
   EUR 2 661 (12.5%)
3. **Connecting Europe Facility (CEF)**
   EUR 2 470 (11.6%)
4. **Education, training, and sport (Erasmus+)**
   EUR 2 070 (9.7%)
5. **Large infrastructure projects**
   EUR 1 827 (8.6%)
6. **Other programmes**
   EUR 1 170 (5.5%)
7. **Competitiveness of enterprises and small and medium-sized enterprises (COSME)**
   EUR 349 (1.6%)

Chart: Main programmes financed in 2017 under Heading 1A. Category 'Other programmes' include among others EU programme for Employment and Social Innovation (EASI), Customs and Fiscalis. All amounts in EUR million.

Support to the priorities of the European Commission

The programmes under this budget heading contribute mainly to the Juncker Commission priorities of 'Jobs, Growth and Investment,' 'Digital Single Market,' 'Energy Union and Climate,' and 'Deeper and Fairer Economic and Monetary Union.' They contribute to the Europe 2020 priorities of 'smart and sustainable growth' and to 'inclusive growth' mainly through the job creation and employability effects of Horizon 2020 and Erasmus+. The programmes under this budget heading also contribute to Europe 2020 by boosting research and innovation, improving skills levels and (life-long) education, fostering entrepreneurship, facilitating the use of smart networks and the digital economy, building interconnected trans-European networks, investing in pan-European infrastructures, and aiming at greater energy and resource efficiency.

The European Fund for Strategic Investments

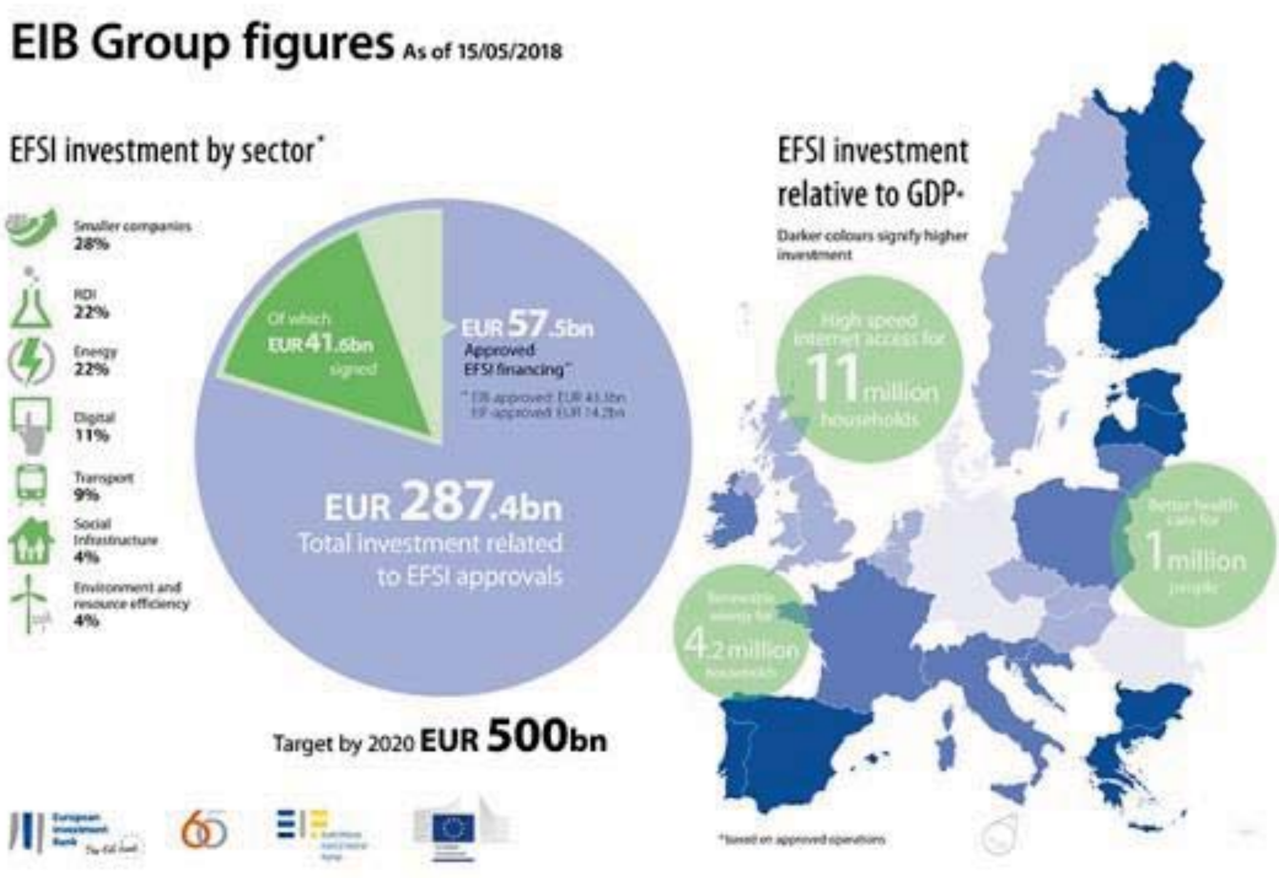


Figure: EFSI dashboard. Source: EIB Group figures as of 15/05/2018, source: http://www.eib.org/efsi/

The overarching goal of the Investment Plan for Europe launched in 2014 was to kick start investment in Europe and, consequently, to restore EU competitiveness and boost growth and employment. The Plan is centred on the European Fund for Strategic Investments which combines an EU guarantee with European Investment Bank resources; the European Investment Advisory Hub that is a single point of entry for advisory services and technical assistance; and the European Investment Project Portal which matches project promoters with investors.

The European Fund for Strategic Investments was intended to mobilise EUR 315 billion of total investment in the real economy. As of December 2017, the volume of investment mobilised by the approved European Fund for Strategic Investments operations stood at 81 % of the initial target.

Cumulatively, since the launch of the fund, the projects approved amount to a total investment value EUR 287 billion distributed between the two strands: EUR 186.2 billion for the Infrastructure and Innovation Window and EUR 101.2 billion for Small and Medium-Sized Enterprises Window. Over 445 000 smaller companies are expected to benefit from this and this has helped to create more than 300 000 jobs.[15].

At the end of 2017 the EU formalised[16] the decision to extend the duration and size of the fund to EUR 500 billion to be mobilised by 2020 with a view to further boosting investments and providing stability for project promoters.

Support under the European Fund for Strategic Investments is focused on sectors of key importance for the European economy, including:

- Strategic infrastructure including digital, transport and energy;
- Education, research, development and innovation;
- Renewable energy and resource efficiency;
- Support for small and mid-sized businesses.

These investments helped provide, for example, high speed internet access for 11 million households, renewable energy for more than 4 million households and better health care for 1 million citizens[17].

The Commission actively increases the visibility of the projects. At the end of 2017 there were 239 projects from 27 Member States published on the European Investment Project Portal launched[18] in 2016.

Projects include:

- *the development of an onshore wind farm in Sweden;*
- *research into new ways of treating Alzheimer and arterial diseases in Spain;*
- *support to producing reusable and compostable alternatives to single use plastic bags in the Czech Republic;*
- *expanding and improving broadband wireless access in Italy;*
- *building social housing in Poland.*

The European Fund for Strategic Investments ***is expected to increase the Gross Domestic Product in the Union by 0.7% and to create 700 000 new jobs by 2020***[19]

The preliminary findings of the on-going evaluation highlight that despite an improvement in investments and access to finance by small and medium-sized enterprises, needs for funding persist and are still considerable. The leverage effect of the fund is clearly evidenced in this evaluation. For some projects, with high social benefits a low multiplier was achieved, due to reluctance on part of private investors. There is also scope for improving the synergies between the European Fund for Strategic Investments and other financial instruments supported by the EU budget. For instance with the financial instruments of the Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme (COSME).

Also, the experience up to now with the European Fund for Strategic Investments showed that there is room for an increased contribution to address social issues; no more than 4 % of approved and signed projects concerned social infrastructure[20]. That is why, as part of the European Pillar of Social Rights it was agreed to pull together contributions from the European Fund for Strategic Investments with that of the Programme for Employment and Social Innovation.

Horizon 2020

Horizon 2020 aims at strengthening the EU's science base, at boosting industrial leadership and innovation capability in the private sector, and at fostering the contribution of research and innovation to tackling societal challenges (such as food security or climate action). It supports EU policy priorities, as reinforced by the Sustainable Development Goals framework.

In 2017, Horizon 2020 provided EUR 8.5 billion of funding, which further mobilised direct additional investments, leading to a total of EUR 10.6 billion. Some 5 000 projects were funded, ranging from grants to world-class researchers, to cutting-edge science, to supporting innovative SMEs to create new products and offer new services[21].

So far, through the Marie Skłodowska-Curie Actions, Horizon 2020 has funded 36 000 researchers at all stages of their career, regardless of their age and nationality. This has contributed significantly to keeping, developing and attracting research talents to Europe.

2017 marked the 20th anniversary of the Marie Skłodowska-Curie Actions, and the 150th birthday of its namesake, the Polish French double Nobel Prize winner Marie Skłodowska-Curie, with a series of events around Europe and beyond.

Two of the three 2017 researchers, who were awarded the 2017 Nobel Prize in Chemistry for optimising electron microscopes, have participated in Marie Skłodowska-Curie Actions and other EU-funded research projects, while 14 Marie Skłodowska-Curie Actions-funded doctoral candidates supported the historic detection of gravitational waves that led to the 2017 Nobel Prize in Physics.

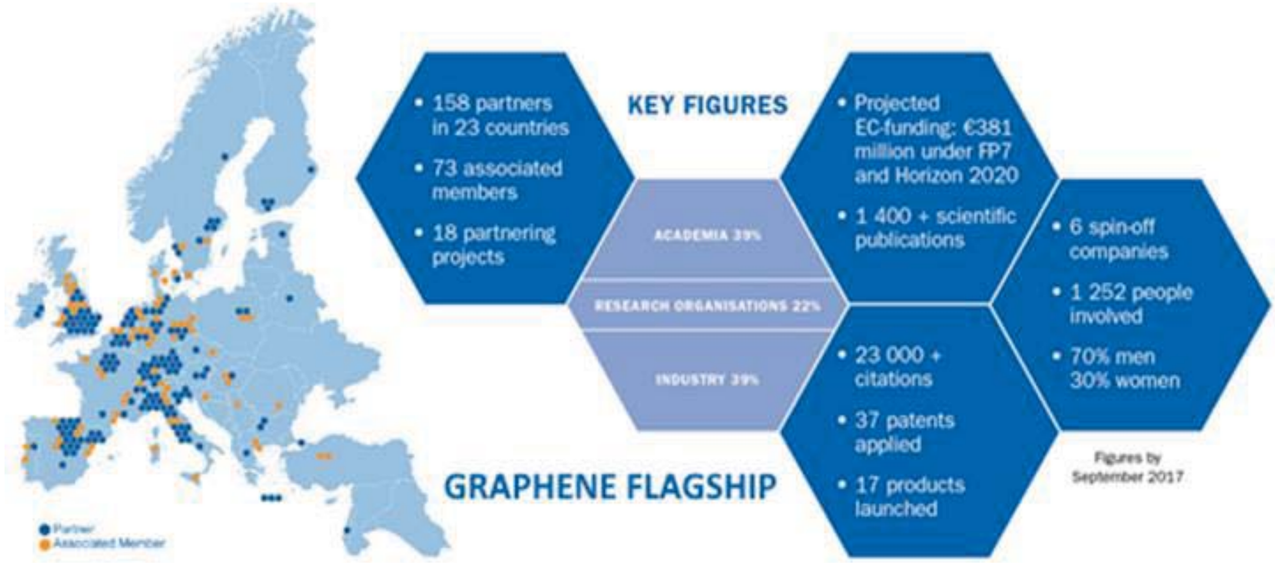


Figure: Key figures of the Graphene Flagship, source: https://graphene-flagship.eu/SiteCollectionDocuments/EC_leaflet.pdf

The Graphene Flagship is a telling example of the strong EU added value of Horizon 2020. This 10 year research initiative is one of the biggest ever funded in Europe. More than 150 partners in over 20 European countries from both industry and academia are jointly developing applications in areas such as 5G mobile technologies, batteries, aerospace, medical applications and automotive technology. Recent breakthroughs are the first microprocessor made from graphene-like material which has great potential for use in everyday objects and for applications to examine brain activity in high resolution, which can help to better understand diseases such as epilepsy.

In 2017, a European Research Council funded team discovered the security flaws in computer processors, named Meltdown and Spectre, opening new paths for increased security in the design of modern computer systems.

Horizon 2020 also contributed to developing and deploying integrated observatory systems across the Mediterranean Sea – Horizon 2020 has awarded EUR 8.4 million to the international ODYSSEA consortium to integrate networks of observation and forecasting systems across the Mediterranean basin. It involves 28 partners from 14 countries, mainly around the Mediterranean basin.

The E-ferry project was also supported by Horizon 2020, developing and demonstrating the world's most capable medium range electric car and passenger ferry. This project addresses an urgent need to cut CO_2 emissions and air pollution from waterborne transport. It employs 56 tons of advanced Lithium Titanate batteries, high efficiency and a fast charge capability to deliver 7 trips per day, carrying 31 vehicles and almost 200 passengers over 40 km between Danish mainland and the island of Aero. E-ferry uses 50% less energy each year and cuts pollution by 2,000 tons of CO_2.

The recent mid-term evaluation of Horizon 2020 concluded in 2017[22] provided indications that the programme is producing important additional benefits compared to national and regional-level support mechanisms for research and innovation in terms of scale, speed and scope and is improving the competitive advantage of participants while, overall, it increases the EU's global attractiveness as a place to carry out research and innovation. Horizon 2020 creates an EU wide competition in research and innovation, operating transnational competitive calls for proposals, as well as identifying the most promising collaborative research and innovation projects.

It also concluded that the simplification measures introduced in Horizon 2020 (such as the single reimbursement rate, the flat rate for indirect costs, or the Participant Portal) have decreased costs for participating and reduced the time-to-grant. The time-to-grant is now 192 days on average, a decrease of more than 100 days compared to the predecessor 7th Framework Programme.

Compared to the previous programme, greater efforts have been made to increase the synergies between Horizon 2020 and other programmes, notably the European Structural and Investment Funds and the European Fund for Strategic Investments. Examples of increased synergies include the Seal of Excellence, i.e. the award of a European high-quality label to proposals rated above quality threshold but not funded with a view to allow them to find funding by alternative private or public funding sources. This award helps interested funding bodies willing to invest in promising proposals (including national & regional authorities through European Structural & Investment Funds) to identify these projects more easily. The Seal of Excellence however could further benefit from increased alignment among existing rules to increase funding opportunities for the projects concerned.

The results of the mid-term evaluation have also identified a number of areas for improvement, notably the need for more flexibility to adapt to emerging priorities and the need for monitoring systems more adequate for measuring of progress. In addition, the evaluation pointed to the need for greater impact and more outreach to citizens. This is important for improving the communication of the contribution of research and innovation to tackling societal and technological challenges and for adopting a more impact focused, mission oriented approach in the future.

Erasmus+

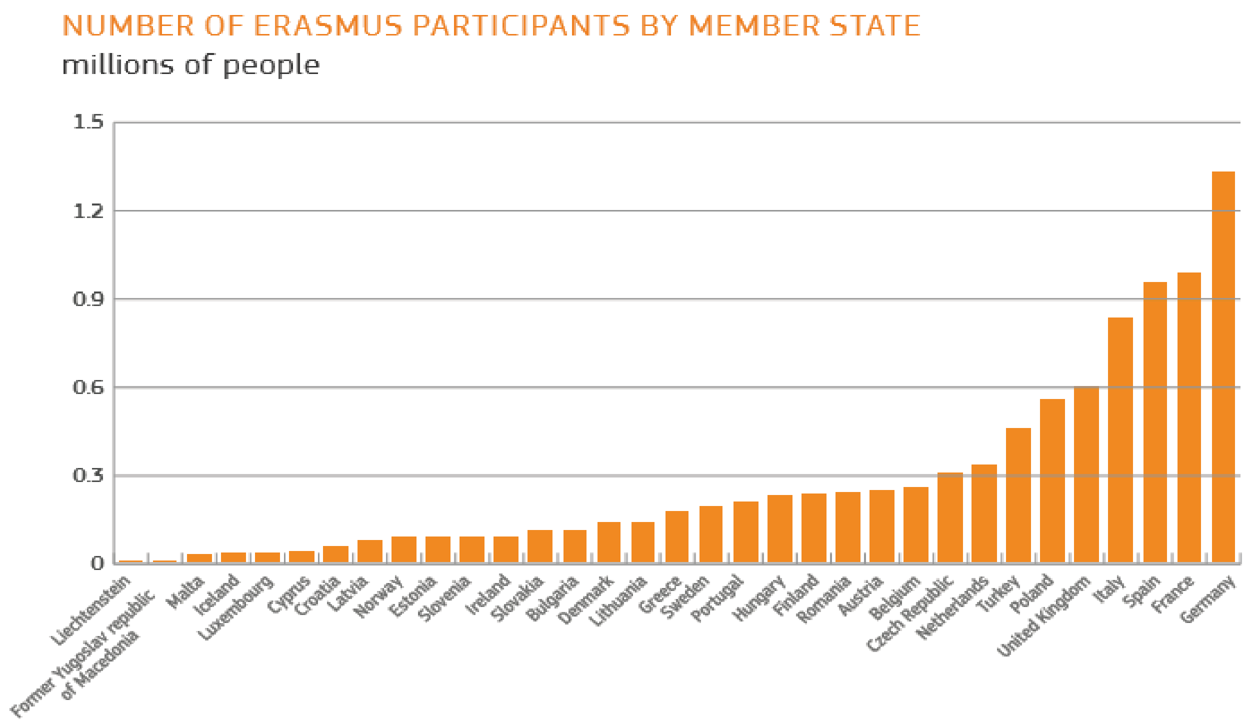


Chart: Number of Erasmus participants by Member State, source: https://ec.europa.eu/commission/sites/beta-political/files/leaders-working-lunch-mobility_en.pdf

2017 celebrated the 30th anniversary of the Erasmus programme. The programme is aimed at cross-border cooperation between States through university exchanges to aid the growth of international studying. It started as a modest mobility scheme for higher education students back in 1987 – with only 3 200 students in its first year – but it has now developed into one of the most successful EU programmes, with a well-known brand name that projects a positive image of the Union, well beyond its borders.

Thirty years after its launch in the field of higher education, Erasmus+ has expanded to other sectors such as schools, vocational education and training, adult learning, youth and sport.

In 2017 the 'From Erasmus to Erasmus+' campaign celebrated the 30th Anniversary of Erasmus+ across the EU and beyond and more than 750 000 people took part in over 1 900 events in 44 countries to celebrate and discuss the impact of the activities supported by Erasmus and debate on its future. This programme is consistently identified by citizens as one of the three most positive results of European integration.

In June 2017 the new Erasmus+ Mobile App was launched to help students, including those involved in an exchange from or to third countries outside Europe, apprentices and people involved in youth exchanges to be better prepared for their mobility. It allows them to easily keep track of their progress in the different steps before, during and after their experience abroad. Since its launch, the app has already been downloaded more than 27 000 times. The recent midterm evaluation of Erasmus+ (2018)[23] showed that the programme is well on track to achieve its performance, with notably over 1.8 million individuals taking part in mobility activities, and more than 240 000 organisations involved in cooperation projects so far. Programme beneficiaries report satisfaction rates above 90 %. It fosters willingness to work or study abroad and the development of foreign language skills, encourages positive civic behaviour and a sense of feeling 'European' (+19 % compared to non-participants).

Erasmus+ has a positive effect on the acquisition of skills and competences, thereby increasing employability and entrepreneurship and shortening the transition from education to employment (13 % faster, compared to individuals who did not take part in Erasmus+ or its predecessor programmes).In light of the outcomes delivered, the evaluation highlighted the undisputable European added value of Erasmus+. This stems from the high volume and broad scope of the activities funded, together with fair access to learning mobility, mainstreamed best practices, deeper EU integration and a clear international dimension. Other schemes funding comparable actions at national level remain significantly smaller both in volume and scope. They are unlikely to be able to substitute for Erasmus+ funding.

The evaluation also noted that there is potential to introduce better-targeted actions to maximise the relevance of Jean Monnet activities, the coherence in the field of sport and the programme's added value in the adult learning sector. It concluded that the contribution in the adult learning sector is highly fragmented due to the diverse nature of the sector; in the field of sport, resources should not be spread too thinly in order to achieve a meaningful result. Regarding Jean Monnet activities, there is a need to strengthen the youngest generation's (notably school pupils') awareness and understanding of European integration.

The European Solidarity Corps, offers young people between the ages of 18 and 30 the opportunity to take part in a wide range of solidarity activities across the EU, with the aim of having 100 000 young people taking part by the end of 2020. As well as offering volunteering, traineeships and job placements, in the future the European Solidarity Corps would also offer participants the opportunity to set up their own solidarity projects or to volunteer as a group.

Aaron, from the Netherlands, is deployed in Berlin, where he volunteers at a school and day-care centre to **teach Syrian refugees** and create theatre projects with them, in order to help them with their integration in society.

Denisa from Romania and Andrew from Ireland are deployed in Rotterdam where they **organise activities for young people from disadvantaged backgrounds,** including cultural activities, games and sports for children with special needs.

And Theodoros from Greece is volunteering in Stuttgart where he helps **improving the chances of young people** in the Danube region to find a job that matches well their skills and educational background.

Volunteering supported by the Erasmus+ together with 8 other EU programmes and instruments contributed to the creation of further opportunities for young people under the **European Solidarity Corps**. One year since its launch, more than 42 000 young people from all Member States have signed up. By the end of 2017, one year since the opening of the online registration tool, more than 2,500 placements have been offered to the young people[24]. In August 2017, 16 European Solidarity Corps volunteers arrived in Norcia, Italy, one of the towns that were hit hard by several severe earthquakes between August 2016 and January 2017. They help with the ongoing efforts to repair damage and rebuild social services for the local community. In total, by 2020, 230 volunteers will have been deployed in the Italian earthquake regions.

Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME)

The Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme is a diverse programme, encompassing numerous actions for the support of small and medium-sized enterprises delivered via grants and financial instruments. The programme has four specific objectives: access to finance for SMEs, access to markets, promoting a business favourable environment and competitiveness and promoting entrepreneurship.

Financial instruments operated under the Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme met the interest of financial intermediaries across the EU and non-EU countries participating in the programme, especially for the Loan Guarantee Facility. At the end of 2017, the European Investment Fund signed 87 agreements for loan guarantees for a total volume of EUR 859 million, out of which 72 agreements were backed by the European Fund for Strategic Investments. Under these agreements, more than 275 000 small and medium-sized enterprises already received over EUR 12.8 billion of financing by the end of December 2017. The programme's financing scheme has a high leverage effect turning 1 euro of the EU budget into 30 euros of financing for small and medium sized enterprises.

Signing agreements for the Equity Facility for Growth took longer, as equity entails more complex due diligence and fund-raising processes. At the end of 2017, the European Investment Fund has invested through the Equity Facility for Growth in 12 funds investing around EUR 157 million into small and medium-sized enterprises in their expansion and growth phase.

Two thirds (EUR 365 million) of the programme's objective for access to markets is devoted to the **Enterprise Europe Network** the world's largest network of business service centres. These provide a broad range of support on internationalisation and innovation management support, as well as advice and partnership services for small and medium-sized enterprises seeking to export outside their own country within the EU Single Market as well as outside Europe. Services range from information on EU matters, company visits and awareness-raising campaigns to specialised advisory services, company missions and matchmaking and technology brokerage events.

Data on beneficiaries for 2017 are not available yet because of the 2-year duration of the grants, however about 254 000 small and medium-sized enterprises received support in 2016 and a similar number of beneficiaries is expected for 2017. Around 3 000 network staff have been active in local events and have provided specialised advisory services to 70 000 small and medium sized enterprises on access to finance, intellectual property rights, business and technology and resource efficiency services. About 25 000 participated in matchmaking events.

Since its renewal in 2015, the Enterprise Europe Network reached 8 620 partnership agreements between small and medium-sized enterprises thanks to Network partnering services..

In 2017, the Network expanded its advisory services with dedicated Scale-up Advisors helping young innovative small and medium-sized enterprises develop their activities outside their home country. Final reporting data on the operational period 2017-2018 is due in March 2019.

In 2017, **Erasmus for Young Entrepreneurs** has already reached the level of 5 800 exchanges between new and experienced entrepreneurs since the start of the programme. Currently the Erasmus for Young Entrepreneurs scheme is being implemented by a network of 175 local intermediary organisations in 33 countries (out of 38 participating).

Preliminary results from the mid-term evaluation[25] of the Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme indicate that the overall concept of the scheme proved to be successful in addressing the needs of entrepreneurs in the European market.

New entrepreneurs that took part between 2014 and 2016 have created 241 new companies so far, and over 1 000 new jobs. Host entrepreneurs also confirmed the positive effects as next to over 1000 new jobs created on their side.

58% of experienced entrepreneurs participating in the COSME programme have seen an increase in turnover and 41 % in increased employment.

Preliminary findings of the mid-term evaluation indicate that the Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme (COSME) allows economies of scale in areas such as support to small and medium-sized enterprises abroad or to intellectual property rights enforcement by bundling of national efforts and by establishing services that would lack critical mass if provided at national level. Findings further indicate that the programme brings EU added value through for example the Enterprise Europe Network supporting European companies in enlarging their market outside the EU.

However, 20 percent of the budget is spread over a large number of relatively small actions. Without questioning the usefulness of flexible pilot actions which are by their very nature of a small scale, this fragmentation has a negative influence on the potential for cost-efficiency of these actions and may hamper the strategic direction and coordination of the programme.

Connecting Europe Facility

The Connecting Europe Facility is a key EU funding instrument that supports investments in infrastructure for the development of high performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services. The programme focuses on EU projects aiming at funding cross-border sections and eliminating bottlenecks in transport, ending energy isolation and increasing security of supply in energy and by providing EU wide solutions in the digital services infrastructures that can benefit all Europeans.

The extension of the core network and corridors to neighbouring countries enhances connectivity and contributes to making the EU as stronger global actor. On the basis of the on-going analysis for the third version of the Core Network Corridor work plans, the investment necessary to develop the nine Core Network Corridors until 2030 could generate some EUR 4,500 billion of cumulated GDP over that period. This would mean 1.8% additional GDP in 2030 compared to 2015. The number of job-years created by the implementation of the 9 Core Network Corridors could reach around 13 million jobs[26].

Major sections were completed in 2017, such as the rail links between Berlin and Munich, or between Paris and Bordeaux, that were both opened for public use. Both projects took many years to be completed and are essential sections on the Core Network Corridors.

Projects selected for the Connecting Europe Facility funding in 2017 include

In the transport sector: the upgrade of the over 100 km-long Białystok-Ełk rail section in North-East of Poland as part of the Rail-Baltica project modernisation; modernisation of Air Traffic Management systems in all EU Member States; full expansion of the Karawanken road tunnel linking Slovenia and Austria; development of a high-speed electric vehicle charging network across Sweden, Denmark, Germany, France, the United Kingdom and Italy.

In the energy sector: the Litpol Link Electricity line. This project connected the grids of Baltic countries to those of Western Europe (Lithuania to Poland link) for the first time, ending the energy isolation of the Baltic countries.

In the digital sector, 16 Member States are using the Core Service Platform of eHealth thus facilitating cross-border patient safety and continuity of care

The first blending call was launched in 2017 under the Connecting Europe Facility Transport aimed at combining the Connecting Europe Facility grants with financing from the European Investment Bank and the European Fund for Strategic Investments, as well as national promotional banks or private sector investors. The objective is to support economically viable projects using private finance by providing an EU grant to bridge the funding gap. Under the first phase of the 2017 Blending call, the largest part of the funding was devoted to developing the European rail network (EUR 719.5 million), decarbonising and upgrading road transport (EUR 99.6 million), as well as developing maritime ports (EUR 78.9 million) and inland waterways (EUR 44.7 million).

The projects under the 2017 Blending call include such initiatives as increasing the cross-border speed of the railway access line to the Fehmarnbelt tunnel between Denmark and Germany; enlarging and modernizing the Divača-Koper railway line in Slovenia to improve its capacity, safety and reliability; adapting the most important Belgian inland waterway, the Albert canal, for larger freight transport; as well as improving the capacity of the Port of Gdansk in Poland. In the area of Innovation and Alternative Fuels, several projects encompassing multiple Member States have been selected with an objective of deploying ultra-fast charging for electric vehicles.

The mid-term evaluation[27] of the Connecting Europe Facility found that investment needs in infrastructure development remain high and market failures persist especially in large cross-border projects where costs are present at local or national level, whereas the benefits are achieved on a European scale or when the distribution of costs and benefits in projects with multiple Member States is asymmetrical. Thus, the programme continues to be relevant and largely effective, despite many long-term projects still not being finalised.

In transport, 86 % of the funds currently allocated relate to cross-border transport infrastructure, mainly focused on the development of the core network and the nine corridors that need to be completed by 2030. In the energy sector, the Connecting Europe Facility is contributing to strengthening interconnectivity, aiming at ending energy isolation and completing the internal energy market. In the digital sector, the programme has been found to contribute to the deployment of digital service infrastructures which allow administrations, citizens and businesses to benefit from cross-border online services. Awareness raising is still necessary however, to fully exploit its potential. The Connecting Europe Facility has continued to use and develop innovative financial instruments, however the evaluation highlighted that their deployment has been limited partly due to the new possibilities offered by the European Fund for Strategic Investments

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Space

The EU's economy and society are increasingly dependent on space-based applications and services, with a potential disruption likely to be very costly in terms of revenues to business, and more importantly, in terms of human safety[28].

Copernicus is the EU's programme for Earth observation and monitoring and as such represents one of the largest data providers in the world that provides considerable added value, especially when compared with what could be achieved at national level. Based on a system of satellites and sensors (ground stations, airborne sensors, sea-borne sensors), Copernicus provides reliable and up-to-date information through services addressing six thematic areas: land, marine, atmosphere, climate change, emergency management and security. This information supports various EU policies and applications from environmental protection to regional and local planning, agriculture, sustainable development and border surveillance.

Galileo and the European Geostationary Navigation Overlay Service are the EU's satellite navigation programmes. Together, these programmes provide positioning and timing signals used in critical economy areas such as mobile phone networks, in-car navigation and increased precision for landing aircrafts.

The Copernicus Emergency Service was activated more than 80 times in 2017 to assist civil protection and humanitarian actors in emergency activities. Disasters covered include: storms and floods in Europe, forest fires in Spain, Portugal, Greece, hurricane Ophelia in Ireland, high winds in Poland and internationally – earthquakes in Mexico and Iraq and hurricanes Harvey and Irma in the US and the Caribbean.

There are 22 Galileo satellites in orbit of which 18 operational and 4, launched in December 2017, in testing phase. Also in 2017 there has been an increase in market uptake with some 75 million Galileo enabled smartphones sold. For instance the devices produced by Apple, Samsung and Sony include Galileo-enabled chipsets.

According to the mid-term evaluation finalised in 2017[29], Copernicus is well on track and delivering its objectives although not all are being achieved to the same extent. The data provided is of good quality and reliability, which, together with the adoption of the free data policy, is one of the programme's strengths. Nevertheless, the evaluation also showed the need to improve the distribution and access to data and strengthen the integration of space data with other sources of data and other policy areas and economic sectors to achieve an increased user uptake.

Both Galileo and the European Geostationary Navigation Overlay Service are progressing well in delivering on their objectives as shown by the interim evaluation[30]. At the end of 2016 more than 250 airports in 20 countries were using the European Geostationary Navigation Overlay Service landing approach procedures[31].

From 2018, all new car models sold in the European Union will rely on the European Geostationary Navigation Overlay Service and Galileo to calculate the position of emergency calls in case of accidents[32].

The evaluation also identified some inefficiency issues linked to the governance set up. For example low reactivity of the decision-making process due to the number of actors involved but also due to a different governance set-up between deployment, exploitation and working arrangement between the Global Navigation Satellite System Agency and the European Space Agency. Security governance has also been identified as a source of inefficiency: the launch of initial services and the transition from the deployment to the exploitation phase have raised challenges that need to be properly addressed in order to maintain and improve the appropriate level of security.

These projects also played a role in the refugee crisis. ***Copernicus, the EU's Earth Observation programme*** *provided for example imagery to help monitor ports and beaches identified as departure points for migrant vessels throughout 2015 and 2016.* ***Galileo****'s Search and Rescue service drastically reduces the time to detect emergency distress beacons from up to three hours to just ten minutes greatly improving accurate localisation.*

International Thermonuclear Experimental Reactor (ITER)

The International Thermonuclear Experimental Reactor (ITER) aims to demonstrate fusion as a viable and sustainable source of energy, at building and operating an experimental fusion reactor, a major step towards the demonstration of fusion as a sustainable energy source. Due to its important advantages, such as the availability of large fuel reserves and the lack of CO_2 emissions, fusion could greatly contribute to the long-term EU strategy of decarbonisation of the energy system in a safe, efficient and secure way. It is a unique long-term scientific collaboration project agreed internationally between seven partners (EU, United States, Russia, Japan, China, South Korea, and India). The aim is for the experimental reactor that is being built to prove the viability of fusion as a sustainable energy source.

As the project involves the building of over 10 million components hundreds of contracts have been placed with European industry and research institutions. As of December 2017, 50 % of the total construction work needed for the first operational stage of ITER has been completed[33].

ITER requires magnets to ensure the stability of the plasma and in 2017 the most sophisticated superconducting magnet in history has been unveiled[34] and is being built in Europe.

This magnet is 14 meter high, 9 meter wide and weighs 110 tonnes. This is the first of the 18 Toroidal Field coils that will operate in ITER. The coils will create a powerful magnetic cage that will entrap the fusion fuel which is expected to reach 150 million degrees Celsius. The ITER toroidal field coils will generate a magnetic field that will be about 1 million times stronger than the magnetic field of the Earth. Europe will manufacture nine of them, plus one spare. The other nine will be fabricated in Japan. At least 600 people from 26 companies will be involved in the production of these magnets.

First-of-a-kind products have been developed providing European companies advantage in terms of innovation and competitiveness as well as opportunities for developing knowledge, know-how and potential spin-off technologies and products. As of 30 September 2017, 601 operational procurement contracts and 322 grants for a total of EUR 3.97 billion (2008 value) were signed.

Europe is also working on building part of the magnetic shell that will host the fusion reaction (the vacuum vessel). A one of a kind testing facility has also been built in Europe to test the heating systems that will be necessary in ITER[35].

1.2. Economic, Social and Territorial Cohesion (Budget Heading 1B)[36]

EUR 54 billion was allocated to the programmes under Heading 1B for 2017, which represents 34 % of the total 2017 EU budget. Heading 1B consists of 6 different spending programmes. It covers the European Regional Development Fund, the Cohesion Fund, the European Social Fund[37] — including the 'Youth Employment Initiative' (a specific top-up allocation), and the 'Fund for European Aid to the Most Deprived'. All these programmes are delivered under shared management.

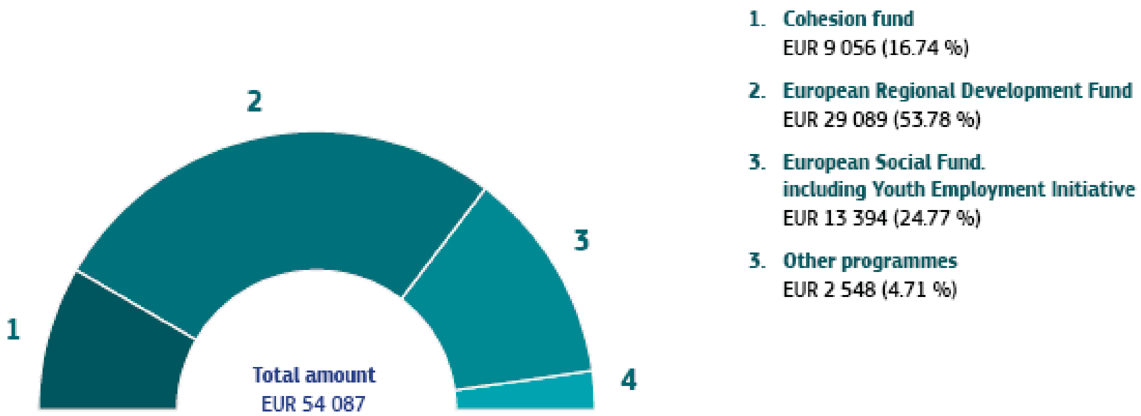

Chart: Main programmes financed in 2017 under Heading 1B. Category 'Other programmes' include *the contribution to the Connecting Europe Facility, European Aid to the Most Deprived, Outermost and Sparsely Populated Regions, Technical Assistance and Pilot Projects and Preparatory Actions. All figures in EUR million.*

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Support to the priorities of the European Commission

Cohesion Policy interventions contribute to the attainment of several of the priorities of the Juncker Commission notably 'Jobs, Growth and Investment,' It is the most important EU investment instrument for the delivery of the Europe 2020 objectives supporting growth and job creation at EU level and structural reforms at national level. It has become a key part of Europe's economic governance and a key contributor to all elements of the virtuous triangle of investment, structural reforms and responsible public finances. Ex-ante conditionalities have fostered favourable legislative and structural conditions for sound investments with positive spill-over effects beyond the sole remit of Cohesion Policy. The Policy is increasingly important means of tackling the effects of the economic crisis in the short term and of enhancing the regions' endogenous potential for development in the medium term. In addition to the Policy's macroeconomic conditionalities, which create a further stimulus for sound macroeconomic policies, the regulation governing Cohesion Policy provides for reprogramming at the discretion of the Commission if new investment relevant Country Specific Recommendations (CSRs) emerge in the annual exercise. Cohesion Policy contributes to the Investment Plan for Europe and complements the European Fund for Strategic Investments. This is being done in several ways: by leveraging public and private investment, supporting structural reforms, and improving access to funding. Funding is being strategically invested in research and innovation, support to small businesses and digital technologies, thereby contributing to the EU's smart growth objectives.

It also contributes to 'Digital Single Market' and 'Energy Union and Climate.' Thanks to the largest EU budget ever allocated to investments in energy, environment, climate and sustainable transport, a significant contribution to steering Europe on the path to a low-carbon economy is being made.

Cohesion Policy also contributes to the development of the internal market as well as a number of actions relating to the response to the refugee crisis and migration policy and several social issues, like moderating the effects of poverty and social exclusion of people who find themselves in situations of severe deprivation and supporting (youth) employment.

The **European Regional Development Fund** and the **Cohesion Fund** aim to strengthen economic and social cohesion in the EU by reducing disparities between its regions and supporting the full integration of the less developed regions within the EU's internal market. The **European Social Fund** is the EU's main instrument for supporting jobs, helping people to get better jobs, ensuring fairer job opportunities for all and supporting upskilling and reskilling. The **Fund for European Aid to the Most Deprived** supports EU countries' actions to provide assistance to the most deprived, including food, clothing and social inclusion measures to help people out of poverty.

Cohesion policy is the EU's main investment policy and it targets all regions and cities in the EU in order to support job creation, business competitiveness, economic growth, sustainable development, and improve citizens' quality of life.

The cohesion policy regulatory framework for 2014-2020 was adopted about six months later compared to the 2007-2013 Multiannual Financial Framework. This late adoption of the legal acts together with new requirements seeking to enhance the performance of the policy and the quality of delivery (e.g. ex-ante conditionalities, designation of programme authorities) have led to a delayed start of implementation of the 2014-2020 programmes.

Despite this, looking at the first years of the 2014-2020 programmes, initial results are taking shape.

While starting more slowly than in the 2007-2013 period, the rate of project selection in the current programming period has now caught up. By January 2018 673 800 projects have been selected for support by the European Regional Development Fund, the Cohesion Fund, the European Social Fund, and the Youth Employment Initiative all over Europe, amounting to EUR 260 billion or 54 % of the total financing available for the period. This level of project selection over 2014-2016 is comparable to the early years of the 2007-2013 period[38] and it can reasonably be expected that implementation rates from now on will be broadly similar to those in the previous period.
By the end of 2017, 99 % of the action plans for ex ante conditionalities affecting the European Social Fund, the Cohesion Fund and the European Regional Development Fund have been completed. These conditionalities were meant to provide an incentive for Member States to implement structural changes and policy reforms, including those linked to the relevant Country-specific Recommendations[39].

European Regional Development Fund and Cohesion Fund

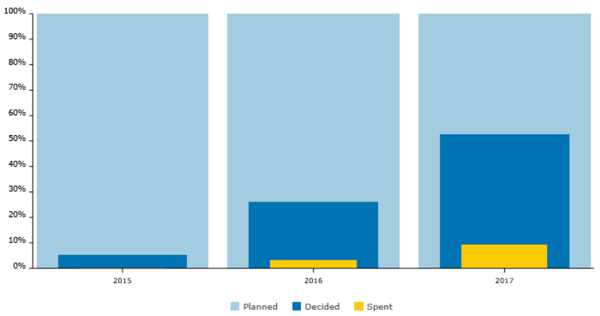


Chart: Implementation progress (total cost) for European Regional Development Fund – Period covered up to 31/12/2017.

Source: https://cohesiondata.ec.europa.eu/funds/erdf

Project selection rates have increased significantly, reaching 53 % for the European Regional Development Fund, EUR 147 billion worth of investments covering 160 000 projects (compared to 72 billion by the end of 2016) and 64.3 % for the Cohesion Fund at the end of 2017, EUR 48 billion of investments covering 8 600 projects (compared to EUR 19.6 billion by end-2016. This compares favourably to the same time frame in 2007-2013. The data at the end of 2017 showed more homogeneous progress across most of the Member States and themes.

Given the specific long-term nature of the funds' investments, the level of financial execution (EU payments) in the first years of the programming period tends to be low, as was the case during the years 2014-2016 with an increase in the last programming years. This applies particularly for major projects which, due to their nature as large infrastructure investments, typically have a long life cycle and a start-up phase (planning, programming, authorisations) without significant financial execution. Payments to programmes stand at 13% for the European Regional Development Fund and 18% for the Cohesion Fund at the end of 2017.

The European Regional Development Fund and the Cohesion Fund support the development of the Single Market, while also producing spill-over effects from less developed regions to the rest of Europe, notably via increased connectivity and trade flows. The average net positive impact of the 2007-2013 programmes for non-cohesion countries is estimated at 0.12 % of Gross Domestic Product by 2023.[40]

As regards the programmes' achievements reported by Member States up to the end of 2016, the implemented projects under the Cohesion Fund and the European Regional Development Fund have already delivered:

- support to 84 579 enterprises, of which more than 36 000 are supported by financial instruments;
- more than EUR 593 million of private investment leveraged, matching public support to enterprises (grants and non-grants);
- 10 300 jobs created along with 636 new researchers employed;
- 41 800 households with an improved energy consumption classification and a 14.9 million kWh/year decrease in annual primary energy consumption of public buildings;;
- 2.7 million people benefitting from improved health services; 156 000 additional people served by improved water supply and 73 000 served by improved waste water treatment
- 54 km of new Trans-European Transport Network (TENT-T) roads, 217 km of reconstructed or upgraded roads and 92 km of reconstructed or upgraded railway line.

Recent data[41] shows that the structural funds constitute a share of above 40% of public investment in a significant number of Member States over the period 2015-2017.

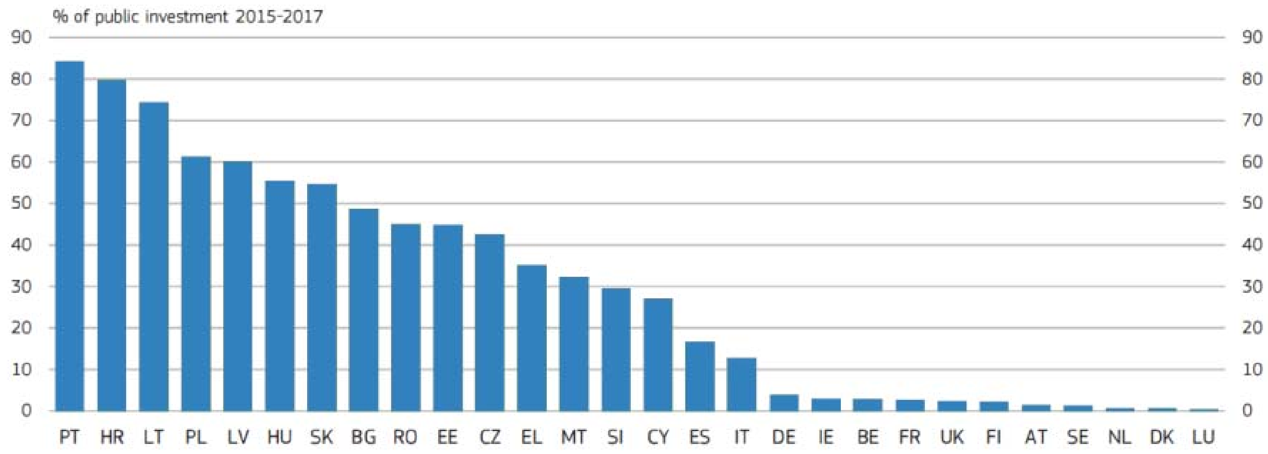


Chart: Cohesion policy funding as an estimated share of public investment, 2015-2017. Source: Eurostat, DG Regio http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion7/7cr.pdf

As regards particularly jobs, growth and investment, projects selected up to the end of 2016 have the objective of creating 155 600 direct jobs as a result of support to small and medium-sized enterprises.

Until the end of 2017, the projects selected for financing by the European Regional Development Fund provide support to more than 450 000 small and medium sized enterprises. Amongst those projects:

- more than 200 000 of those companies will be supported with advice and counselling (which corresponds to 45 % of the final target);
- more than 70 000 start-ups have been selected for support (46 % of target), with projects already completed benefitting more than 16 800;
- more than EUR 9.5 billion of private investment will be leveraged through projects selected up to the end of 2016, matching public support to enterprises (grants and non-grants), with EUR 0.6 billion already achieved.

Support has also been granted to around 30 700 research and innovation projects by the end of 2017, thus ensuring a significant level of investment in this area and positively influencing the gross EU domestic expenditure on research and development.

A wide range of interventions in the area of **education** (more than 16 500 investments in infrastructure) and of social inclusion have also been granted support by the European Regional Development Fund and the Cohesion Fund, thus contributing towards the achievement of the related headline targets.

The contribution to the **Digital Single Market** delivered through the 2014-2020 programmes is also gaining steam. Up to the end of 2017, around 5 500 projects were selected to support the achievement of a connected Digital Single Market, corresponding to EUR 9.1 billion of total investment (combining European Regional Development Fund and national co-financing).

Notable achievements are also expected to be delivered in the area of **energy efficiency and renewables** by projects selected up to the end of 2016 with more than 2 000 MW of additional capacity of renewable energy production; reduction of greenhouse emissions of more than 3 million tonnes of CO_2 equivalents, thus contributing to climate change objectives.

Up to the end of 2016 an estimated 1 million additional households will be covered by broadband access, which helps create the right conditions for digital networks and services to flourish, giving consumers and businesses better access to digital goods and services across Europe, in particular in rural areas.

Cohesion Policy has also actively contributed to the Commission's efforts towards the effective **integration of migrants**, through investments in social, health, education, housing and childcare and infrastructure, thanks to more than 3 500 projects already selected and being implemented in the area of social inclusion. In order to give further prominence and increase the focus of investments in support to migrants and refugees, a new investment priority to this effect was proposed for inclusion in the European Regional Development Fund regulation.

Evaluation evidence from the Member States on impact and output of the 2014-2020 programming period is expected to arrive starting in 2018, given that up to now mostly only data on the progress of the programmes is available. As of 2018, projects will be at a more mature stage and the first results will be assessed.

The Commission also launched an evaluation of major projects supported by the European Regional Development Fund and the Cohesion Fund between 2000 and 2013. In the course of 2018 the Commission will also carry out the mid-term review of the Joint Assistance to Support Projects in European Regions (JASPERS) initiative.

European Social Fund and Youth Employment Initiative

The European Social Fund is the EU's main financial instrument to support structural reforms in the fields of employment, education and training, with a direct link to the priorities and headline targets of the Europe 2020 strategy in terms of employment, education and poverty. It contributes to the promotion of economic and social cohesion and social inclusion within the EU and serves as an instrument for financial solidarity and economic integration.

Ample evidence demonstrates the EU added value of the policies supported by the European Social Fund, which would not have been implemented or would have been realised to a significantly lesser extent had it not been for EU investment. At the same time, through European funding, Member States invest in areas and target groups (or pursue reforms) which they would not have pursued - even when national funding is available. As such, the European Social Fund acts as an important instrument to support the reform efforts of many Member States in areas of crucial importance for the European economy in line with recommendations issued in the context of the European Semester: reforms in labour market policies, youth employment, modernisation of vocational education and training, welfare systems and administrative reforms.

The year 2017 has marked a strong acceleration of implementation for all operational programmes despite important disparities between Member States and programmes. The 2017 Strategic Report[42] underlines that the European Structural and Investment Funds provide a stable, long-term investment framework for Member States and their regions.

Throughout the course of 2017 nearly EUR 11.0 billion has been paid for the 2014-2020 European Social Fund programmes (including pre-financing) and by the end of 2017 the absorption rate (interim payments vs. 2014-2020 allocation) was 8.25 %. Despite the low level of certified expenditure, the average project selection rate had exceeded 42 %, which shows that implementation on the ground is well under way, paving the way for a strong contribution of the structural funds to the Europe 2020 objectives in these areas.

Concerning the Youth Employment Initiative, implementation in 2017 accelerated. By the end of 2017 the total eligible cost of operations selected for support was nearly EUR 7 billion and over EUR 3.20 billion had been declared by beneficiaries. The Commission had received around EUR 2.70 billion in Youth Employment Initiative payment applications from Member States (including interim payments and initial and annual pre-financing).

For the implementation of the European Social Fund, simplified cost methodology and amount are defined in advance resulting in a reduction of the administrative burden associated with the documentation that needs to be retained for management verification. The total expenditure expected to be covered by unit costs would be approximately EUR 9 billion.

While implementation greatly varies between Member States and operational programmes, in aggregate terms the European Social Fund's Youth Employment Initiative accomplished by the end of 2016 the following achievements:

7.8 million participants[43], including 4.2 million unemployed and 2.1 million inactive; 1.6 million participants were long term unemployed;

Amongst those participants 787 000 were in employment following a European Social Fund or Youth Employment Initiative operation, 820 000 had gained a qualification upon leaving the operation;

276 000 participants were in education or training thanks to the Fund's support;

458 000 disadvantaged participants, including people with a migrant background, were engaged in job searching, education/training, gained a qualification or were in employment, including self-employment.

By September 2017 Member States had already declared that **1.7 million young people had benefitted from the Youth Employment Initiative.**

In Cyprus and Bulgaria 45 % of participants in the Youth Employment Initiative (YEI) were in employment after leaving the programme. In Italy, 35 % of the participants who have completed the programme are now in employment.

The majority of the evaluations carried out by Member States, related to the Youth Employment Initiative, concluded that interventions generally provided support to those areas that are in greatest need such as: the long-term unemployed, the inactive and discouraged young people, these interventions were expected to deliver a significant positive impact. The best results were achieved where project partners and stakeholders such as the public employment services, schools and municipalities cooperated. A specific challenge identified was the difficulty of approaching the individuals not in employment, education or training, especially those belonging to the most vulnerable groups. Moreover, individuals not in employment, education or training seemed to be a very heterogeneous target group and each target group needs another combination of interventions when considering the labour market needs.

Beyond the Youth Employment Initiative, few evaluations were carried out by Member States relating to the European Social Fund in previous years. In general, these evaluations concluded that there was a positive effect on job placement and employment stability.

Fund for European Aid to the Most Deprived

Poverty and social exclusion are major obstacles to the achievement of the Europe 2020 objectives. The Fund for European Aid to the Most Deprived complements existing cohesion instruments by providing assistance to those who are too far from the labour market to benefit from the activation measures of the European Social Fund.

2017 saw the implementation and rollout of the Fund operational programmes on the ground. By the end of 2017 interventions supported by the fund were achieving results in the vast majority of Member States both in terms of provision of material assistance, as well as social inclusion activities for the most deprived persons. The annual implementation reports for 2016 show continuous progress in the execution of the programmes.

In 2016 it is estimated that 15.3 million persons benefitted from food support operations, over 660 000 persons received basic material assistance and close to 23 000 people were involved in social inclusion activities. Over 377 000 tonnes of food co-financed by the Fund for European Aid to the Most Deprived were distributed.

The implementation on the ground of the Fund is also reflected in the financial implementation: by the end of 2017 the Commission had made payments for the amount of EUR 1.02 billion, out of which EUR 602.8 million in the form of interim payments and 419.5 million in the form of pre-financing.

The outputs and results described above indicate that the objectives of the Fund are on track to be achieved and that, in spite of having a small budget, this instrument complements national efforts to eradicate poverty and promote social inclusion. Furthermore, it is a key tool to address situations of extreme poverty as well as to build-up partnerships and networks, raise awareness and share knowledge among operators.

The 2016 implementation reports point towards the following programme achievements:

- it is estimated that in 2014-16 there were 37.1 million cases of participation in food support operations, 0.7 million cases of provision of basic material assistance and close to 23 000 participants in social inclusion activities.
- almost 940 000 tonnes of food were distributed cumulatively until the end of 2016.
- 50 % of the end recipients of the Fund for European Aid to the Most Deprived are estimated to be women, close to 30 % children aged 15 or below and more than 11 % are migrants, participants with a foreign background or minorities, including marginalised communities such as the Roma Community.

The interim results of the ongoing mid-term evaluation of the Fund show that there are clear volume effects in a number of Member States where this instrument fills a gap in national coverage. In Finland, Italy, Lithuania and Slovakia, the Fund is the only source of food aid. Even in Member States with established channels for food aid, the Fund for European Aid to the Most Deprived is an additional source of funding and can bring additional products to the end recipients (volume effect). Moreover there is evidence of process effects in improved partnerships between Non-Governmental Organisations and central administrations in the delivery of food and material aid.

The evaluation also shows that the fund is effective in alleviating food deprivation and contributing to social inclusion. Stakeholders value and stress the need to preserve the fund specific aspects such as flexibility and generally the less stringent administrative requirements compared to the mainstream European Social Fund programmes, along with the established networks and operational delivery modes. Low thresholds allow aid to be provided to persons not reached by the social services such as the homeless, new or undocumented migrants and elderly people at the risk of poverty. It also facilitates quick responses to emerging needs and crisis situations. Much of the administrative burden stems from requirements imposed at Member State level, such as narrow definitions on eligibility.

Further evaluative findings common to cohesion policy programmes

The Commission has carried out a number of evaluations[44] and studies[45] analysing the results of the 2007-2013 period and the early stages of programming and implementation of the 2014-2020 cohesion policy programmes. The evidence collected confirms the important contribution of cohesion policy investments in generating growth, jobs and investment, as well as their significant impact for boosting socio-economic convergence, improving the environment and territorial cohesion across EU Member States and regions.

The Commission's ex-post evaluation of Cohesion policy[46] over the 2007-2013 period demonstrated the continuing long-term effects of Cohesion Policy. It also indicated that every region and country in the European Union benefits from Cohesion Policy even the net contributors through the sum of its direct and indirect effects.

The final monitoring data reported by Member States for the period 2007-2013 illustrate the achievements of Cohesion policy in some important policy fields.

Overall, more than 1.3 million jobs were created by funding from the 2007-2013 period and more than 355 000 SMEs were directly supported by Cohesion policy.

Substantial increases were reported by the Member States in the achievements in the transport sector:

6 500 km of new roads were constructed, 41 000 km of roads were upgraded, 476 km of new railway lines were built and 7 500 reconstructed. A reported additional 15 million people were served by improved supply of clean drinking water and 19.7 million additional people were served by improved wastewater treatment facilities. The population covered by broadband increased by 20.5 million over the 2007-2013 period due to Cohesion policy funding.

Still, reforms are needed in a number of areas. Cohesion policy responded to the financial crisis, playing a countercyclical role with stabilising effect, and to emerging needs such as the migration crisis but its capacity to adapt to new circumstances and challenges was limited. This confirms the need to review how cohesion policy can better prepare and react to unexpected developments, crises and societal changes.

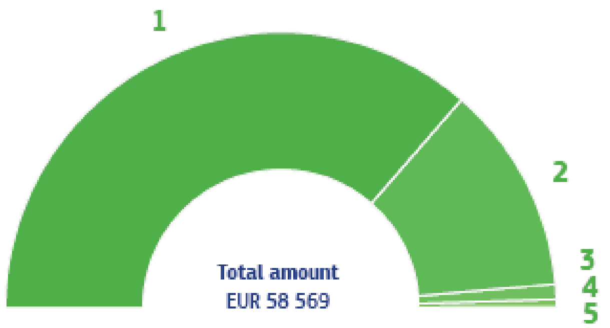
While there have been positive examples of closer alignment between EU funding instruments in the 2014-2020 period, synergies with sectoral policies and other spending programmes need to be maximised. The experience from the 2014-2020 period shows that additional efforts to harmonise rules are still needed[47] and that the synergies with sectoral policies and programmes such as LIFE, Connecting Europe Facility, Horizon 2020, Erasmus+, Asylum, Migration and Integration Fund and Internal Security Fund were not exploited to their full potential.

Rules differ between EU funds investing in human capital development. This fragmentation leads to inefficiencies. Also, complementarities, impact and visibility of measures are hindered by the current fragmentation of funds. For example, basic material assistance provided by the Fund for European Aid to the Most Deprived could be better integrated with social inclusion and employability measures under the European Social Fund.

Project beneficiaries still find difficulties in accessing these funds and delivering projects quickly. Authorities at national and regional level also find the policy too complex to manage. Therefore, a strong effort for further simplifying implementation and allowing for more agile and flexible programming is needed for the future. In a number of special reports[48] the European Court of Auditors has made observations and recommendations with regards to simplification for cohesion policy funds, calling for the streamlining of performance schemes, for the reduction of the administrative burden and implementation delays, for the alignment of national development plans and for the rationalisation of the number of indicators in use.

1.3. Sustainable Growth: Natural Resources (Budget Heading 2)[49]

EUR 58.6 billion has been allocated to Heading 2 in 2017, which represents 37 % of the total 2017 EU budget. Heading 2 covers the two pillars of the Common Agricultural Policy: Pillar I consists of the market support measures and the direct payments financed by the European Agricultural Guarantee Fund; and Pillar II comprises the rural development support financed by the European Agricultural Fund for Rural Development. The heading also covers the European Maritime and Fisheries Fund, the international dimension of the Common Fisheries Policy (i.e. the Regional Fisheries Management Organisations and the Sustainable Fisheries Agreements), as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).



1. European Agricultural Guarantee Fund (EAGF)
   EUR 42 611 (72.75%)
2. European Agricultural Fund for Rural Development (EAFRD)
   EUR 14 364 (24.53%)
3. European Maritime and Fisheries Fund (EMFF) and Common Fisheries Policy (CFP)
   EUR 1 039 (1.77%)
4. Environment and climate action (LIFE)
   EUR 494 (0.84%)
5. Other programmes
   EUR 61 (0.11%)

Chart: Main programmes financed in 2017 under Heading 2. Category 'Other programmes' include Decentralised agencies, pilot projects and preparatory actions. All figures in EUR million.

Support to the priorities of the European Commission:

Actions under this heading contribute to the achievement of the Commission priorities 'Jobs, Growth and Investment,' 'Energy Union and Climate' and to some extent to the priority 'Digital Single Market', as well as to 'A balanced and progressive trade policy to harness globalisation'. They also contribute to the Europe 2020 objectives in the area of sustainable growth with links to smart and inclusive growth with regard to investments contributing to job creation and innovation.

Viable food production, sustainable management of natural resources and climate action, and balanced territorial development are the main objectives of the Common Agricultural Policy (CAP) in the 2014-2020 Multiannual Financial Framework period. Measures under the European Agricultural Guarantee Fund are focused on further improving the situation of primary producers in the food chain, strengthening the farm and agri-food sectors' competitiveness and supporting farm income through direct payments which are largely decoupled from production. Under the second pillar of the Common Agricultural Policy, the European Agricultural Fund for Rural Development targets the economic, social and environmental well-being of rural areas, and the sustainability of the rural environment.

The core priority of the European Maritime and Fisheries Fund under the 2014-2020 financial framework is to foster the implementation of the Common Fisheries Policy by supporting environmentally sustainable, resource efficient, innovative, competitive and knowledge-based fisheries and aquaculture. Other objectives include increasing employment and fostering territorial cohesion, enhancing marketing and processing of fisheries products, as well as supporting the implementation of the Integrated Maritime Policy. The LIFE programme is a specific funding instrument dedicated to the environment and climate action, which operates in addition to the mainstreaming approach adopted for the 2014-2020 Multiannual Financial Framework implying that environment and climate action are an integral part of all the main instruments and interventions.

The programmes under heading 2 contribute to fulfilling the EU's commitments related to the achievement of the Sustainable Development Goals and the implementation of Agenda 2030.

2017 was a year of reflection on the future of the Common Agricultural Policy. In particular, issues of simplification, modernisation, as well as the position of farmers in the food supply chain were focused on. After a wide consultation, the Commission published in November 2017 the Communication on the future of food and farming[50]. It outlines the future delivery model for a smarter, modern and sustainable Common Agricultural Policy. The policy should be more flexible, result-driven, boosting subsidiarity and responsibility by giving Member States a much greater role in rolling out the funding schemes, pursuing agreed, realistic and adequate targets, and helping to reduce the EU-related administrative burden for beneficiaries.

This Communication showed that the sector increased its productivity by nearly 9 % since 2005 while cutting greenhouse gas (GHG) emissions by 24 % since 1990 and reducing fertiliser use with a positive impact on water quality. It however also showed that agricultural income is still lagging behind salaries in the whole economy.

The effectiveness of EU agricultural policy is demonstrated by trade statistics:

The value of agricultural food exports reached EUR 137.9 billion in 2017, an increase of 5.1% compared to 2016.

In 2017, the Commission also consulted on the position of farmers in the food supply chain and in relation to Unfair Trading Practices and adopted in April 2018 a proposal to ban the more damaging unfair trading practices in the food supply chain to ensure fairer treatment for small and medium sized food and farming businesses.

European Agricultural Guarantee Fund

During the initial years of the Multiannual Financial Framework 2014-2020, the implementation of the European Agricultural Guarantee Fund has run smoothly, including some market support measures of limited duration. In general, implementation is on track with no significant difficulties and with a positive evolution in execution over the years.

Market related expenditure

Market support measures in the fruit and vegetables and livestock sector have continuously helped to rebalance the sectors concerned. Especially, (introduced in 2016) adjustment aid and aid for milk production reduction for dairy farmers allowed to manage the market imbalance resulting from several macro-economic factors (expiration of the production quotas, collapse of certain important marketing destinations outlets outside the EU). These aid programmes provided effective support to affected producers in the Member States.

Total export values over the last 12 months reflect a continuing increase by EUR 6.7 billion in 2017 (+5.1 %) and in particular the recovery in dairy products exports (EUR +1.0 billion for dairy powders and butter; EUR +530 million for fresh dairy products and cheese), sugar (EUR +271 million), olive oil (EUR +153 million). The substantial increase on sugar exports during last quarter of 2017 was related to the end of the sugar production quotas as from October 2017 which completes the removal of former supply limitations from the CAP and reinforces its market orientation approach. Equally, the success of national support programmes for wine is witnessed by the long-term development of EU wine exports - which, between 2012 and 2016, continued to increase in value from EUR 8.9 billion to EUR 10.7 billion and brought a net contribution of EUR 7.9 billion to the EU trade surplus. This trend appears to have continued in 2017: wine exports sustained expansion (EUR +1.2 billion vs. 2016 figure, with net contribution to trade surplus which increased to EUR 9.2 billion).

In 2017, the Member States participating in the EU School Fruit and Vegetables Scheme submitted evaluation reports on implementation of the scheme over the last five years. Most reports show a positive short-term impact (increase in children's consumption of fruit and vegetables at school) and some observe changes in the frequency or quantity of consumption patterns. Most reports also highlight positive developments in children's knowledge and attitude towards healthy eating. The scheme was positively assessed by children, teachers and parents with an almost unanimous support for its continuation. The main recommendations for improvement concern an appropriate frequency and diversity of supply of fruit and vegetables, more systematic involvement of teachers and parents, better communication, and the reduction of the administrative burden.

Direct payments

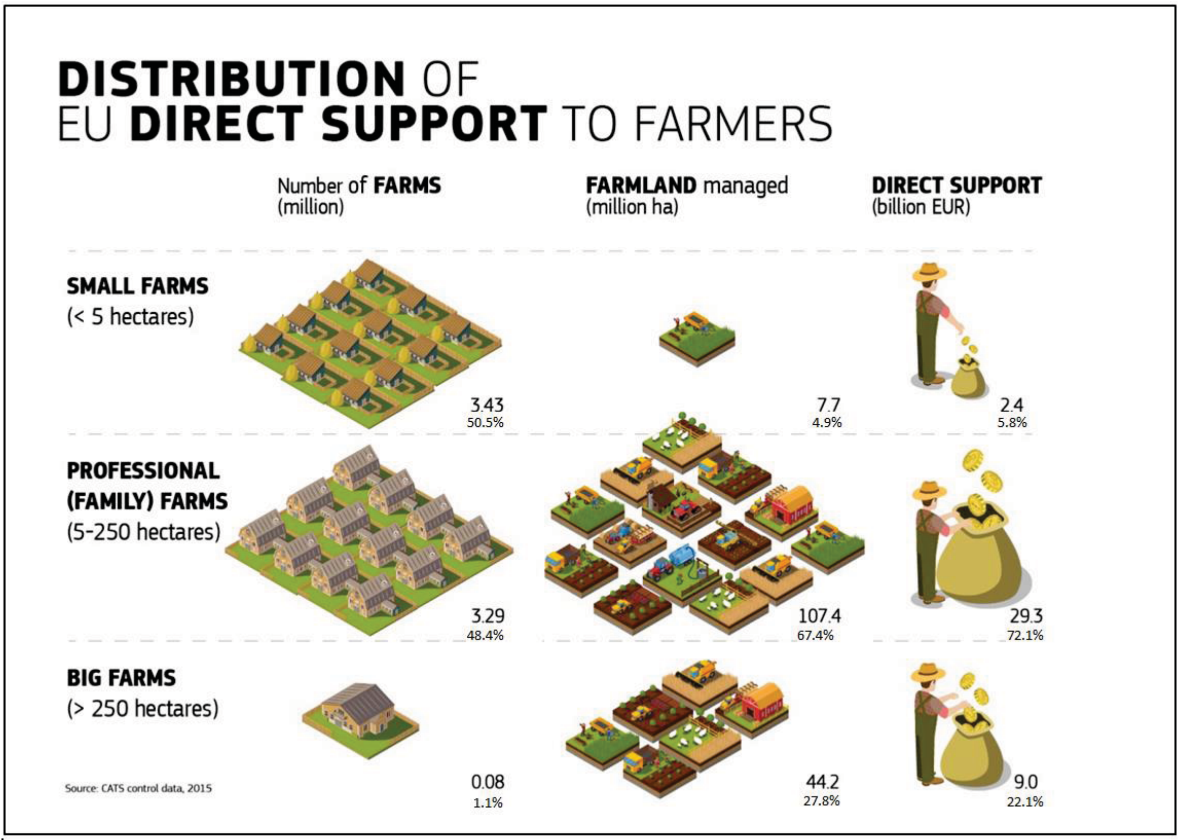
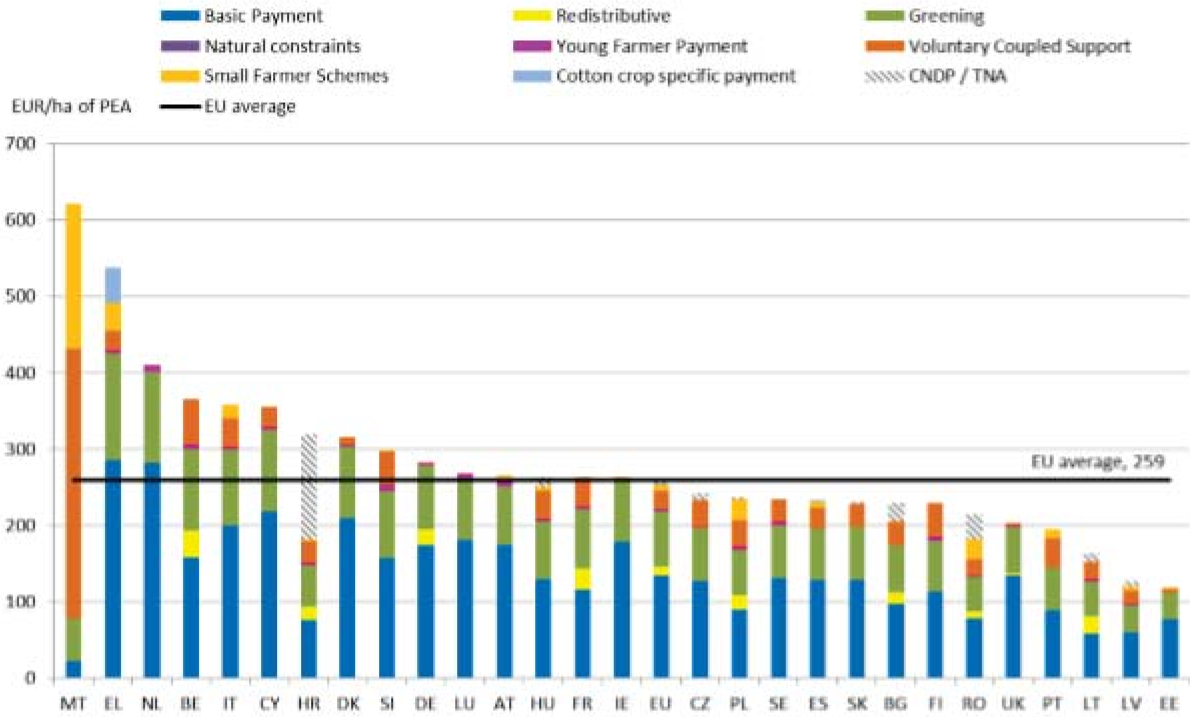


Figure: Distribution of EU direct support to farmers, source: Agri AAR

In claim year 2016 (financial year 2017) which was the second year of implementation of the reformed system, roughly 7 million farmers benefitted from direct payments and the total determined area paid covered some 85 % of the EU Utilised Agriculture Area (178 million ha).

The re-balancing of the distribution of payments between and within Member States has continued: data confirm that the average direct payments per hectare are converging (at Member State and farmer levels)[51].

The various schemes allowing further targeting of the needs of certain categories of beneficiaries, in particular the young farmers, the small farmers and certain specific sectors or regions with structural problems are fully in place. Where necessary, Member States have revised their decisions within the limits of the flexibility given by the new system in order to adjust the modalities of implementation building on the experience gained in the first year. In financial year 2016 payments to farmers were in certain cases made later than usual as it was the first year of implementing the reform. However, already in financial year 2017, the implementation was closer to normal rhythm and it is expected that Member States' implementation will further improve in the following years.



Graph: Direct payment expenditure per hectare of PEA by Member State – 2016, Source: https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/facts-figures/direct-payments.pdf

The payment for agricultural practices beneficial for the climate and the environment (so called ''greening'' payment) was introduced with the 2013 Common Agricultural Policy reform to provide ambitious benefits for the climate and environment. It accounts for 30 % of Member States' annual direct payment envelopes. Holdings subject to at least one of the three 'greening' obligations cover about 79 % of the total EU agricultural area. However, the evaluation on the payment for agricultural practices beneficial for the climate and the environment[52] found that the greening measures have not fully realised their intended potential. Based on data from the 2015 and 2016 implementation, the overall effects are uncertain but appear fairly limited and variable across the Member States. They appear to have had a negligible effect on production or economic viability of farms.

The evaluation concluded that the overall current environmental and climate architecture of the Common Agricultural Policy has proved to be more complex and difficult to manage. The European Court of Auditors concluded that greening added significant complexity to the Common Agricultural Policy, which was not justified in view of the results that greening was expected to produce[53]. It mentioned that as greening overlaps with the other environmental instruments under the Common Agricultural Policy, there is risk of deadweight and double funding, although certain decisions and actions by the Commission and Member States mitigate these risks

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European Agricultural Fund for Rural Development

Under the second pillar of the CAP, rural development programmes make a vital contribution to the economic, social and environmental EU priorities, taking into account the national and regional specificities of agriculture and rural areas across the EU. Support for interactive innovation projects under the European Innovation Partnership for Agriculture as well as support for training and diversification aim to deliver on the Europe 2020 objectives as they encourage innovation and entrepreneurship. In 2017, the Member States submitted their second Annual Implementation Reports covering the period up to 31 December 2016. Despite the late adoption of certain programmes, mainly due to the late adoption of the legislative framework, the implementation is at cruising speed. These implementation reports generally confirm a steady acceleration in spending levels that has made up for the initial delays.

Until the end of financial year 2017, spending levels reached 21 % of total EU rural development resources (excluding pre-financing paid to the Member States) matched by 42.7 % in terms of commitments over planned total public expenditure. The latest figures available on outputs and results achieved (end of 2016) are therefore not yet fully representative. An acceleration in programme implementation is expected in the coming years, in particular regarding investments and job creation operations. Some positive results can already be pointed out, with an achievement of 60 % of the 2020 targets for agricultural land under management contracts contributing to biodiversity, soil and water management, and 89 % for the 2020 target for rural population covered by local development strategies.

The Rural Development Programmes allowed[54] 43 400 holdings to invest in restructuring or modernisation;

12 100 farms with supported business development and investments for young farmers.

5 600 farms to become involved in quality schemes, short supply chains, local markets or producer groups/organisations;

61 800 farms to be covered by risk management schemes.

For the 2014-2020 rural development programming period, a number of initiatives have been launched which are expected to improve efficiency and effectiveness of expenditure of the European Agricultural Fund for Rural Development, for example:

- Modifications via the so-called Omnibus Regulation[55] to improve risk management tools for farmers, reduce administrative burden for beneficiaries and simplify conditions for financial instruments.
- The use of the Simplified Cost Options in 64 % of the Rural Development Programmes is improving the efficiency and effectiveness of the expenditure and reducing the administrative burden.
- As regards the use of financial instruments for leveraging and revolving the rural development budget, the fund is well on track to meet the target of doubling the use of financial instruments as compared to 2007-2013.

Project Examples Under Rural Development[56]:

Aquaponics – a greenhouse for innovative food production in Sweden

Project Summary

The environment suffers more and more loss of soil nutrients, while at the same time there is a problem with the overload of nutrients in lakes and seas. Peckas Naturodlingar has invested in a technology that combines the cultivation of tomatoes with the breeding of fish in a closed system. The nutritious water from the fish is directed to the tomatoes that take on the nutrients. The clean water is then lead back to the fish. By doing this, all the nutrients and water are used in an efficient way, and no waste comes out of the system. The support from the Swedish rural development programme was used to build a greenhouse of 4000m^2. The new greenhouse allowed to upscale the tomato production for sale.

Project results

In January 2018, Peckas delivered their first batch of tomatoes to grocery stores in Härnösand. The whole production of tomatoes for 2018 has been booked by the distributor company 'Gronsakshuset'. 100% of the nutrient water from the fish farm is circulated into a bio-bed / plant bed and then back into the fish farm. This comes with a reduced need of water and all nutrients in the water are used in the tomato cultivation.

Reconstruction of a forest road for effective protection from forest fires in Slovakia

Project summary:

The forest road outside the Hrusovo village in Southern Slovakia was in poor condition and an intervention was necessary in order to restore the functionality of the road. The main activity of this project was the reconstruction of the road by laying new asphalt. Construction works included modifying the adjacent slopes, constructing sluices including concrete fronts from the reinforced concrete pipes, as well as concrete drainage channels, drainage ribs, road ditches and drainage gutters. A wooden lookout tower was also constructed.

Project results:

The project enables authorities to access the site all year round as necessary;

The wooden lookout tower allows the monitoring of the site and implementation of of fire-protection measures;

The new constructed forest road enables the implementation of forest management and maintenance.

Financial instruments are fully programmed in 27 programmes in eight Member States with a total public budget of EUR 669 million (European Agricultural Fund for Rural Development EUR 465 million, national co-financing EUR 204 million). Targeted coaching on financial instruments helps managing authorities to implement specific financial instrument schemes. The latter can be used by farmers, foresters and rural businesses, including through a combination of financial instruments and grants. Financial instruments under the European Agricultural Fund for Rural Development may be implemented together with the European Fund for Strategic Investments developed by the European Investment Bank and the Commission.

The implementation of Rural Development Programmes under the European Agricultural Fund for Rural Development is subject to a number of ex-ante conditionalities. For some of them specific action plans had to be established in view of reaching full compliance by the end of 2016. All action plans except one have successfully been implemented and the conditionalities can therefore be considered as fulfilled.

A comprehensive common monitoring and evaluation framework for the Common Agricultural Policy is in place for the 2014-2020 period. The European Court of Auditors raised some concerns with respect to the monitoring and evaluation system and the related indicators and noted that performance reporting may not provide information in time to design future policy, and manage the budget by results[57]. The Court recognised that the performance framework aimed to enhance the result-based approach and invited the Commission to review and take stock of the experience from the implementation of the current system for the post 2020 programming period. Furthermore, the Court stated that the rural development programmes were approved late, were too long, and entailed complex documents, pointing to shortcomings that hinder the focus on performance and results.

An evaluation of forestry measures under the European Agricultural Fund for Rural Development is about to be finalised (mid 2018). Preliminary results show that the Fund provides a coherent set of measures capable of covering the needs of the forest sector and fostering sustainable forest management in rural areas. The flexibility of the Rural Development Programmes enabled the Managing Authorities to adapt the measures to local needs and specificities, and to provide highly targeted support. However, the effectiveness of the forest measures remained highly dependent on the detail of the measure design at programme level, and where, when and for how long it is implemented by the beneficiaries.

The synthesis of Rural Development ex-post evaluations 2007-2013 is being finalised[58]. This evaluation builds upon evaluations carried out by the Member States. Preliminary findings from the synthesis of ex-post evaluations of Rural Development Programmes 2007-2013 show that the programmes provided positive effects on enhancing competitiveness and environment. However, the effectiveness of measures related to quality of life and diversification of activities were hampered by a lack of priorisation and budget.

The European Agricultural Fund for Rural Development was also subject to the scrutiny of the **High Level Group on Simplification** which delivered its conclusions and recommendations for the improved management of the European Structural and Investment-Funds in 2017. The European Agricultural Fund For Rural Development is covered, together with other Funds, by a number of on-going studies, notably in the fields of a) simplification, b) coordination and harmonisation of Funds, and c) possible alternative delivery modes. Preliminary findings of the simplification study show higher administrative burden and administrative costs for the Rural Development Fund compared with other European Structural Investment Funds.

European Maritime and Fisheries Fund

After a difficult start due to the late adoption of the European Maritime and Fisheries Fund Regulation, 2017 has marked an acceleration of the implementation of the Fund in the majority of the Member States.

Throughout 2017 the rate of implementation started to take off considerably. The number of operations (excluding technical assistance) more than doubled, from 6 200 in 2016 to 15 500 in 2017. The number of fishing vessels benefitting from the European Maritime and Fisheries Fund almost tripled from 3 600 in 2016 to over 9 600 in 2017. The number of small-scale coastal fishing fleet vessels benefitting from the fund doubled. The provided support promotes sustainable balance between fishing fleets and resources and the protection of the marine ecosystems. The European Maritime and Fisheries Fund has also supported better management of more than 60 000 km² of Natura 2000 areas, and almost 1.5 million km² of other marine protected areas (2016 data)[59]. Through projects facilitating transboundary cooperation on Maritime Spatial Planning, it prepares the ground for the sustainable development of the maritime economy in sea basins with an increasing amount of economic activities. Supported operations not only benefit the (legal or natural) persons that officially act as beneficiaries of the operation, but also others, as detailed in the box below.

It is estimated that more than 71 000 fishermen and 25 000 members of producer organisations benefit from the support, as well as 77 000 employees and 32 000 other persons. By the end of 2017, the 368 Fisheries Local Action Groups had selected 1 156 projects for implementation and an additional 56 cooperation projects with other Member States were under preparation.

By the end of 2017, Member States did commit on average 27 % of the Fund. Although commitments are satisfactory, the gap with payments to beneficiaries is substantial in all Member States. By the end of 2017 interim payments reached a bit less than 3.4 % of the planned Fund support for the current period.

The development of the common monitoring and evaluation system for the European Maritime and Fisheries Fund has been a common learning process involving the Commission and the Member States. A recent report on the implementation of the common monitoring and evaluation system[60] makes some recommendations for further improvement based on the experience so far. While Member States should have the flexibility to use supplementary indicators at national level, the common indicators should cover all investments in order to allow for aggregation at EU level and to provide an overall picture of the use of the funds.

In 2017, the ex post evaluation of the European Fisheries Fund 2007-2013 was finalised[61]. It concluded that the objectives of the Fund were reached to a large extent, but there was scope for improvement, in particular its effectiveness and sustainability. The links between the Fund and the sustainable exploitation of fisheries could be strengthened and the contribution of the Fund to broader conservation objectives such as protection and enhancement of the environment and natural resources related to the fisheries sector be made more visible. It also concluded that there was a need to take a more strategic approach for making aquaculture more competitive and increase production while taking better account of the specific challenges faced by the small-scale coastal fishing fleet, except in the case of local development, where complementarities and synergies with other funds remained limited. To a large extent, these issues have been addressed in the development of the 2014-2020 European Maritime and Fisheries Fund with a greater focus on results.

Sustainable Fisheries Partnership Agreements

Sustainable Fisheries Partnership Agreements between the EU and third countries aim to contribute to a regulated framework for EU long-distance fishing fleet, to ensure a sustainable exploitation of the third countries' relevant fisheries resources and to support competiveness of the Union's fishing fleet. These partnerships give the EU a crucial leverage effect on third counties in order to improve ocean and fisheries governance (through better science, data management, institutional capacity, monitoring and surveillance, etc.).

At the end of 2017, 12 protocols to Sustainable Fisheries Partnership Agreements were in force. Negotiations have been successfully completed for the renewal of the protocol with Mauritius, further negotiations have been started with Guinea Bissau and continued with Mozambique and Kiribati. Negotiations with Guinea-Bissau took longer than expected, leading to an interruption of the agreement. In addition, Comoros failed to comply with Illegal, Unreported and Unregulated Fishing Regulation requirements, and was added to the list of non-cooperating countries. As a result, and following a Commission proposal, the Council formally denounced the Sustainable Fisheries Partnership Agreement with Comoros in December.

A total of 200 EU vessels flagged in one of the EU Member States currently benefit from a fishing authorisation granted under Sustainable Fisheries Partnership Agreements, providing them the access they need, also providing jobs and growth in the EU. These agreements have also been contributing to the development of the fisheries sector in the 12 partner countries and to the better governance of their fisheries sector. At the same time, they contribute to eliminating illegal fishing and providing better framework conditions for local fishermen.

The commitment appropriations for Sustainable Fisheries Partnership Agreements in 2017 amounted to EUR 123.1 million and were consumed up to 99.7 %. The payment appropriations amounted to EUR 132.5 million and were fully used.

Programme for the Environment and Climate Action (LIFE)

The LIFE Programme for the Environment and Climate Action promotes the exchange of best practices and knowledge on implementing EU legislation and policies and it facilitates the testing of new approaches for future scaling-up. 2017 was the 25th anniversary of the LIFE programme. Over the years, the programme with its visible activities on the ground, is appreciated by stakeholders and the public across the EU.

Policy achievements initiated under LIFE will shape the EU economy and society in the coming decades. To name a few: the circular economy package including the ambitious plastic strategy, the Paris agreement on a legally binding, global climate deal and the 2030 climate and energy framework.

In 2017, the LIFE programme provided EUR 222 million which will mobilize additional investments leading to a total of EUR 379 million for new projects, 112 of these under the environment sub-programme. A significant amount of the projects will help Member States in their transition to a more circular economy. 33 climate related projects were recommended for funding, half of them addressing adaptation.

By the end of 2017, some 435 traditional projects across all priorities have been selected and financed, plus 15 integrated projects, 4 projects for the European Voluntary Corps (contractualisation of an additional two in 2018)[62] and other technical assistance and preparatory projects.

Examples of traditional projects include: testing an Italian prototype that could cost-effectively convert petrol into hybrid, creating bio based products from wastewater sludge in the Netherlands and applying a new biological treatment to remove pesticides and nitrates from water in southern Spain. Support focuses also on Natura 2000 sites and species protection, such as in the Slovenian cross-border project to help the survival of a highly endangered Alpine lynx species.

Besides giving grants for demonstration projects, pilot and best practice projects, LIFE also provides grants to integrated projects facilitating implementation of plans by Member States and local authorities and raising awareness to induce behavioural change. These integrated projects ensure environmental and climate policy implementation at a large territorial scale and are channelling funding from other sources towards environmental and climate objectives.

LIFE Integrated Project - Water: Integrated approach to delivery of the North West England river basin management plan

One third of the poorest quality rivers in England and Wales is currently found in the North West (England) river basin district. This project will address barriers holding back the achievement of good ecological status for the region's water bodies, as required by the Water Framework Directive. In addition to the EUR 11 988 811 LIFE contribution, the project will facilitate the coordinated use of EUR 37 050 000 of complementary funding from the European Agricultural Fund for Rural Development and European Regional Development Fund, EUR 139 500 000 in national public funds and EUR 52 500 000 in private sector funds.

Another example is the 'LIFE OPTIMELT' project which will carry out the first full-scale demonstration of an innovative waste heat recovery concept. The technology, called OPTIMELT, is able to use an endothermic reaction of natural gas with water vapour CO_2 in the flue gas to recover more heat than previously possible in high-temperature manufacturing processes. It serves as an add-on to existing oxy-fuel combustion furnaces, making this option more environmentally friendly and cost-effective (20% reduction in fuel and oxygen consumption).

According to the proposals received, for a total financing of EUR 251.7 million, the integrated projects should facilitate the coordinated use of about EUR 5.7 billion in total for environmental and climate actions, of which EUR 3 billion is coming from other EU programmes, such as the European Agricultural Fund for Rural Development and the European Regional Development Fund. For each euro the LIFE programme finances, it is expected that a further 22 euros will be financed from other sources for environment and climate objectives.

In 2017, the LIFE mid-term evaluation was finalised[63]. It was carried out at an early stage of the programme's implementation and therefore focussed mainly on the processes put in place to reach the programme's objectives, expected results and on-going activities. It provides reasonable assurance that the programme's implementation is on the right track to deliver on environmental and climate objectives. The mid-term review of the EU biodiversity strategy to 2020[64] concluded that 'the LIFE programme remains a small but highly effective funding source for nature and biodiversity'.

As regards efficiency, the LIFE mid-term evaluation estimated that the benefit to society of some of the projects selected following the first call for proposals will amount to EUR 1.7 billion, which represents four times the cost of the overall LIFE budget for that year. Moreover, the transfer of most of the grant management from the Commission to the Executive Agency for Small and Medium-sized Enterprises is exceeding the expected efficiency gain of EUR 8.2 million initially planned for 2014-2020.

Furthermore, LIFE is designed to be complementary to other EU funding programmes. In particular, synergies are exploited by giving preferential treatment to LIFE project proposals that are taking up results from EU funded research and innovation. Also, larger scale deployment of measures successfully tested in LIFE projects may be financed through other EU funding programmes, e.g. a more sustainable fishing practice can be promoted through the European Maritime and Fisheries Fund.

The mid-term evaluation also identified some aspects for improvement aimed at increasing the strategic focus of the demand-driven part of the programme, e.g. by targeting topics not covered by the projects funded in previous years. More should be done to reproduce the projects and transfer their results, e.g. by developing the capacity to plan and implement investments and by addressing the lack of financial resources. It also pointed to the need to simplify grant management procedures, in particular the application and reporting processes.

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1.4. Security and Citizenship (Budget Heading 3)[65]

Under Heading 3, the EU budget brings together a range of programmes (EUR 4.3 billion representing 3 % of the total 2017 EU budget) supporting pressing political challenges such as security, asylum, migration and integration of third country nationals, health and consumer protection, as well as those relating to culture and dialogue with citizens. Funding is geared to projects where EU collaboration brings about significant efficiency gains.

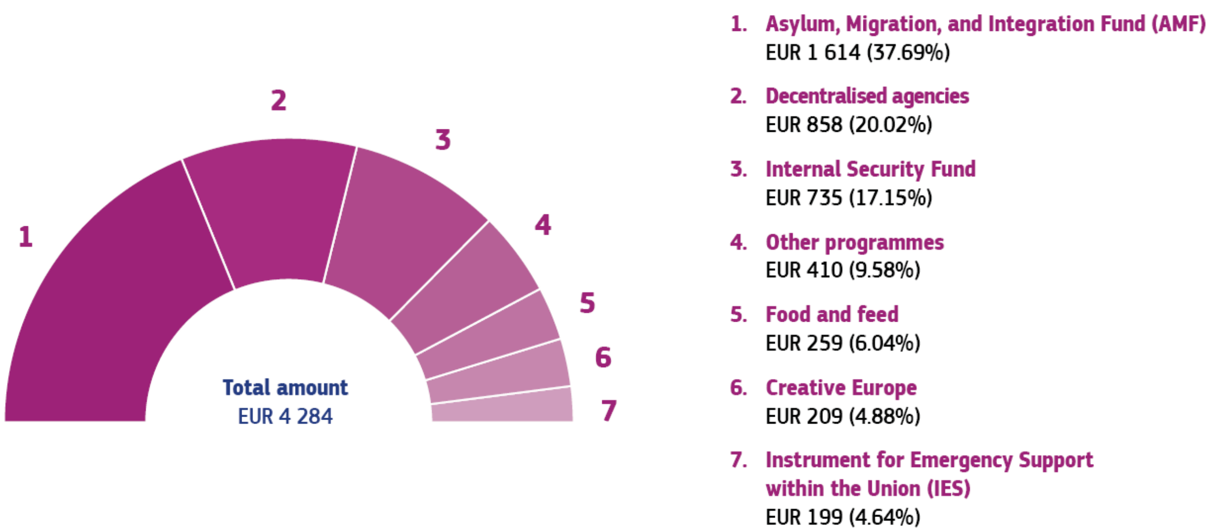


Chart: Main programmes financed in 2017 under Heading 3. Category 'Other programmes' include amongst others IT systems like the Schengen Information System and the Visa Information System, the Justice Programme, Rights, Equality and Citizenship, Europe for Citizens, the Health and Consumer Programmes and the Union Civil Protection Mechanism within the EU. All figures in EUR million..

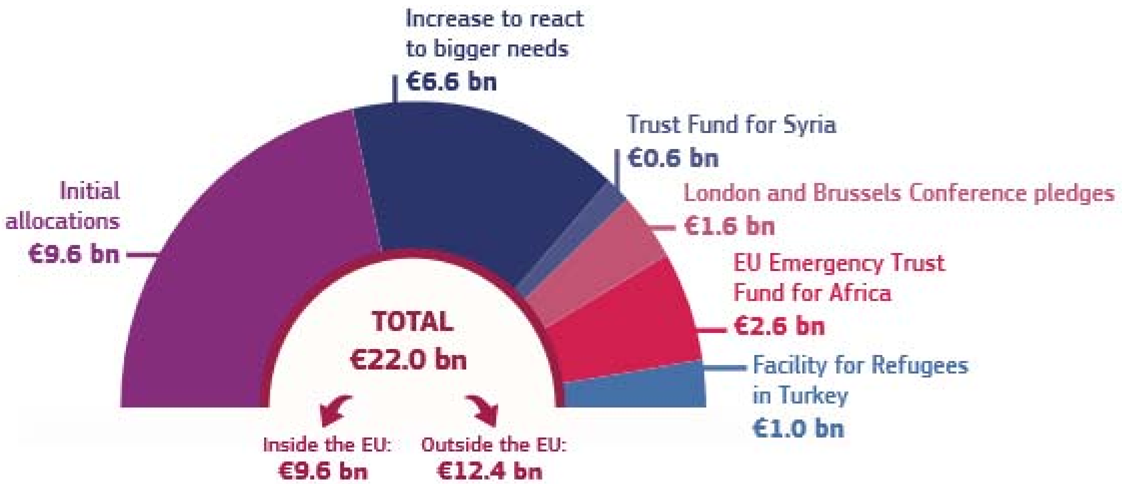
Support to the priorities of the European Commission

The programmes under Heading 3 contribute mainly to the Commission priorities of 'Justice and Fundamental Rights' and 'Migration.' Despite the relatively small budget involved, these programmes contribute to Europe 2020 achievements. For example, the Health Programme stands on the crossroads between smart and inclusive growth: it funds actions for the up-take of innovation in health and health care and supports Member States in their health systems' reforms and, the same time, it pursues work on the promotion of health and prevention of diseases and addresses the increasing trend of health inequalities through actions on the health of vulnerable groups and, since 2015, with a specific focus on refugees. The Asylum, Migration and Integration Fund contributes to inclusive growth through financing of projects for integrating non-EU nationals.

This part of the budget played a particularly important role in 2017 as part of the ongoing response to the refugee crisis and the putting in place of a comprehensive European approach to the management of migration flows. As recent experience has shown, the management of migration flows and security threats present challenges which cannot be dealt with by the Member States acting alone. The abolition of internal border controls must be accompanied by common measures for the effective control and surveillance of the Union's external borders. The principle of solidarity and the fair sharing of responsibilities between Member States is at the heart of the common policies on asylum, immigration and external borders. The EU budget provides the means to address the financial implications of this principle. In the area of security, serious and organised crime, terrorism and other security-related threats are increasingly cross-border in nature. Transnational co-operation and coordination between law enforcement authorities is essential to successfully preventing and fighting these crimes, for example through the exchange of information, joint investigations, interoperable technologies and common threat and risk assessments.

Dealing with migration flows, the management of the EU's external borders and the security of the EU requires substantial resources and capabilities from the Member States. Improved operational co-operation and coordination involving the pooling of resources in areas like training and equipment creates economies of scale and synergies thereby ensuring a more efficient use of public funds and reinforcing solidarity, mutual trust and responsibility sharing for common EU policies among Member States.

Migration related expenditure, internal and external



EU funding to meet migratory challenge inside and outside of the EU for the period 2015-2018, source: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20171207_eu_budget_for_the_refugee_crisis_and_improving_migration_management_en.pdf

Asylum, Migration and Integration Fund

The Asylum, Migration and Integration Fund promotes the efficient management of migration flows and the development of a common Union approach to asylum and migration. It contributes to the achievement of four specific objectives, namely strengthening and developing the Common European Asylum System, supporting legal migration to EU Member States in line with the labour market needs and the effective integration of third-country nationals; it also contributes to enhancing fair and effective return strategies and to ensure solidarity and responsibility-sharing between the EU Member States, in particular those most affected by migration and asylum flows. Further, it supports the integration of third country nationals who are victims of trafficking in human beings.

In 2017, national programmes were amended to support the integration of third- country nationals, in particular through actions carried out by civil society organisations and local authorities, to enhance the return and resettlement areas. The 2014-2020 allocated resources increased from EUR 2 752 million to EUR 5 391.5 million by the end of 2017. The recent top-ups to the budget for shared management were earmarked in support of the two relocation schemes for Italy and Greece (EUR 651 million) and of the resettlement scheme (EUR 872 million).

The total of payments executed in 2017 is EUR 576.2 million, almost double that of 2016.

Under the Fund's emergency assistance, EUR 973 million has been allocated since the beginning of 2014. Out of this, as of 16 January 2018, EUR 630 million has been awarded to Member States under migratory pressure for addressing the migration and refugee crisis.

Emergency assistance responded to immediate and basic needs, like food, shelter and medical care to refugees, reception services and support to unaccompanied minors, the strengthening of capacity of the asylum services to be able to cope with large numbers of applications, and providing support to asylum seekers returning to their countries of origin and the relocation schemes. Such activities were most pressing in frontline countries such as Greece, Italy and Bulgaria.

The Fund also continued to support the European Migration Network.

The Fund provided assistance through various projects in the field of reception and asylum systems (e.g. legal aid and representation, social counselling, targeted services to vulnerable groups, etc.). Between 2014 and 2017, the number of target group persons provided with assistance (in reception and asylum systems) increased from 148 045 to 297 083, and of these, the share of persons having benefited from legal assistance has risen from 18 395 (12.4 %) to 56 933 (19.1 %).

The Fund also supported the creation of over 7 000 additional places in reception centres in 2017. The number of places adapted for unaccompanied minors, an especially vulnerable migrant group, has also increased from only 183 places in 2014 to 17 070 places in 2017.

Member States agreed in July 2015 to resettle over 22 000 persons in need of international protection during the period 2015-2017. They also agreed in March 2016 under the EU-Turkey Statement to resettle up to 54 000 Syrian refugees from Turkey (instead of Syrians being returned to Turkey).

As of the end of 2017, 26 849 persons had been resettled. ***33 151 persons were relocated*** *(11 445 from Italy and 21 706 from Greece. This represented over 94 % of all those eligible and registered for relocation in Italy and Greece).*

The high influx led to growing gaps in unemployment, educational level and risk of social exclusion between third-country nationals and host country nationals.

However, with the Fund's support, the share of third-country nationals having received long-term residence status increased from 30 % in 2013 to 44 % in 2016. Also, by the end of 2017, 1 432 612 third-country nationals have received integration assistance.

Between 2013 and 2017, the number of returnees and those who received pre- or post-return reintegration assistance co-financed by the Fund has increased. The number of returnees co-financed by the Fund was 48 250 in 2017 compared to 5 904 in 2014. Of those returned, the share of non-voluntary returns has increased from one quarter in 2014 to half in 2017. The reported number of persons who returned voluntarily was 17 736 in 2017. Steps were also taken towards enhancing practical cooperation between Member States on return issues and between Member States and third.

At mid-term, the evaluation[66] found that overall, the Fund has generated EU added value, despite the relatively small size in comparison with the important challenges imposed by the crisis that occurred during this period (from 0.23 % (initially planned) to 0.63 % (after top-ups) of the EU budget appropriations for 2014-2020). The main EU level benefit arises from the transnational dimension of actions such as European Migration Network but also the burden-sharing EU level benefit, supported in particular by emergency assistance and the relocation mechanism.

The Fund is therefore also achieving its objectives. However, the internal coherence of the Fund among different management modes could be improved especially by raising awareness among beneficiaries about the actions and projects supported by the Fund. The administrative burden appeared to be the main factor that undermined efficiency even if the Fund has already significantly simplified compared to the previous funding programme. There was also limited evidence of increased capacity to develop, monitor and evaluate asylum systems. While the EU resettlement programme has made significant progress, there is still a limited contribution towards the establishment, development and implementation of national resettlement programmes. The Fund's monitoring and evaluation system needs further improvement, including the definitions of its indicators and the collection of data. The distribution system of funds could be more adaptable in order to ensure an appropriate response to changing needs and the sustainability of projects enhanced.

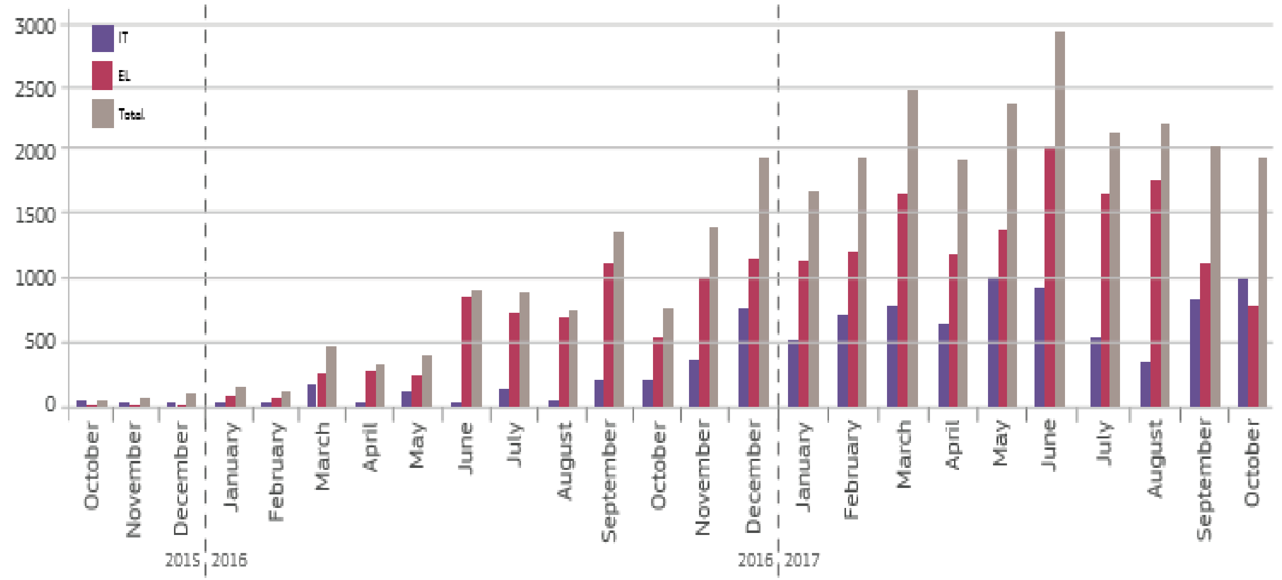


Chart: Number of relocations from October 2015 - October 2017, source: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20171114_relocation_eu_solidarity_between_member_states_en.pdf

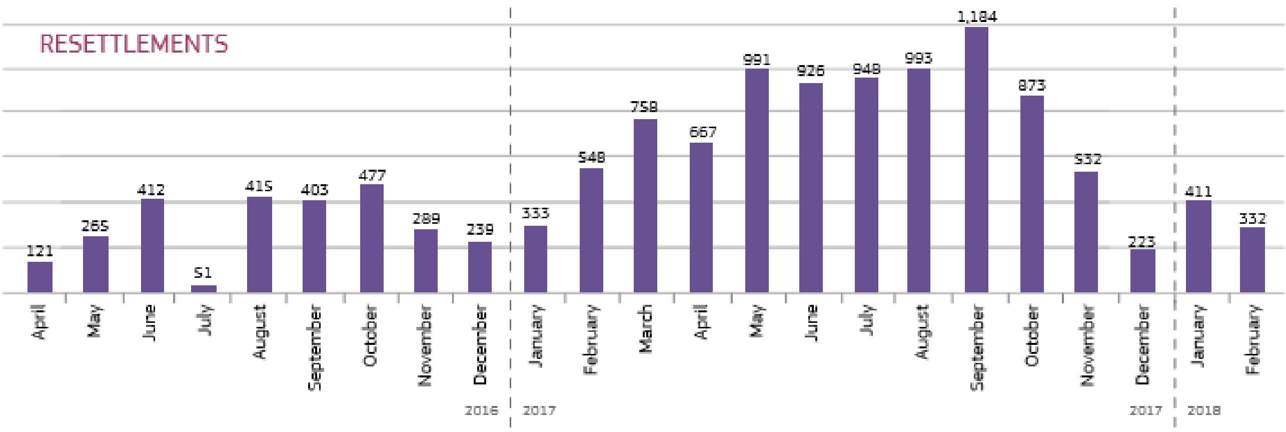


Chart: Number of resettlements of Syrian refugees from Turkey April 2016 - February 2018, source: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20180314_eu-turkey-two-years-on_en.pdf

Internal Security Fund

The Internal Security Fund promotes the implementation of the Internal Security Strategy, law enforcement cooperation and the management of the Union's external borders. The Fund is composed of two instruments, Internal Security Fund Borders and Visa and Internal Security Fund Police. The first instrument – Borders and Visa – contributes to ensuring a high level of security in the Union while facilitating legitimate travel. The second instrument -

Police – focuses on the fight against crime as well as risk and crisis management.

In 2017, the implementation reached cruising speed.

Under the Internal Security Fund Borders and Visa emergency assistance, as of 16 January 2018, EUR 309 million, representing 53 grant agreements, was awarded to Member States for addressing the migration and refugee crisis. Under Police emergency assistance, EUR 6.3 million was awarded, representing 5 projects. In 2017, EUR 57.8 million was awarded to two Member States facing the most urgent pressure on their external borders - Greece (EUR 3.8 million) and Italy (EUR 54 million), notably at the hotspots.

The interim evaluation[67] showed that the Internal Security Fund Borders and Visa has contributed to the implementation of the EU common visa policy and facilitated legitimate travel in an effective manner. Information-exchange and training activities contributed to the uniform implementation of Union's acquis on visa policy.

The Fund supported the development of EU information technology systems, with particular regard to the Visa Information System, containing information on 55 million short-stay visa applications at the beginning of 2018, and the Schengen Information System, a database which included over 76 million alerts on persons or objects such as wanted or missing persons and objects for seizure, and had more than 5 billion searches and 243 500 hits[68] in 2017.

All these together contributed towards a high quality service to visa applicants, equal treatment of third-country national and tackling illegal migration in a homogeneous way, showing high EU added value. The contribution of the Fund in consular cooperation and in strengthening cooperation with third countries, however, remained limited. The Fund also contributed to the implementation of integrated border management in an effective manner despite the migration and security crisis. It supported the development of integrated border management policy and it increased solidarity among Member States by co-financing equipment used in Joint Operations of the European Border and Coast Guard Agency. The Fund also made a contribution to the development of the European Border Surveillance Network (EUROSUR) and border management information technology systems. However, the evaluation showed that the continuity of the actions relies to a large extent on the EU funding. From a financial point of view, without a dedicated EU funding instrument, national funding would not have allowed the effective and efficient funding of the planned actions. Moreover, the evaluation found that the Common Monitoring and Evaluation Framework was established too late, well after the projects had started. Monitoring, reporting, and controlling measures are still perceived as burdensome by stakeholders.

The Internal Security Fund Police has contributed to a high level of security in the Union via preventing and combating cross-border, serious and organised crime, including terrorism, and reinforcing coordination and cooperation between law enforcement authorities. It has also contributed to improving the capability of Member States to effectively manage security-related risks and crises, and to a lesser extent by protecting people and critical infrastructures against terrorist attacks and other security-related incidents.

Available evidence indicates that the Fund has contributed to enhance cooperation and coordination among Member States and European bodies, and towards improving Member States capability to develop comprehensive threat and risk assessments, although the number of funded projects at national and Union level is relatively low. Several actions have been founded in the area of early warning and cooperation on crisis prevention (for example the ATLAS network). The evaluation showed that the monitoring and evaluation framework should address issues such as definition of indicators, and simplification of reporting. Issues linked to the further efficiency of the fund and flexibility in the design of the national programmes and allocation of funding the programme remain challenging. The perceived administrative burden linked to the Fund is still high though several improvements were registered compared to the previous programming period.

The Commission, together with the European Border and Coast Guard Agency and Member States continued to work towards the effective and strengthened management of the EU's external borders. In 2017, the Agency carried out 15 joint operations at the EU's sea, land and air external borders in which the Agency deployed between 1 175 and 1 700 border guards totalling 347 805 man-days (up 11.6% on 2016). For those external borders exposed to the highest pressure, the Agency was present on a permanent basis with its Triton joint operation at the Central Mediterranean and its Poseidon joint operation at the Eastern Mediterranean.

The European Border and Coast Guard Agency contributed to rescuing 111 000 migrants that arrived in Italy via the Central Mediterranean Route.

The pace of return operations organised by the Agency has continued to grow, reaching a total number of 14 271 persons returned in 2017

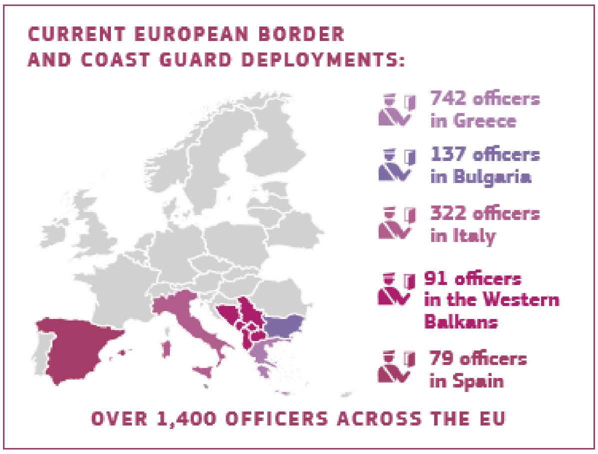
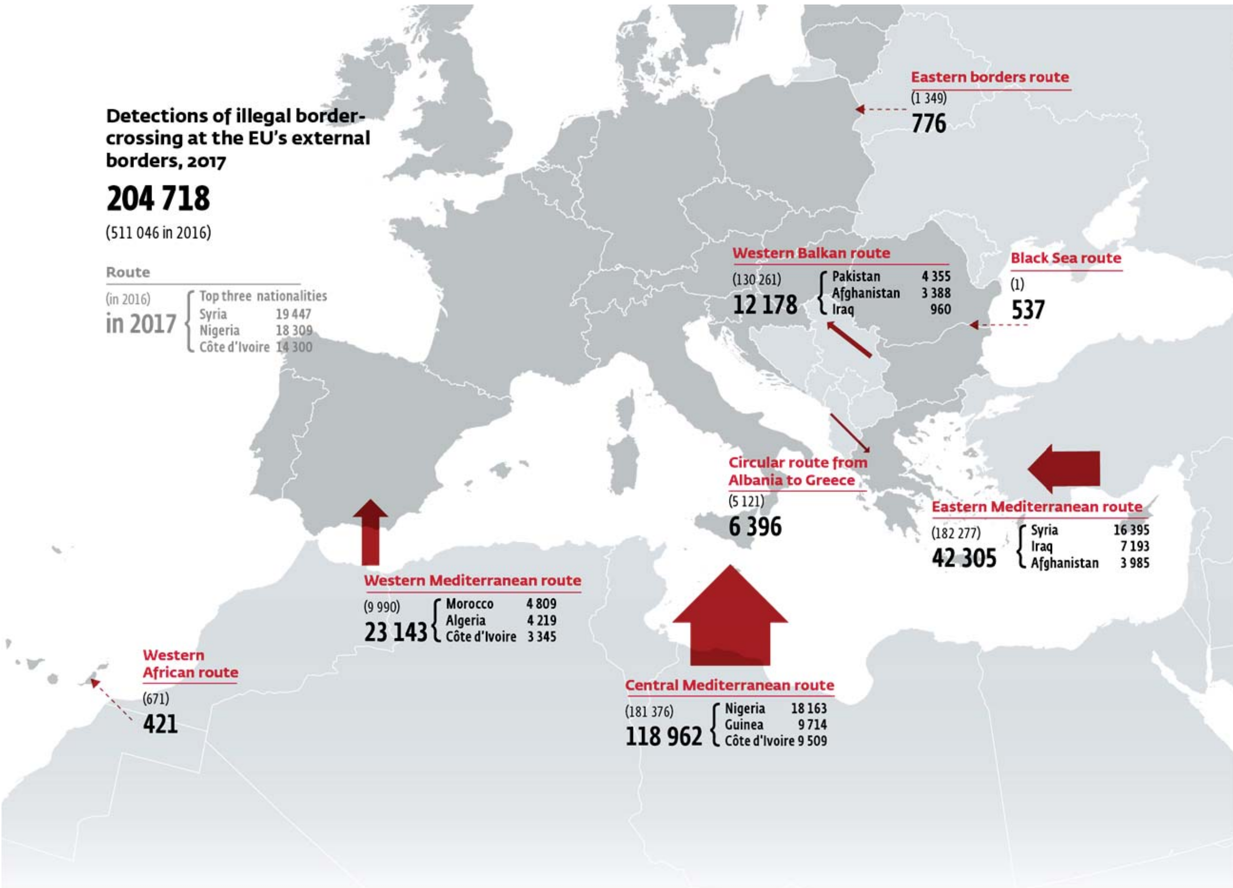


Figure: Breakdown of European coast Guard Deployments, source: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20171207_the_european_border_and_coast_guard_agency_en.pdf

Additionally, through the Common Security and Defence Policy mission in Niger and Mali and the EU Trust Fund for Africa, the EU supports search and rescue missions in the desert: so far over 1,100 migrants have been rescued in the Sahara in Niger this year by Nigerien authorities and the International Organisation for Migration (IOM)[69].

Five hotspots (Moria, Vathy, Vial, Lepida and Pyli) are operational in Greece where all migrants are properly screened, identified, fingerprinted, registered and informed about their rights. As of 31 December 2017, these hotspots had a combined capacity of approximately 5 600 places. Continuous efforts were made to improve the living conditions of migrants staying for longer periods on the islands pending a decision on their situation due to requirements of the EU-Turkey Statement. To cope with further demand, an additional five hotspots with a combined capacity of 1 850 places opened in Italy (Lampedusa, Messina, Trapani, Taranto and Pozzallo), this increased the total declared hotspot capacity by 15 %.

Despite the continuous high inflow of migrant arrivals in the first half of 2017, Italy managed to sustain the overall fingerprinting rate close to 100 % in 2017.



Instrument for Emergency Support within the EU

In its second year of implementation, the Instrument for Emergency Support continued to provide valuable support to vulnerable refugees within the European Union (in Greece). 2017 was a transitional year for the implementation of the Instrument as the approach shifted from a first emergency operation to a more normalised one. Two ways of implementing humanitarian aid were scaled up: (1) a shift from catering to a cash-based system for food in camps, and (2) a progressive shift from shelter in camps to a rental accommodation scheme. These two policy initiatives resulted in the Emergency Support to Integration and Accommodation programme. At the beginning of 2017, around 60 000 refugees and migrants remained in Greece, according to Greek Government Statistics. The United Nations Refugee Agency declared that at the end of 2017, over 45 000 refugees and migrants were still stranded in the country.

In 2017, the Instrument catered for up to 40 000 of these beneficiaries, allocating up to EUR 198 million through humanitarian organisations for the provision of needs-based emergency support.

The funding complemented efforts by Greek authorities in addition to support provided to Greece by other EU instruments. Funded actions were carried out by 15 humanitarian organisations and their implementing partners through the provision of multi-sectorial support based on cash as the basic modality. Services included basic needs assistance, food assistance, shelter, rental accommodation, site planning and site management, protection in particular for unaccompanied minors, education, healthcare including psychosocial support, water, sanitation and hygiene. 37 597 recipients benefitted from the Emergency Support to Integration and Accommodation programme and cash assistance scheme by December 2017.

In the first semester of 2017, the Instrument also covered the management of around 1 000 places for unaccompanied minors on dedicated shelters As of August, the Greek authorities have taken over the funding of these shelters with their national programme under the Asylum, Migration and Integration Fund. The Emergency Support Instrument has contributed to the creation of 24/7 safe zones for these minors in sites when needed.

Union Civil Protection Mechanism

The Union Civil Protection Mechanism has delivered effectively on its primary role of facilitating the delivery of in-kind assistance from EU Member States to disasters inside and outside Europe. The aim of the Union Civil Protection Mechanism is to support, coordinate and supplement the actions of the Member States in the field of civil protection with a view to improving the effectiveness of systems for preventing, preparing for and responding to natural and man-made disasters. The Mechanism focuses on reducing loss of human life, environmental, economic and material damage caused by disasters through a comprehensive approach covering disaster prevention, preparedness and response; improving the understanding in Member States of disaster risks through cooperation on risk assessment and planning, and the gradual development of a European culture of disaster prevention; as well as on improving the preparedness for disasters through training, exercises, exchange of best practices and similar activities.

In 2017, the Union Civil Protection Mechanism was activated in response to 32 emergencies in total and registered several notable achievements. In light of more complex and frequent natural disasters that have seriously affected many European countries over recent years, the Commission submitted in November ambitious new plans to strengthen Europe's ability to deal with natural disasters, both strengthening European response capacities via rescEU as well as Stepping up disaster prevention and preparedness.

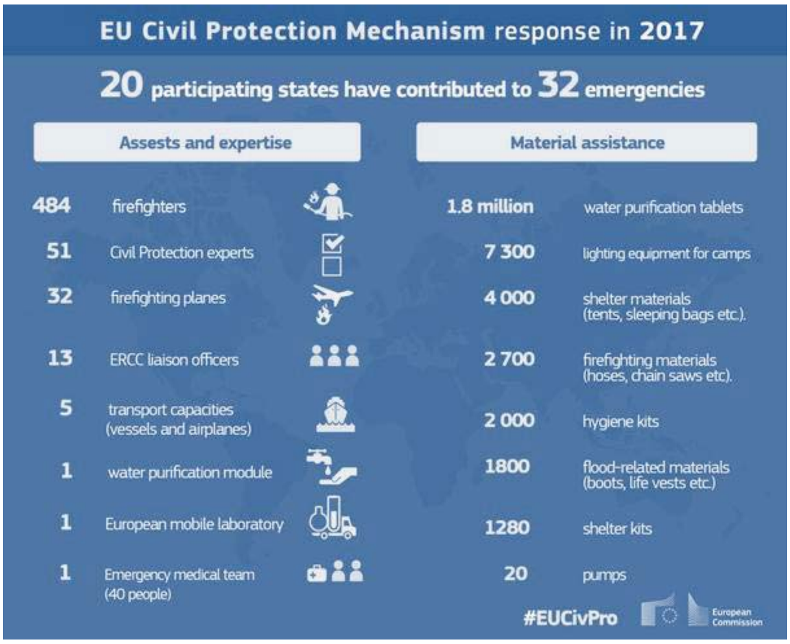
European Emergency Response Capacity was set up in the form of a voluntary pool. The voluntary pool of Member States' response capacities brings together a range of civil protection modules, other response capacities, and experts, which Member States keep on standby for EU civil protection missions all over the world. The teams need to meet minimum quality criteria and undergo a certification process to ensure quality and interoperability. Trained and certified modules, response capacities and experts guarantee an effective response to disasters inside and outside the EU. The voluntary pool also enables a shorter deployment time. Capacities from the voluntary pool were mobilised in all major emergencies including ones needing specialised assets.

For example, during the Ebola crisis, medical evacuation aerial capacities for Ebola patients and mobile laboratories were provided.

Following the successful implementation of the 'Buffer-IT' project of 2016 to reinforce Member State aerial capacities to fight forest fires:

Two aerial forest fire fighting capacities (buffer capacities) were co-financed for the 2017 forest fire season. The buffer capacity based in Italy was composed of two heavy amphibious planes and the one based in Spain consisted of two medium amphibious planes. In 2017, these buffer capacities were deployed four times in Europe for a total of 230 flight hours and 773 firefighting drops.

Also, the European Medical Corps that was launched in February 2016, is the new framework for mobilising medical and public health experts and teams for preparedness or response operations inside or outside the EU. So far, 9 Member States have committed medical teams, mobile laboratories, and logistical support teams and two teams were already mobilised during the Ebola outbreak in Western Africa.



Outside of the EU borders, in 2017 the Mechanism facilitated the provision of assistance to the following countries: Albania, Armenia, Bangladesh, Chile, Dominica, Iraq, Mexico, Montenegro, Peru, Tunisia and Uganda. The Mechanism also provided expertise in the form of preparedness and prevention (advisory) missions to Jordan, Bhutan and Armenia. Selected prevention and preparedness actions were implemented in candidate countries, potential candidate countries and countries covered by the European Neighbourhood Policy.

Assistance deployed included shelter materials and shelter kits (Bangladesh), medical kits (Iraq), and water purification units (Dominica). EU experts provided further support to the Mexican authorities on the assessment of damage to cultural heritage sites following the earthquake in Mexico.

The mid-term evaluation of the Mechanism was completed in 2017[70]. The evaluation underlined that the Mechanism has clear EU added value for Participating States under all three thematic pillars – disaster prevention, preparedness and response. For example, in the area of response, EU added value was most evident in the comprehensive overview of capacities available at the EU level and the possibility to request coordinated EU wide response through a single platform.

The Mechanism has proven to be a useful tool to mobilise and coordinate the assistance provided by the Participating States responding to crises inside and outside the Union, constituting a tangible proof of European solidarity. For example, the existence of a single European 'hub' for information sharing, operational coordination, the introduction of European standards for disaster response capacities and common guidelines on risk assessment clearly flag the EU added value in the area of disaster response, preparedness and response.

The addition of new capacities via the European Emergency Response Capacity (Voluntary Pool) has enhanced the overall disaster preparedness at EU level and allowed for immediate deployable response resources bringing together a range of teams, experts and equipment from Participating States. Key challenges remain in establishing capacity needs, setting appropriate capacity targets and further development of quality standards as well as better linking prevention with preparedness and response activities. Articulation with broader EU programmes such as the European Regional Development Fund is also challenging. The evaluation pointed to the need for strengthening the monitoring framework, enhancing the coherence between the actions under the Mechanism and the EU climate change adaptation agenda, and further improving the sustainability of the results. The Mechanism is still to find the right balance between being a framework of mutual assistance between European countries in the aftermath of natural and man-made disasters and evolving towards a more complex instrument capable of addressing crises of a multiple nature and with a global reach.

Europe for Citizens Programme

The Europe for Citizens Programme is implemented through two strands: 'European remembrance' and 'Democratic engagement and civic participation'. They offer co-funding for European remembrance projects, town-twinning activities, networks of towns and civil society projects. The two strands are complemented by horizontal actions for dissemination and use of project results. The programme is implemented through action grants and operating grants granted to European civil society organisations and think tanks active in the thematic areas targeted by the programme.

In 2017, under 'European remembrance', 39 supported initiatives focused on creating a sense of ownership with citizens for how the EU develops and the values it is built upon. The 373 town-twinning projects, 32 networks of towns and 27 civil society projects under the strand 'Democratic engagement and civic participation', focused on promoting solidarity in times of crisis and combatting the stigmatisation of migrants and minority groups.

In 2017, all programme's actions were implemented. During the year, out of 1 942 applications received, 412 projects were selected, with a total budget of EUR 25.6 million. The Programme was implemented in 33 eligible participating countries.

The outcome of the mid-term evaluation[71] of the Europe for Citizens programme confirms the programme's added value in promoting civic participation and strengthening a sense of belonging and supporting mutual understanding. The programme's structure, with two strands and a cross-cutting measure on valorisation has proved to work efficiently and both operating and action grants have helped deliver the desired outcomes. Altogether, 3.3 million citizens were directly involved in activities supported by the programme (for example participants in town twinning activities, participants at events organised by civil society organisations, etc.) and a further 3.9 million were indirectly involved (for example users of online material produced as part of the programme, readers of studies produced by think tanks). However, the evaluation also pointed to lack of visibility due to the small scale of activities, the need to strengthen synergies with other existing EU programmes and the need to improve monitoring indicators.

Rights, Equality and Citizenship Programme

In 2017, the Rights, Equality and Citizenship Programme operated with a budget of EUR 61.5 million. The Annual Work Programme 2017 was adopted on 1 March 2017 with 10 calls for proposals of action grants launched and 8 closed. 3 calls for operating grants to support the framework partners were also closed. Operating grants of EUR 15 million were awarded to 12 national authorities and 32 grass roots organisations for projects focusing on detection and improving the protection and support standards for victims.

Most of the activities under the Programme contribute to the EU Priorities of Justice and Fundamental Rights, Delivering a Union of Democratic Change and to the European Security Agenda (notably activities combatting racism and xenophobia). The Programme also contributes to the Digital Single Market by supporting activities proposed on data protection and fighting hate speech online. Activities on consumer rights relating to cloud computing, digital contracts also contribute to a connected Digital Single Market, as well as to a deeper and fairer internal market.

In the non-discrimination and Roma integration policy area, the Programme supported actions that ensure that discrimination on the grounds of religion or belief, age, disability and sexual orientation is prohibited whenever possible in the same way it is on grounds of sex and race or ethnic origin. The programme supported the European Disability Strategy 2010-2020 through funding actions aimed at protecting the rights of persons with disabilities. In 2017, EUR 701 207 was allocated to support initiatives such as the European Disability Card, the Access City Award and launching the European Day of Persons with Disabilities.

The programme continued to prioritise actions on preventing and combating all forms of violence against women, young people and children. One project in Finland involved training approximately 1 000 doctors, nurses and other social and healthcare workers in recognising signs of domestic violence and encouraging disclosure and reporting of violence.

The Programme also supported actions targeted at preventing and combating all forms of violence. This prepared the ground for the EU and its Member States' accession to the Council of Europe Convention on preventing and combating violence against women and domestic violence. These include for instance the support of the Maltese Presidency conference focusing on gender-based violence in the context of intersectional discrimination and women's access to justice and services in February 2017. On this occasion, a web tool for professionals in contact with women affected by female genital mutilation was launched.

In the gender equality area, the Programme supported women's participation in the labour market and the elimination of discrimination including the gender pay gap. Under the implementation of the Strategic engagement for gender equality 2016-2019, the Programme contributed to increasing gender balance in economic decision-making positions, through the creation of a Commission database on women and men in decision-making.

Actions in the area of the rights of the child supported the promotion of child-friendly justice and given the emergency of migration, funds prioritised initiatives in protecting children in vulnerable situations.

As an example, the Programme funded the 11th Annual European Forum on the Rights of the Child in November 2017, focusing on the topic of children deprived of their liberty and alternatives to detention.

The preliminary results of the interim evaluation show that the Programme achieved good progress towards its objectives, in an effective and efficient manner. However, the distribution across different groups of beneficiaries and amongst the Programme's objectives is not optimal and neither is its geographical distribution. A more systematic planning, monitoring and implementation of Programme activities would support the sustainability of project results. The efficiency of the application, implementation and reporting mechanisms could be strengthened.

Justice Programme

The Justice Programme contributes to the development of a European area of justice based on mutual recognition and trust. The programme promotes judicial cooperation in civil and criminal matters and judicial training to foster a common judicial culture. The programme supports effective access to justice in Europe, as well as initiatives in the field of drugs policy. The Justice programme aims at improving implementation of EU justice instruments (e.g. European Investigation Order, European Arrest warrant and surrender procedures, European Protection Order, European Account Preservation Order, family law) and apply faster cross-national judicial proceedings through cooperation, dialogue, exchange of information, training activities and harmonisation of practices. All the activities funded by the Justice programme have a transnational dimension. Most of them are implemented by partnerships representing at least two countries or networks grouping members from at least 14 participating countries.

The operational budget allocated to the Justice Programme in 2017 (EUR 52.6 million) was primarily used to strengthen judicial cooperation in civil and criminal matters and to improve access to justice.

All calls for proposals and tenders under the 2014, 2015 and 2016 work programmes are finalised. The implementation of related projects and contracts is ongoing.

The Programme finances the European Judicial Network in civil and commercial matters. The network brings together national judicial authorities aiming to simplify and strengthen judicial cooperation between Member States and to improve the implementation of EU civil justice.

With the Electronic Criminal Records Information System, an increase in the number of exchanges of information helped to provide more rapid and targeted exchanges of information on criminal convictions between Member States. In 2017, the increase was more than eight fold compared to the 2012 baseline.

Continued funding for the European e-Justice Portal resulted in close to 2.7 million hits being registered in 2017 - a six fold increase compared to 2012.

The portal gives access to documents on cross-border proceedings, case law, on EU judicial systems and training material, thereby facilitating access to justice for citizens and businesses and contributing to mutual trust.

In combatting terrorism, a key priority of the European Agenda on Security, funded actions prioritised the prevention of radicalisation in prisons and improving prison conditions. In 2017, operating grants were awarded to organisations like EuroPris and the Confederation of European Probation for projects that contributed to enhancing the use of alternatives to imprisonment and improving detention conditions in Member States. Improving poor prison conditions is a political priority at EU level as there is a higher risk of radicalisation in these settings and can limit the efficient operation of, for example, the European Arrest Warrant.

The preliminary results of the interim evaluation show that the programme's progress at mid-term has been considerable. Nevertheless, some challenges in the implementation of the programme have emerged. The Programme so far has been accessed by beneficiaries from a small number of Member States. Better communication activities could address this in the future. The Programme indicators are adequate to monitor progress towards the objectives of the Programme, but sometimes difficult to measure due to a lack of adequate tools. The objectives of the programme are wide and flexible but initiatives in the field of drug policies are sometimes difficult to reconcile with other Programme priorities, such as judicial cooperation and access to justice. To increase the programme's relevance, a more systematic analysis of the stakeholder needs and additional target groups is warranted. In order to minimise the potential risk of duplications and increase the possible synergies, further coordination and information exchange between EU programmes and projects could be instrumental, allowing more coherent and efficient allocation of resources according to the most relevant priorities. Finally, there is still room for reducing the administrative burden.

Consumers Programme

The Programme supports the enforcement of consumer legislation, in particular through actions aiming at strengthening the knowledge base and review process of the Consumer Protection Cooperation Regulation, as well as through joint actions aiming at enhancing administrative cooperation for the application and enforcement of product safety legislation (General Product Safety Directive) across the internal market. These objectives cannot be sufficiently achieved by the Member States, in particular due to the cross-border nature of the issues involved.

The implementation of the Consumer Programme 2014 – 2020 is well on track to meet its multiannual objectives. Most of the related performance indicators expected for 2014, 2015, 2016 and 2017 have been achieved.

By the end of 2017, 99 % of the operational budget of EUR 23.7 million allocated for the implementation of the 2016 annual work programme was consumed and translated into legal commitments. In March 2018, the implementation of the 2017 work programme (24.1 million EUR) reached 61 %. Global commitments for the remaining already-defined actions (legal commitments to be concluded during the first half of 2018) were done at the end of 2017.

Compared with its predecessor, the 2014-2020 programme brought important improvements, in particular the simplification of grants for the European Consumer Centres (based on multiannual strategic partnerships), and of the system for exchange of enforcement officials (indemnities instead of grants).

The European Consumer Centres Network helps consumers with cross-border purchases, explaining their rights when shopping internationally and helping them seek redress with a trader in another EU country (or Iceland or Norway) if something goes wrong.

The European Consumer Centres network developed a 'Travel App' to help consumers exercise their rights while on holiday abroad, which registered approximately 100 000 contacts with consumers per year.

Online platforms were set up to encourage administrative cooperation for the application and enforcement of product safety legislation. They registered in 2017 a boost in rates of participation. For example, the Consumer Protection Cooperation knowledge exchange platform, has seen a 28 % increase in the number of exchanges from officials since 2016:

- The EU-wide Online Dispute Resolution platform established in 2016 continued to reinforce consumer rights through access to simple, expedient and low-cost dispute resolution. The platform enables consumers and traders to settle their online disputes about domestic and cross-border online purchases without going to court. In 2017, confidence in the system improved with the number of cases received totalling 52 735. According to a survey about 44 % of complaints were solved outside of the platform through a direct contact between consumers and traders initiated by the platform.

- The E-enforcement academy set up in 2017 to boost the Consumer Protection Cooperation and product safety networks' ability to conduct online investigations has already gathered 158 officials in its first year operation.

- The Rapid Alert System for dangerous non-food products has continued to facilitate the exchange of information between Member States and the Commission on measures taken against dangerous products. In 2017, national authorities circulated 2 201 alerts on dangerous products through the system providing consumers with quick access to information on unsafe products sold in the EU. The alerts in 2017 also prompted nearly 4 000 follow-up actions in other Member States, showing a close collaboration by national authorities towards the common goal of keeping the market safe and protecting EU consumers. Toys, cars and motorcycles top the list of dangerous products detected and removed from the market.

The interim evaluation of the Programme is on-going and the first results show a general satisfaction of the stakeholders in terms of relevance and effectiveness of the activities. Overall the objectives and priorities of the Consumer Programme are assessed as being still fully relevant and should be continued. However, several areas for improvement have been identified, in particular the limited programme 's flexibility to be able to respond to policy needs on short notice, suboptimal planning process which should also cater for the possibility to react fast to new policy demands or market developments and scope for improving links to third countries (especially in the area of enforcement).

Food and Feed

The food and feed programme is contributing to a high level of health for humans, animals and plants along the food chain. It supports actions preventing and eradicating diseases and pests and ensuring a high level of protection for consumers and the food and feed industry and favouring the creation of jobs. The 2017 mid-term evaluation of the food and feed programme[72] confirmed its relevance and that it is well functioning environment. 'At the same time, the support the programme provided should also help make the Union more competitive in this field. In 2017, the implementation of the 130 national veterinary programmes, co-financed with EUR 150 million under the Food and Feed programme, progressed as foreseen. These programmes target transmissible, often epidemic animal diseases and have a direct impact on public health because of food safety issues and because some animal borne diseases are transmissible to humans. Furthermore, animal disease outbreaks can trigger significant economic costs through loss of internal EU and export markets and the direct cost of disease control on the EU and Member States' budgets. However, disease eradication is a long-term exercise that requires continuous and consistent effort over a long period of time.

In 2017, there have been new intrusions of the African swine fever disease in new areas of Poland and in new Member States (Czech Republic and Romania) linked to human activities and not to the natural way of disease spread by wild boar movement. The EU well-targeted and multifaceted response to the African swine fever outbreaks kept the negative effects limited while the epidemics could have had devastating effects on animal health and on the sustainability of the sector. Containment of the disease in the EU has no equivalent in other non-EU affected countries where the disease spread thousands of kilometers in a few years.

Also in 2017, 24 national survey programmes for organisms harmful to plants were co-financed (+7 compared to 2015) to ensure early detection and eradication of pest outbreaks. Globalisation of the plant trade together with the climate change have substantially increased the risk of plant pest infestation. Thus, early detection and control is essential to mitigate the trade and the economic consequences.

In addition to the co-financing of the national programmes, EU financial support to emergency measures is on-going in order to contain animal diseases and pest outbreaks at an early stage. A severe outbreak of Avian Influenza in 2016/17 necessitated a major financial contribution exceeding EUR 100 million. The Avian Influenza virus is propagated by movement of wild birds; its spread, therefore, cannot be controlled. Early containment is important as outbreaks can come at a huge cost for the EU budget, the national budgets, and the farming community if not treated immediately and spiral out of control.

Cost-effectiveness indicators for the programme are still missing; projects have been established in 2017 to establish them.

Health programme

The aim of the Health Programme is to complement, support and add value to the policies of member States in improving the health of EU citizens and reducing health inequalities, encouraging innovation in health and increasing the sustainability of health systems. The 2017 mid-term evaluation of the Health Programme[73] confirmed the relevance of the programme and the effectiveness of the simplifications introduced compared to its predecessor programme. The evaluation recommended strengthening efforts to achieve EU-added value and increase synergies and ensure the upscale of significant results through cooperation with other EU financial instruments

In 2017 new Joint Health Actions have been launched for Member States' cooperation. These Joint Actions cover topics such as health inequalities, Innovative Partnership on Action against Cancer, vaccination, preparedness at entry points for refugees and migrants, actions supporting the eHealth Network, and on sustainable EU health information systems. These actions should allow for a better and quicker transfer of knowledge and information sharing necessary to the development of policies at national level.

In 2017 a Framework Partnership Agreement has been launched with non-governmental bodies active in the health areas. Those non-governmental bodies are expected to assist the Commission with the information and advice necessary for the development of health policies and the implementation of the Health Programme objectives and priorities. The support of these non-governmental bodies is warranted given the contribution they can bring to increased health literacy, the promotion of healthy life styles and the organisation of public consultations on science policy. Non-governmental bodies also contribute to the optimisation of healthcare activities and practices by providing feedback from patients and facilitating communication with them.

In 2017, the first of the 24 European virtual networks serving patients with rare and complex diseases are up and running. These European Reference Networks involve 900 highly specialised health care units from over 300 hospitals in 26 EU countries concentrating knowledge and resources.

Patients can be referred to the relevant European Reference Network member in their country by their healthcare provider. These then convene a 'virtual advisory board' of medical specialists providing diagnosis and advice on the best treatment for their specific condition.

Creative Europe

The Creative Europe Programme provides EUR 1.46 billion to support the European cultural and creative sectors, in particular audio-visual, in order to promote cultural and linguistic diversity and stimulate European competitiveness. Creative Europe aims to unlock the potential for growth by overcoming the obstacles created by fragmented markets, responding to fierce international competition and adapting to the digital transformation of society. The MEDIA sub-programme fosters the creation and distribution of audio-visual content (films, TV series and videos).

In 2017, the Programme progressed as foreseen with nearly 100 % of the final budget being reached in both commitments and payments. A total of 5 025 applications were submitted of which 2 317 projects were selected for funding.

Under the Culture sub-programme, the success rate for cooperation projects rose slightly from 13.96 % in the period 2014-2017 to 14.78 % in 2017, indicating a continuous high demand for EU support and a high number of excluded quality projects due to limited funds. In addition to this, more emphasis was placed on selecting organisations representing a broader range of sectors covering areas so far not reached, such as digital arts and photocopy.

In 2017, the Programme also expanded in the number of participating countries, with the first Mediterranean neighbour, Tunisia, joining and two other countries ready to sign their agreement in the first half of 2018 (Armenia and Kosovo). This represents a clear indication of the relevance of the Programme as a useful tool for cultural diplomacy and the recent EU strategy on the role of culture in EU external relations.

Preliminary results from the mid-term evaluation of the Programme confirm its added value. Creative Europe has contributed to delivering the EU policy agenda, stimulating investment and job creation (3 000 jobs created over 2014-2016) and deepening the internal market especially through greater circulation of creative content. It finds that the implementation is on the right track to deliver on the Programme's objectives. Strengthening the financial capacity of cultural and creative small and medium sized enterprises also proved highly relevant in meeting the financial needs of cultural and creative sectors. Moreover, the added value of the Programme was recognised in the transnational character of its actions that create positive effects through exchanges, networks and partnerships. However, preliminary findings suggest that the Programme is not sufficiently flexible enough to fully reap the opportunities offered by the digital shift (e.g. digital creation and distribution, reinforced engagement with audiences, accessing new markets or big data). While cost-effectiveness is satisfactory, there is scope for further streamlining application and implementation to reduce costs. The mid-term evaluation also identified the need to develop a comprehensive performance monitoring framework consisting of a set of indicators which are closely related to the objectives of the programme, both in terms of the outputs and benefits for beneficiaries as well as the wider, more long-term cultural, economic and social impacts.

In 2017, the MEDIA sub-programme helped increase the visibility of European films. Over 400 European films were distributed across borders, reaching audiences of 65 million people per year. lso, a network of over 1 000 cinemas in 33 countries was supported, focusing on European films.

The quality of films also gained international recognition. For instance, at the Cannes Film Festival, 'The Square' won the Palme d'Or, while at the Oscars 'Call me by your name' won the prize for best-adapted screenplay. According to the mid-term evaluation, the impact of MEDIA would be further strengthened through increasing collaboration and flexibility in the support schemes, as well as focusing on scaling up of the audiovisual industry.

The newly established Cultural and Creative Sectors' Guarantee Facility has helped cultural and creative small and medium-sized enterprises, which have difficulties accessing loans due to the intangible nature of their assets. From its launch in 2016 to end 2017, eight financial intermediaries in six countries had already participated, demonstrating the relevance of this instrument.

As of the second half of 2017, 161 small and medium-sized enterprises received loans for a total value of EUR 32 million, for over 200 projects employing more than 900 people. A top-up of EUR 60 million, equivalent to 50 % of the total budget, was provided already in 2017 allowing a quicker deployment of guarantee support.

The Guarantee Facility, aimed at addressing the financing gap for small and medium enterprises in the cultural and creative sectors received strong demand in 2017. Approximately 500 loans were awarded to beneficiaries from Spain, France, Romania, Czech Republic, Belgium and Italy. Given this strong market demand, the European Fund for Strategic Investment was mobilized to top-up the Guarantee Facility by EUR 60 million.

1.5. Global Europe (Budget Heading 4)[74]

EUR 10.7 billion of budget commitment appropriations have been allocated to the programmes under Heading 4, which represents 7 % of the total 2017 EU budget. EU development assistance is strengthened by the European Development Fund, which is not financed from the EU budget but from direct contributions from EU Member States.

Heading 4 of the financial framework covers all external actions undertaken by the Commission and covers a broad spectrum of actions such as development assistance, pre-accession assistance and humanitarian aid. Additionally actions contributing to stability and peace, the promotion of human rights, election observation missions and many others are included under this heading.

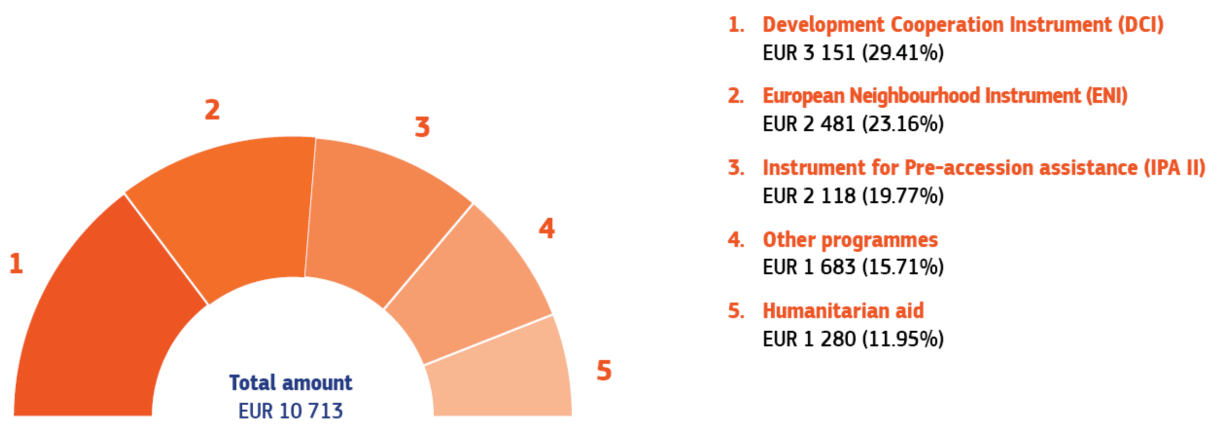


Chart: Main programmes financed in 2017 under Heading 4. Other programmes include amongst others the Partnership Instrument, the Instrument contributing to Stability and Peace, the Common Foreign and Security Policy, the Guarantee Fund for External Actions, and the Instrument for Nuclear Safety Cooperation. All figures in EUR million.

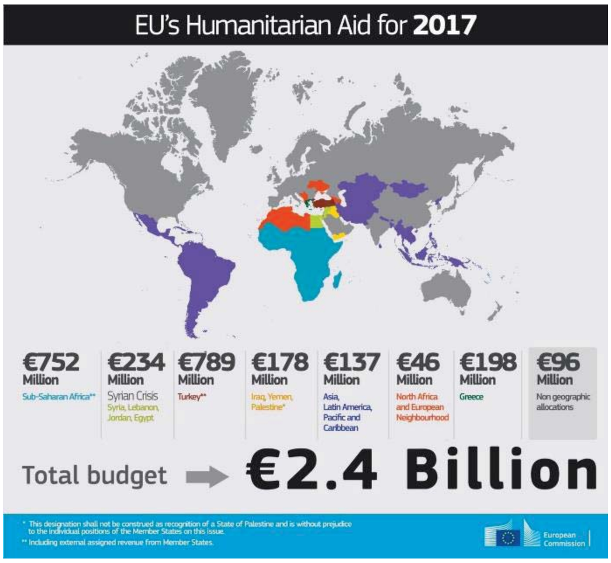
Support to the priorities of the European Commission

The programmes under Heading 4 contribute to the Juncker Commission priorities 'EU as a Global Actor' and 'Migration'. They also support in particular the external dimension of other Juncker Commission priorities such as 'A resilient Energy Union with a Forward Looking Climate Change Policy', 'Jobs Growth and Investments'; and 'An Area of Justice and Fundamental Rights based on Mutual Trust' which includes a strong focus on security.

Humanitarian aid

The EU and its Member States represent the world's largest humanitarian aid donor and thus play a key role in tackling humanitarian challenges by providing relief and protection to affected populations. The EU's Humanitarian Aid Programme supports the most vulnerable populations in countries experiencing crisis, including so-called ‘forgotten crises’ (crises with limited media attention and poor coverage).

In 2017 the EU provided over EUR 2.2 billion in aid[75] to more than 80 countries. More than 50 % of this was directed to the most vulnerable countries, as determined through risk assessment analysis.



EU humanitarian aid 2017

In 2017, the EU dedicated 6 % of its annual humanitarian aid budget to education in emergencies, one of the most underfunded sectors of humanitarian aid. Nearly 4.7 million children in 52 countries around the world have benefited from EU funding between 2012 and 2017[76].

Over the period 2012 – 2016, EU humanitarian aid mainly focused on the following sectors: food security and livelihoods (over 30 % of total for the period), health (over 12 %), nutrition (over 10 %), shelter and settlement (over 9 %), and water sanitation and hygiene (over 9 %)[77].

Iraq crisis

In 2017 the EU stepped up its response for the humanitarian crisis in Iraq. Almost a third of the country's population was, at the end of 2017, in need of humanitarian aid. The EU continued to be a leading donor with a total of EUR 82.5 million of support provided in 2017. This financial aid was focused on providing lifesaving aid to civilians in all active conflict areas and facilitating medical evacuation of the wounded and sick and for the provision of emergency medical services.

Horn of Africa Drought crisis

The region known as the Horn of Africa faces multiple challenges, both in terms of internally displaced persons and refugees, with high food insecurity the leading factor. After 2016, a year marked by drought and floods, 2017 saw the worst drought since 2011 affecting the entire region. In response to this the EU allocated EUR 185 million in 2017 for aid in the Horn of Africa.

Rohingya crisis (Myanmar/Bangladesh)

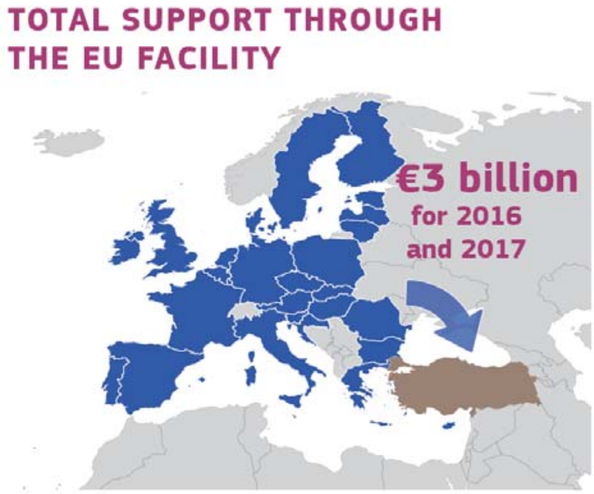
Over 688 000 Rohingya sought refuge across the border from the Rakhine State in Cox’s Bazar, Bangladesh, bringing the total number of Rohingya refugees in Bangladesh close to one million people. In response, a UN pledging conference on the Rohingya Refugee Crisis was organised in 2017, resulting in total pledges of USD 345 million for Rohingya refugees. With some EUR 136 million, the EU and its Member States accounted for over 50 % of the total.

Syrian crisis

The European Union continues to deliver life-saving assistance and support to millions of people across Syria and the region. The assistance contributed to the vital delivery of food, medicine, water, and shelter for millions of Syrians directly affected and/or internally displaced by the conflict. In neighbouring Lebanon, EU funding has contributed to assistance for most vulnerable refugees, secondary healthcare for life-saving cases, non-formal education and shelter – including water, hygiene and sanitation – to improve the living conditions of the vulnerable families mostly affected by the displacement.

In 2017, a comprehensive evaluation of the EU's humanitarian aid actions between 2012 and 2016 was carried out. Preliminary findings highlight that the humanitarian actions funded were overall needs-based and implemented in line with humanitarian principles. The actions made an important contribution to the core objectives to save lives, reduce morbidity and suffering as well as improve dignity of life of the populations affected by disasters. Preliminary findings further point to the fact that the scale of funding allowed the EU to have a real impact on the ground, addressing the needs of a significant number of beneficiaries in a large number of countries and regions.

The Facility for Refugees in Turkey



Total support through the EU facility

This facility was established in January 2016, continued to provide for a joint coordination mechanism of existing instruments and to ensure that the needs of refugees and host communities in Turkey are addressed in a comprehensive and coordinated manner.

Despite challenging circumstances, EUR 3 billion was contracted and EUR 1.85 billion disbursed as humanitarian and non-humanitarian assistance in 2017.

The facility continued to implement the Emergency Social Safety Net (ESSN) a single card social assistance scheme that by the end of 2017 had reached over 1.2 million of the most vulnerable refugees in Turkey, helping them meet their most pressing basic needs.

Other multi-sectoral activities in particular in the areas of health, protection and education in emergencies, also being supported in Turkey,as a result of this:

Half a million refugee children with access to education, two million refugees with primary healthcare services and one million with rehabilitative mental health services[88].

European Instrument for Democracy and Human Rights

This Instrument has a key role in the promotion and protection of democracy and human rights by working mainly with and in support of civil society and its actions. In light of the results achieved between 2007 and 2013, EU support to Human Rights and Human Rights Defenders organisations for the 2014-2020 was increased. The success and performance of the emergency support to Human Rights and Human Rights Defenders at risk, considered as a flagship of the Instrument's activities, turned into an increasing number of requests.

Since 2014, a growing number of small grants were awarded providing emergency support to over 870 Human Rights and Human Rights Defenders and their families of which 107 was in 2017.

The Mid-Term evaluation[78], completed in December 2017, confirms that the European Instrument for Democracy and Human Rights is on track to deliver on its objectives and commitments and that it remains an enabling, flexible and responsive instrument to protect and promote human rights and democracy worldwide. Support to democracy and human rights is also provided under other EU External Financing Instruments, but the specific features enable it to operate where the others do not or cannot, as well as at a different level through civil society. The evaluation found that the in-built flexibility of the programme is not always used to its full extent and that the call for proposals process is considered lengthy, burdensome and over-competitive by civil society organisations.

Instrument for Nuclear Safety Cooperation

The Instrument for Nuclear Safety Cooperation is meant to promote in third countries a nuclear safety culture, the safe management of radioactive waste and spent fuel and effective safeguards of nuclear material.

The first project supporting the Iranian Nuclear Regulatory Authority has been kicked-off in July 2017 and is running smoothly. A second project supporting the implementation of the stress tests exercise at the Bushehr nuclear power plant has been contracted at the end of 2017 and will start in April 2018.

A follow-up project has been agreed with Iran in 2017, in compliance with the EU commitment to the implementation of the Joint Comprehensive Plan of Action; it will be contracted in the second half of 2018.

Successful engagement with Turkey has been achieved in 2017 with the contracting of a project supporting capacity building for the nuclear regulatory authority in view of the decision to introduce nuclear energy in the national energy mix. The kick-off meeting has been held in January 2018.

According to the Mid-Term evaluation concluded in 2017[79], the highly technical content and the focus on transfer of know-how with an international outreach is appropriate. Moreover, the Instrument is aligned with nuclear safety priorities expressed in the EURATOM Directives and in the relevant international treaties. EU cross-cutting issues such as protecting the environment and good governance are directly addressed or mainstreamed in interventions.

Instrument contributing to Stability and Peace

Since the beginning of the Syrian crisis, over EUR 200 million has been allocated under this instrument and its predecessor, the Instrument for Stability, to support crisis response measures inside Syria and in the neighbouring countries affected by the conflict. This assistance has included delivery of non-humanitarian assistance to the population in Syria, support to dialogue initiatives, transitional justice and countering violent extremism, and support to refugees, host governments and host populations in Syria, Lebanon, Jordan, Iraq and Turkey.

In 2017, three new programmes were adopted. The first phase of the Syria Peace Support Initiative supported UN-brokered international mediation efforts. The Instrument contributing to Stability and Peace also expanded its commitment of support to transitional justice and accountability with targeted support to the International Commission on Missing Persons as well as providing support to the International, Impartial and Independent Mechanism on international crimes committed in Syria. Finally, the Instrument contributing to Stability and Peace also provides support for education in opposition-held areas.

In addition to the Colombian Peace Process, the Syria Peace Support Initiative and the Kosovo-Serbia Dialogue, the Instrument contributing to Stability and Peace also engaged in supporting other peace processes, dialogue and mediation activities in 2017, with targeted actions supporting the work of the committee on the peace accord in Mali, but also in Afghanistan, Libya, Turkey, Yemen, Iraq, the Central African Republic, in Senegal (Casamance), in the Niger Delta region of Nigeria, between Tebou and Touaregs communities in Niger, and in between Guatemala and Belize. It also included support to the regional initiatives by the African Union in Sudan and in South Sudan. For Colombia, after the rejection of the Agreement for the termination of the conflict in a plebiscite in October, a new Financing Decision of EUR 8 million was urgently required to safeguard the gains achieved through the peace negotiations and enable a potential Peace Agreement to succeed.

With three new programmes in the Western Balkans, the Instrument continues the stabilisation efforts in the immediate EU neighbourhood. In 2017, the programme engaged upon confidence building in Kosovo through the protection of cultural heritage. Directly in line with the EU's efforts, it is also supporting dialogue between Belgrade and Pristina as well as mine clearance related action in Bosnia and Herzegovina.

The 'European New Training Initiative' ensures high level pre-deployment training for participation in EU civilian stabilisation missions and in international civilian crisis management missions. In 2017 the project has continued and increased the cooperation with the European Security and Defence College allowing the alignment and integration of the respective training activities. The project has also increased the synergies and the cooperation on delivery of in-country training in particular with the EU missions but also with other International organisations such as the UN Department of Peace-Keeping Operations and the European Policy College.

The Civil Society Dialogue Network has increased the visibility and access of civil society organisations (including from third countries) vis-á-vis international multilateral organisations and national authorities in particular where the dialogue between authorities and civil society organisations is more difficult. Conferences, debates, and dialogues have been organised on a wide range of peace-building related topics and specific geographic countries/regions. The programme has directly supported actions in local Civil Society Organisations in third countries to perform their roles as independent peace-building actors. This support has increased grassroots civil society capacity to engage in peace-building and conflict prevention actions. Civil Society Organisations' intervenes when other instruments cannot intervene. This was the case, in 2017, of specific grants in Burundi and Venezuela.

Progress in the area of Preventing and Countering Violent Extremism in 2017 was particularly notable. Strengthening Resilience against Violent Extremism Horn of Africa has contributed to advancing the prevention and terrorism-countering efforts in the area through a number of pilot approaches. Among others, Strengthening Resilience against Violent Extremism activities in Kenya have generated knowledge and lessons learned on drivers of violent extremism in the country, which has fed into and informed on the development of the National Strategy to Counter Violent Extremism in Kenya, launched in September 2016. In the area of youth engagement the 'peer to peer approach' to tackle the issue of violent extremism at both community and global level has proved to be very effective.

Following the examples of the 10 young leaders of the EU funded project 'Extremely Together' implemented by the Kofi Annan Foundation, many youths around the world have started mobilising against violent extremism by using the Extremely Together guide within their communities and ask to join similar initiatives. In addition, as an example of the impact that the project has produced on the 10 young leader's life, Fatima Zaman was awarded the top Asian Woman of Achievement Award in May 2017 for the most outstanding candidate across all categories for her work with the Kofi Annan Foundation among others.

The Mid-Term evaluation of December 2017[80] confirms that the Instrument is found to be efficient due to its defining characteristics of speed and flexibility of action and due to its added value; it performs a unique function of crisis response and conflict prevention, triggered by EU political priorities, contextual needs and opportunities in fragile and conflict-affected contexts. Moreover, it successfully provided complementarities and synergies within the wider set of the EU External Financing Instruments and revealed effective when delivering on its objectives and commitments. The evaluation also pointed to a number of challenges to be addressed such as for example the need to engage meaningfully with all relevant actors in the security sector including the military. A new Regulation was adopted in 2017[81] to tackle this issue given that military actors are often key to ending a conflict. Findings also suggest that important contributions to the mainstreaming of conflict prevention, democracy and good governance are being achieved; underlining however that more could still be done to mainstream gender and human rights.

Partnership Instrument

Actions under the Partnership Programme enhance the ability of the EU to project its interests abroad and engage internationally on issues of global concern, fostering partnerships with strategic partners and beyond, underpinning peer-to-peer relationships, influencing partners' policy making and contributing to building global alliances and a level playing field. Activities underpin the growing recognition of the EU's key role on climate change, environment and energy while also advancing cooperation on responsible business conduct and security.

The Mid-Term Review of the EU External Financing Instruments[82] concluded that the PI has effectively influenced policy/political processes in partner countries in line with EU interests and has contributed to development of mutually beneficial relationships with partner countries. The mid-term evaluation on the Partnership Instrument[83], supported by an external evaluation[84] confirmed that the Instrument is a directly relevant tool to support the EU's bilateral, regional and multilateral agenda as set out in the EU's Global Strategy and in line with several EU international commitments (notably Agenda 2030). The programming of the Instrument is focused on EU strategic objectives and interests, and its implementation is flexible to make it responsive to challenges, policy priorities and opportunities that have newly emerged or evolved since the Instrument was first created.

2017 has been a productive year for the Partnership Instrument which has now reached full implementation speed. Contracting for the Annual Action Plans 2014, 2015 and 2016 has been completed, and formulation of the Annual Action Plan 2017 was finalised. This gives a total to date of 81 stand-alone actions, which were complemented by 82 Policy Support Facility and 56 TAIEX short-term actions. In total, EUR 111 million were committed in 2017 under the Partnership Instrument.

Notably, in 2017 the Partnership Instrument strengthened engagement between the EU and economic and business stakeholders with a view to opening up market access and ensuring a level playing field for EU companies. Under this objective, three actions were adopted covering the areas of civil society involvement in trade agreements and business-related policy dialogues. With a view to realise the external dimension of the Europe 2020 strategy as well as for the strengthening of the EU's political relationship with partners more broadly, six stand-alone actions were adopted in 2017, with a special accent on the themes of Responsible Business Conduct and Economic Empowerment of Women. In 2017, one public diplomacy action was adopted in 2017 covering academic cooperation and outreach under Jean Monnet and civil society engagement in Indonesia and Russia.

EU-India cooperation on ICT-related standardisation, policy and legislation: India is a strategic economic partner for the EU and a key player both in the South Asia region and at global level. Significant market access barriers exist in the Indian ICT sector and there is a risk that additional India-specific ICT standards could result in further market access barriers for European companies. The action is a clear example of how the PI supports mutually beneficial objectives. The project helped facilitate collaboration on standard setting and capacity building with a view to supporting the realisation of a digital society / the Digital Agenda. Furthermore, it acted as a catalyst for an active dialogue between EU and Indian experts from the public and the private sectors, leading to the identification of priority areas (including 5G and Intelligent Transport Systems) of cooperation.

The EU-Australia Leadership Forum is a comprehensive tool of engagement to raise the profile and the importance of the EU-Australia relations across all sectors of Government including the Parliament as well as business, civil society, academia and the media. Specifically, it aims to effectively inform the formal agenda of the EU-Australia relations as well as to enrich the Senior Official Dialogues, through provision of ideas and informed input.

Instrument for Pre-Accession II

The Instrument contributes to the reinforcement of cooperation with Western Balkans, a key strategy highlighted in President Juncker's State of the Union address. Given the complexity of the reforms required, no countries have transitioned out of the early stage of preparation, both in terms of the political criteria (issues such as judiciary, fighting organised crime, freedom of expression, fight against corruption and public administration reform), and as regards alignment with the economic criteria. Throughout 2017, the EU continued to work in favour of improved transport connectivity within the Western Balkans and with the EU, and improved relations among enlargement countries. The EU supported concrete investments in the Western Balkans Six (Albania, Bosnia and Herzegovina, Kosovo, Former Yugoslav Republic of Macedonia, Montenegro, Serbia) transport and energy networks with the purpose of creating a regional environment conducive to economic growth and job creation.

The connectivity package endorsed at the Trieste Summit in July 2017[85] included seven new projects financed by the Western Balkans Investment Framework for a total grant size of EUR 194 million, leveraging EUR 500 million in investments.

As the Mid-Term evaluation[86] of the instrument for Pre-Accession II shows, the overall objectives and design of the Instrument are in line with EU priorities and beneficiary needs. Compared to its predecessor, the current Instrument presents a stronger focus on key reforms required for the EU accession. In addition, it is more strategic and results-oriented, and has allowed greater leverage of other donors' funds[87]. However, the involvement of the civil society organisations during the implementation of this Instrument remains limited. The evaluation further underlined that while complementarity with other instruments (notably the European Instrument for Democracy and Human Rights and the Instrument contributing to Stability and Peace) is good, further coordination is needed during both the planning and programming phases.

Development and Cooperation Instrument

The Instrument's overall objective is to eradicate poverty in partner countries and provide a long-term response to global challenges. It includes the Global Public Goods and Challenges programme and the Civil Society and Local Authorities programme. The independent mid-term review of the Development and Cooperation Instrument concluded that the Global Public Goods and Challenges programme is highly relevant and coherent with stated EU policy objectives. It also highlighted the importance of the strong emphasis the Civil Society and Local Authorities programme has on improving governance and strengthening the rule of law by engaging civil society and work on Civil society roadmaps by EU Delegations. Those programmes build on a longstanding EU tradition of providing transversal thematic instruments, satisfying the need to focus strategically on core EU priorities, to have a flexible tool to complement geographic interventions or to target.

Within the Pan-African Programme, the Development and Cooperation Instrument Budget financed programmes contributing to the five strategic areas of the Multi-Annual Indicative Programme, in line with the Joint Africa - EU Strategy Roadmap 2014-2017. Over 2014-2017, 32 actions for an amount of EUR 401.65 million contributed in particular to the strategic areas 'sustainable and inclusive Growth' (42 %) and 'Human Development' (42 %), as well as 'global issues' (13 %), 'Democracy, Good Governance and human rights' (12 %) and Peace and Security (4 %).

Increased financial and technical support is provided to internally displaced persons, refugees and host communities in Afghanistan, Pakistan, Bangladesh, Iran and Iraq.

In total, EUR 287 560 500 was committed under special measures in 2016 and 2017 to support the above countries, specifically, in addressing challenges related to migration and forced displacement.

A focus of these interventions is on strengthening cooperation with these partner governments over supporting returnees. In 2017, decisions dating from 2012 and 2013 that had been suspended in 2014 due to the ongoing conflict were substantially amended and re-activated.

The Mid-Term evaluation completed in December 2017[89] shows that the Instrument is largely on track to deliver on its objectives and commitments. The added value is apparent through the Instrument's ability to lead on joint actions with Member States. The

Instrument also helped to leverage significant resources through blending, however leveraging political and policy engagement has shown mixed results. Despite the simplification undergone with the new set of External Financing Instruments, some users still view this Instrument as administratively burdensome.

71 partner countries either developed and/or implemented climate change strategies, to help them adapt to global changes such as climate change and ecosystem degradation.

> *3 448 000 hectares of agricultural and pastoral ecosystems were managed by sustainable land management practices to reverse the degradation of agricultural ecosystems in partner countries caused by factors such as climate change.*
>
> *10 485 000 women of reproductive age and children under five benefited from nutrition-related programmes.*
>
> *11 481 000 food-insecure people received assistance through social transfers.*
>
> *401 000 individuals benefited directly from justice, rule of law and security sector reform programmes*
>
> *1 373 000 people benefited directly from programmes that specifically aimed to support civilian post-conflict peace building and/or conflict prevention*

European Neighbourhood Instrument

The **European Neighbourhood Instrument** is the main financial instrument for implementing the European Neighbourhood Policy. The instrument provides the bulk of EU funding to the 16 European Neighbourhood Policy partner countries: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Syria[90], Palestine[91], Tunisia, and Ukraine.

In 2017, EUR 2.5 billion was committed for bilateral, regional and cross-border cooperation programmes (including projects via the EU Trust Fund in Response to the Syrian crisis,, the North of Africa Window of the EU Trust Fund for Africa and the Neighbourhood Investment Facility), contributing to the policy objectives of the renewed European Neighbourhood Policy, which also stresses the need for more effective delivery and greater flexibility in the use of EU financial assistance.

2017 saw major progress with EU partners' countries in the Eastern Partnership: Armenia has concluded a Comprehensive and Enhanced Partnership Agreement with the EU and has adopted joint EU-Armenia Partnership Priorities.; a new agreement is being negotiated with Azerbaijan; negotiations on joint Partnership Priorities are ongoing and Belarus is close to finalising joint Partnership Priorities with the EU.

Two major milestones were reached with Ukraine, with the adoption of the visa-free regime for Ukrainian Citizens traveling to Europe and the ratification and full entry into force of the Association Agreement including the Deep and Comprehensive Free Trade Agreement. In the Southern Neighbourhood, new Partnership Priorities with Egypt were adopted in July 2017 and focus on economy and social development, foreign policy partnership and the enhancement of stability. New Partnership Priorities with Algeria were adopted in March 2017 and focus on governance and rule of law, socio-economic development and trade with EU, energy and environment, security, the human dimension and migration/mobility. On Palestine, throughout 2017, the Commission had several rounds of preparatory talks on future Partnership Priorities, which could soon turn into formal negotiations. On Israel, formal Partnership Priority negotiations with Israel could be launched. EU and Tunisia started developing joint Strategic Priorities in view of their joint endorsement at the Association Council foreseen in May 2018. The existence of a dedicated financial instrument for the neighbourhood has been one of the most concrete pieces of evidence translating the political importance attached to the region by the EU. However, as argued in the Mid-Term evaluation of December 2017[92], the Instrument's assistance has allowed to keep supporting structural reforms but at times limited the scope for adjusting the EU financial response to pressing needs. Despite increasing differentiation, the complex political environment in some

Neighbourhood countries means that the implementation of the European Neighbourhood Instrument before the European Neighbourhood Policy review has not been equally effective in all countries. Also, the implementation of the incentive-based approach resulted in significantly higher financial resources to those partners that have made the strongest progress on political reforms. The review of the European Neighbourhood Policy in 2015 introduced a new approach which directly addressed some of the concerns raised in the context of the Mid-Term Evaluation. In particular, it introduced greater respect for the diverse aspirations of the EU's partners; more effective pursuit of areas of mutual interest; new working methods to support a greater sense of ownership by the partners and greater involvement and shared responsibility by the Member States; as well as greater flexibility of financial assistance. 2017 saw the second year of implementation of the revised European Neighbourhood Policy and the adoption of a Joint Communication on developments in the neighbourhood and implementation of the European Neighbourhood Policy review in May 2017[93].

An increasing share of the EU's non-humanitarian aid for Syria's neighbouring countries is provided through the **EU Regional Trust Fund in Response to the Syrian crisis, the 'Madad Fund'.**

Large programmes focusing on education, livelihoods, health, socio-economic support, water and waste water infrastructure – benefitting both refugees and their host communities - have already been approved by the Fund's Board, for a total of more than EUR 1.2 billion. Of this, EUR 920 million have been contracted in over 46 projects to the Trust Fund's implementing partners on the ground, now reaching more than 2 million beneficiaries[94].

In 2017, the Fund passed the one-billion-euro goal, set by President Juncker in September 2015. In 2017, the focus of migration shifted to the Central Mediterranean route. Libya remained the main country of departure towards Italy.

The first 21 projects of the 'Madad' Fund are already showing results:

453,552 refugee and host community children and youth obtain improved access to quality education, protection, and psycho-social support.

253 schools and education facilities are constructed and renovated.

28,520 refugee and host community youth are gaining access to higher and further education and

vocational training, among which 4,437 full scholarships and 6,126 language trainings.

Access to quality emergency health, maternal and child care for Syrian refugees and host communities is improved:

209,000 vulnerable beneficiaries receive medical care and essential medicines.

462,491 refugees and members of host communities improve their economic self-reliance and livelihoods through different vocational, employability and skills trainings, support to small and medium sized enterprises and access to the job market.

In 2017, Libya remained the main country of departure towards Italy. As a response, the pace of implementation of the **North of Africa window** of the **EU Trust Fund for Africa** increased considerably with eight new programs approved for a total amount of EUR 232.5 million, as well as one cross-window program for EUR 8.6 million.

External Guarantee Fund

Lending operations covered by the External Guarantee Fund relate to three different instruments; the external lending mandate, which benefits from a guarantee from the EU budget to the European Investment Bank; Euratom external lending; and EU macro-financial assistance loans to third countries. The Fund is provisioned from the EU budget and has to be maintained at a certain percentage (the target rate is currently 9%) of the outstanding amount of the loans and loans guaranteed.

The objective of the **External Lending Mandate** of the European Investment Bank is to support small and medium sized enterprises in targeted third countries, to enhance the development of social and economic infrastructure, and to support projects related to climate change. The coverage of the EU guarantee allows the European Investment Bank to conduct operations outside the Union while limiting its risk exposure and thus preserving its creditworthiness. In 2017, for a total amount of EUR 3.95 billion projects were signed, of which 2.3 billion for the private sector projects directed to the long-term economic resilience of refugees, migrants, host and transit communities and communities of origin

The mid-term evaluation of the European guarantee to the External Lending Mandate of the European Investment Bank[95] that took place in 2016, found that all the operations launched under the current External Lending Mandate since its inception in July 2014 are fully aligned with the high-level objectives set out in the External Lending Mandate Decision. It also found that the objectives themselves are aligned with the Sustainable Development Goals and that the External Lending Mandate has supported the EU external policy agenda, showing sufficient flexibility and reactivity to new geopolitical challenges as demonstrated through the cases of Syria, Ukraine (the Ukrainian crisis), Egypt and Morocco (the Arab Spring) and Jordan (the refugee crisis). Moreover, the evaluation concluded that the External Lending Mandate has substantially contributed to the EU's climate change-related objectives, especially in terms of climate change mitigation.

The External Lending Mandate operations had allowed a saving of an estimated 1.35 Metric tons of CO_2-equivalents per year of greenhouse gas emissions through the operations signed between July 2014 and December 2015.

Macro-Financial Assistance has gained increasing prominence in the EU's external toolbox.

Since 2014, around EUR 3.66 billion has been already disbursed and other EUR 500 million has been committed for and is expected to be disbursed between 2018 and 2019.

The EU can encourage specific economic adjustments in countries that are geographically close to the EU dealing with serious balance-of-payments difficulties and therefore receive support from the International Monetary Fund.

During the course of 2017, three Macro-Financial Assistance loan operations have been completed: Georgia II (EUR 46 million), Tunisia I (EUR 300 million) and Ukraine III (EUR 1.2 billion). Two Macro-Financial Assistance operations, adopted by the co-legislators in 2016, have not been fully implemented yet: Jordan II (EUR 200 million) and Tunisia II (EUR 500 million). A Macro-Financial Assistance operation adopted in 2017 is yet to be disbursed: Moldova (EUR 100 million).

The Macro-Financial Assistance country-specific evaluation reports[96] so far conclude that Macro-Financial Assistance operations have contributed to restoring macroeconomic stability and returning the external financial situation of beneficiary countries on a sustainable path, whilst underpinning economic adjustments and structural reforms in the medium term through conditionality.

However, given its specificities, Macro-Financial Assistance cannot be linked directly to identifiable outputs, and its concrete economic achievements are therefore difficult to assess

European Fund for Sustainable Development

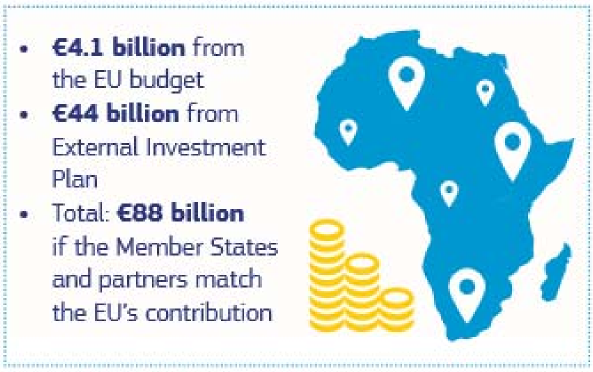


Figure: Budget breakdown of European Fund for Sustainable Investment

In 2017, an agreement on the **European Fund for Sustainable Development,** part of the External Investment Plan was reached. The first agreements with the financial institutions are expected to be signed in 2018. The response to the call for proposals for the first two Investment Windows was very positive. The Commission received 30 proposals from 12 partner institutions for a total value above EUR 2.5 billion, thus exceeding the current entire capacity of the European Fund for Sustainable Development Guarantee by over EUR 1 billion.

1.6. Special instruments

The special instruments are designed to make the financial framework more flexible. They include:

- Emergency Aid Reserve
- EU Solidarity Fund
- Flexibility Instrument
- European Globalisation Adjustment Fund

Once more, the Commission had to make greatest use of the flexibility instruments to cope with challenges linked with investment and migration. For example it was necessary to mobilise the **Flexibility Instrument** by the amount of EUR 275 million to provide the financing for the European Fund for Sustainable Development. .

The European Union Solidarity Fund can be mobilised in the event of major and regional disasters upon application from the national authorities of the country concerned. Mid-2017, the Commission proposed to mobilise EUR 1.2 billion under the **EU Solidarity Fund**, the highest sum ever mobilised in a single instalment. This was a response to the request of the Italian government for financial support after the earthquakes of 2016 and 2017 in the Italian regions of Abruzzo, Lazio, Marche and Umbria.

In 2017, other applications received were: three cases from Spain (Murcia flooding 2016, Doñana fires 2017 and Galicia fires 2017), Portugal relating to the forest fires of 2017, two cases from Greece (Lesbos and Kos earthquake 2017), Poland for the storm of 2017, Latvia and Lithuania for the flooding of 2017 and relating to the hurricanes Irma and Maria of 2017.

From day one, the Commission provided support to address the immediate emergency situation and committed to stand side by side with Italy throughout the entire reconstruction process. The EU Solidarity Fund will support reconstruction operations and regenerate economic activity in the affected regions. The money can also be used to cover the costs of emergency services, temporary accommodations and clean-up operation, and of protection measures for cultural heritage sites, in order to relieve the financial burden borne by the Italian authorities at the time.

The **European Globalisation Adjustment Fund** intended to provide support to workers made redundant as a result of major structural changes in world trade patterns due to globalisation or the negative effects of the global economic and financial crisis.

Between 2014 and 2017 a total of 48 applications have been submitted by 11 Member States. Whereas 5 applications are still in the assessment or adoption phase, the other 40 applications met the funding criteria and therefore resulted in the mobilisation of almost EUR 128 million for more than 40 000 targeted workers.

Based on the final reports received in 2014, 2015 and 2016 it can be observed that on average 46 % to 47 % of the targeted workers have taken up new employment following intervention of the European Globalisation Adjustment Fund. As regards the final reports received in 2017, the re-employment rate is significantly higher and reaches 57 %.

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PART 2/2

REPORT FROM THE COMMISSION

TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

2017 Annual Management and Performance Report for the EU Budget

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Section 2
Internal control and financial management

Introduction

The second section of this report focuses on the Commission's management of the EU budget, as well as of the European Development Fund and the EU Trust Funds, in 2017.

The Commission has further strengthened its internal control framework, based on international standards and best practices. The purpose is to move from a compliance-based system to a principle-based system so as to ensure a robust internal control while giving the Commission departments the necessary flexibility to adapt to their specific needs and circumstances.

The financial management and control systems for the EU budget have improved considerably over time, which has also been recognised by the European Court of Auditors. The main feature of the 2016 discharge process was that for the first time the European Court of Auditors, in its most recent statement of assurance[97], gave **a qualified rather than an adverse opinion on the legality and regularity** of the EU budget payments. The level of error dropped in all policy areas, enabling the overall level of estimated error to continue its downward trend. **The level of error was below 2% for about half of EU spending, and no material error was found in revenue.**

In addition, for the 10th consecutive year, the European Court of Auditors also gave a **positive ('clean') opinion on the EU annual accounts**.

Still, the Commission continues to improve its control systems. The ultimate goal is **cost-effective financial management** – protecting the EU budget by taking preventive and corrective action against errors and fraud, and keeping a proportionate balance between the costs and benefits of controls (including by simplifying procedures).

Main achievements in 2017

Although 2017 was a transition year for the **implementation of the new internal control framework** as from 2018, **already one third of the Commission departments** have successfully done so already for the 2017 reporting year.

Overall, all departments concluded that the internal control standards/principles were working well and implemented effectively.

However, the more nuanced assessment enabled flagging some needs to improve effectiveness in the implementation of specific principles or standards.

In terms of control efficiency, the **global average payment time** of the Commission departments has **steadily decreased** over the years and is now significantly **below 30 days**. The 2017 global average net payment time is 20.4 days.

The Commission is confident that the overall amount at risk **remains below 2 %**. In fact, the overall level of estimated error continues its downward trend in 2017, with **the estimated overall amount at risk at payment now even down to 1.7 % and the estimated overall amount at risk at closure down to 0.6 %.**

In terms of financial corrections and recoveries in 2017, the departments' **multi-annual control systems** enabled them to detect and correct EUR 897 million before payments and EUR 1 949 million after payments.

> *Both the overall amounts at risk at payment (1.7 %) and at closure (0.6 %) are estimated to be less than 2 % of the total relevant expenditure.*
>
> *The Commission departments' multiannual control mechanisms ensure an adequate management of the risks related to the legality and regularity of the transactions.*
>
> *The financial corrections and recoveries made over the subsequent years protect the EU budget overall.*

All Authorising Officers by Delegation have provided reasonable assurance on their control systems and financial management although, where appropriate, these were qualified with reservations. These reservations are a keystone in the accountability chain: they provide transparency on the challenges and weaknesses encountered, and on the measures to address them, while also providing an estimation of their financial impact.

Regarding the departments' 2017 Annual Activity Reports, the **financial impact of the reservations** on the management assurance **decreased** to EUR 1 053 million for expenditure (EUR 1 621 million in 2016) and to EUR 431 million for revenue (EUR 517 million in 2016).

On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2017 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.

The European Court of Auditors also monitors the Commission's **implementation of its recommendations.** The percentage of fully implemented recommendations was the **highest since** it started publishing these figures.

For details, see the following sections 2.1-2.8.

The Commission's assurance model

The Commission has a strong financial governance set-up in place. The assurance chain as regards legality and regularity and sound financial management is represented in an integrated internal control and risk management model, where each governance level builds its assurance on previous levels (e.g. the three lines of defence).

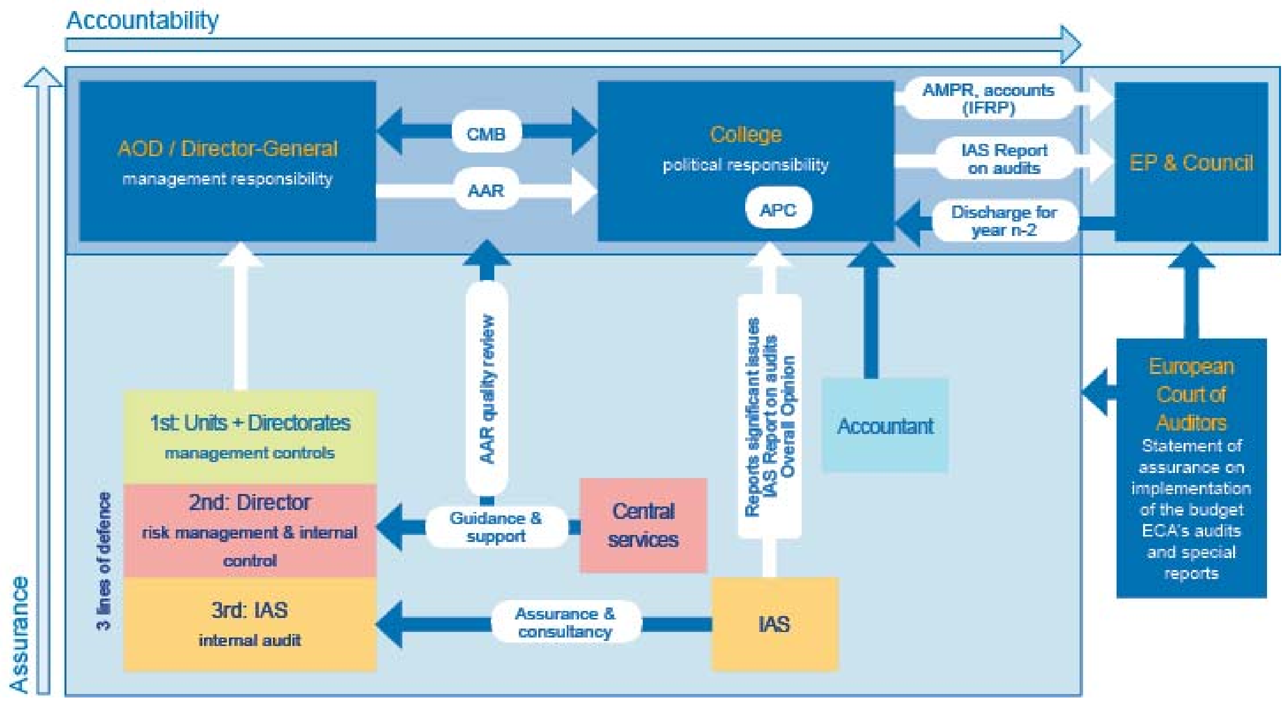


Chart: European Commission assurance model

The Commission's control environment

Like the programmes themselves, the control model is also multi-annual. It ensures sound financial management through pursuing the five internal control objectives – including control effectiveness, efficiency and economy. In terms of effectiveness, the primary aim is to prevent errors (by implementing ex ante controls) while the complementary secondary aim is to detect and correct any errors that have remained (e.g. implementing results from ex post controls). Furthermore, lessons learned are used for adjusting future programmes (e.g. simplification of legislation) and/or control systems (e.g. making controls more risk-differentiated). During the course of the programmes' lifecycles, management reporting is done on a yearly basis, by the departments in their Annual Activity Reports and by the Commission as a whole in the Annual Management and Performance Report. This structure provides the College with reasonable assurance about the achievement of the internal control objectives. The illustration shows the relationship between the five internal control objectives and the types of controls.

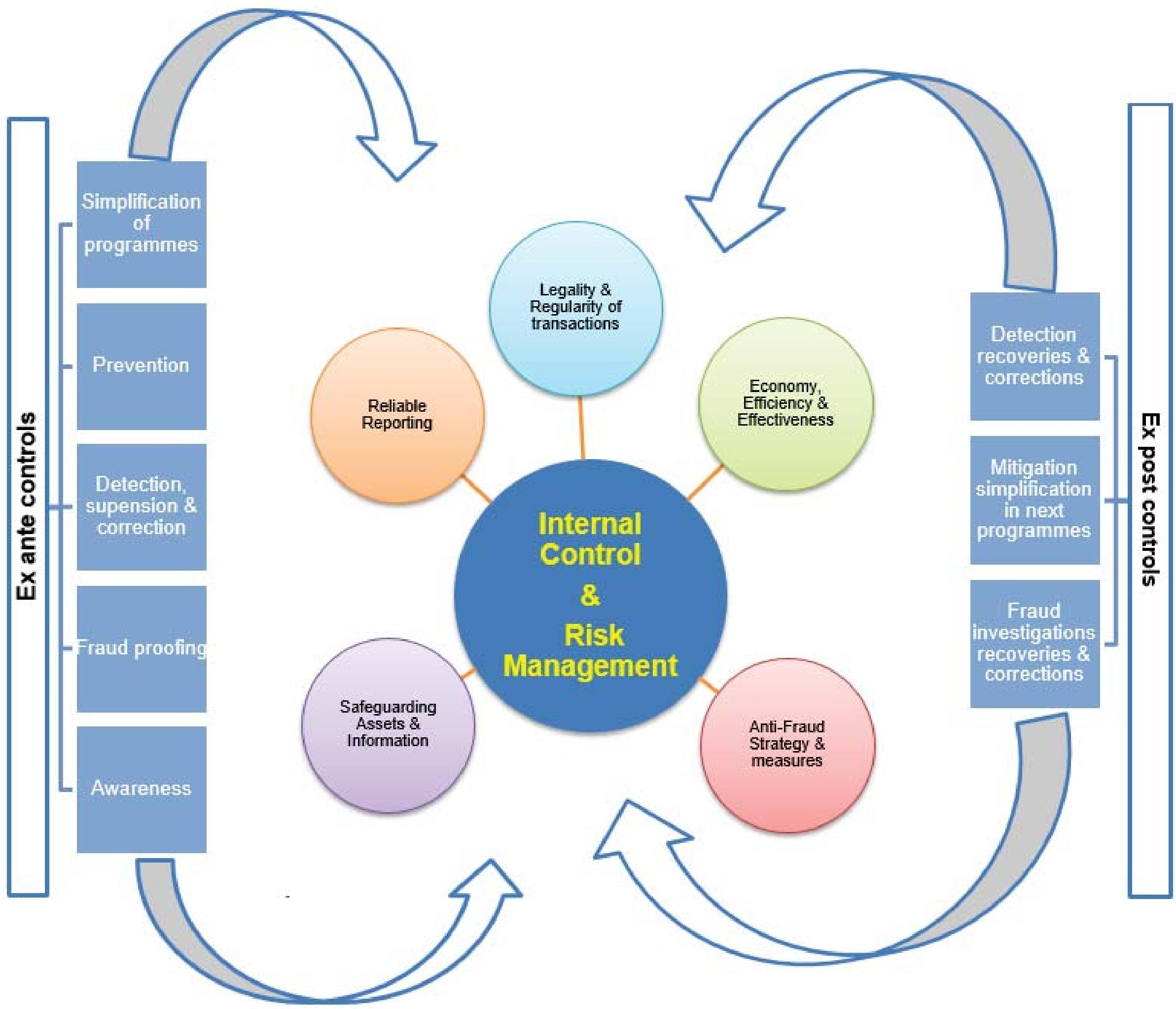


Chart: Internal control and risk management activities

2.1. Assessment of the internal control framework

The Commission applies a **decentralised model** of financial management. According to the Financial Regulation, the College of Commissioners acts as the Authorising Officer. The College delegates financial management tasks to the **Authorising Officers by Delegation,** who become responsible for their Commission department. These 50 departments comprise 6 'types' of entities: Directorates-General, Executive Agencies, Offices, Services, a Centre and a Task Force.

Within this framework and in accordance with the regulatory responsibility of the Authorising Officers by Delegation, each Commission department puts in place the organisational structure and internal control systems best suited to ensuring the achievement of its policy and operational objectives.

At corporate level, the Commission has laid down an internal control framework which specifies the main principles for an effective internal control that should be in place in the respective Commission departments.

This internal control framework is based on the framework proposed by the Committee of Sponsoring Organisations of the Treadway Commission (**COSO**)[98].

The latter model has been revised to **move from a compliance-based system to a principle-based system**. **In 2017, the Commission updated its internal control framework accordingly**[99]. The purpose of this revision was to continue ensuring robust internal control while providing the necessary flexibility allowing departments to adapt their internal control environment in line with their specific characteristics and circumstances. This will be especially useful as it will facilitate making control systems more risk-based and cost-effective.

The management of each Commission department assesses at least once a year the effectiveness of the internal control systems and analyses the findings resulting from this assessment.

2017 was a transitional year for which the departments could opt to report either on the previous framework, based on internal control standards, or on the new internal control principles.

In 2017, one third of the Commission departments[100] **reported on the basis of the new internal control principles**.

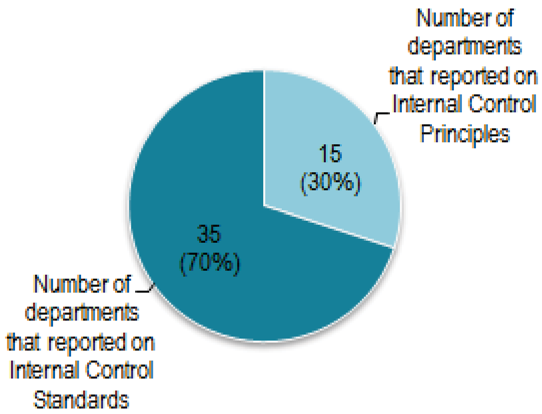


Chart: Reporting on internal control in 2017

From 2018 onwards, all the departments will report on the new internal control principles. The Commission has developed a specific methodology to ensure its consistent and effective implementation, in particular in the areas of monitoring, assessment and reporting[101]. The methodology is included in the 'Internal Control Framework Implementation Guide'. Further workshops will be organised in 2018.

Conclusion

As shown in the graph below, the new internal control framework allows for **a more nuanced assessment**, i.e. being more transparent about possible further improvements even if the overall conclusion is positive. While in general the Commission departments concluded that their internal control systems are functioning effectively, 16 of them reported a need to improve effectiveness in the implementation of some specific principles or standards (or their underlying requirements/characteristics).

The main (sub) areas for improvement reported are ethics, staff allocation and mobility, control over IT and IT security, internal communication, and processes and procedures. Moreover, Commission departments which started to implement the new internal control framework feel that further improvement is needed concerning the internal control assessment.

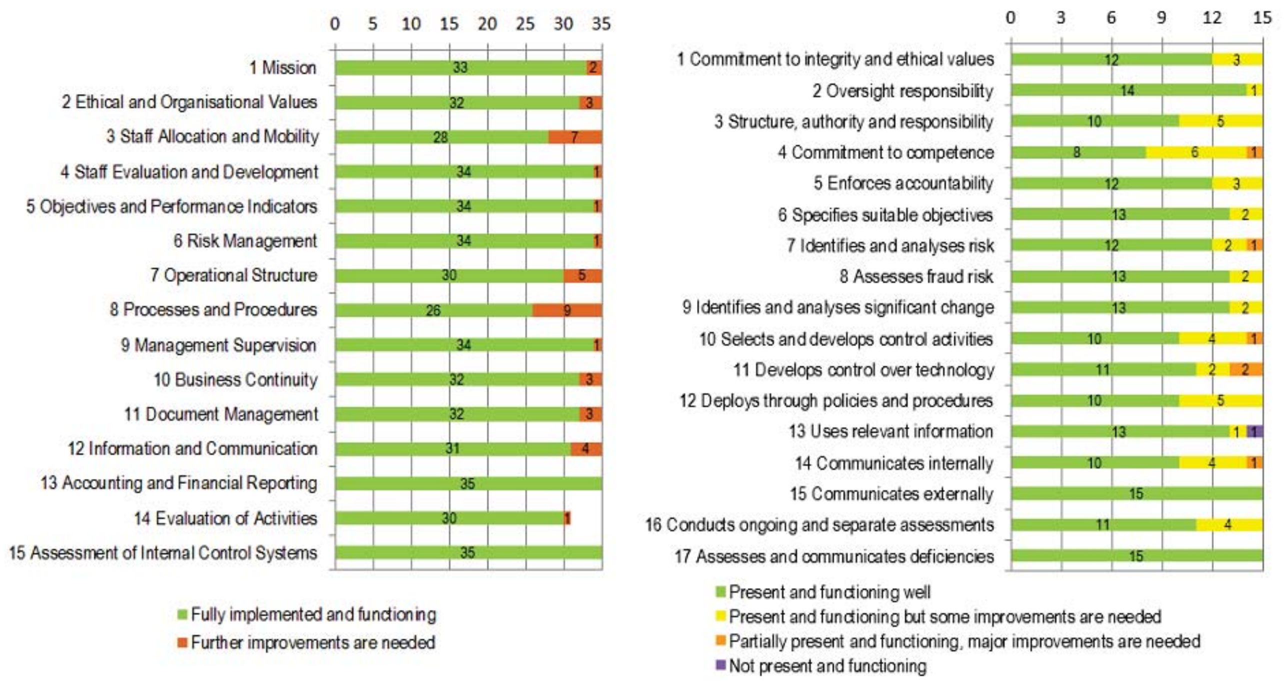


Chart: assessment of the effectiveness of the internal control standards (on the left) and of the internal control principles (on the right)

<u>Validation of local systems</u>

The accuracy of the local financial systems, which feed the Commission's corporate financial and accounting system, is key to ensuring the overall reliability of the annual accounts. Therefore, in addition to the Commission departments' management assessment of their internal control system(s), the Accounting Officer validates their local financial systems.

Based on the analysis work done during 2017[102]*, <u>no weaknesses were identified in the design or implementation of the local systems that would indicate that they do not meet the validation criteria</u>. Furthermore, none of the weaknesses detected are likely to have a material impact on the annual accounts. There are no critical open recommendations or recommendations in this context whose implementation is delayed for more than 3 years*[103]*.*

The analysis has nonetheless resulted in a number of <u>recommendations</u> intended to improve the control environment in the authorising departments[104] *and the accounting quality – which should address risks to the accuracy of the financial and regulatory management reporting*[105]*.*

2.1.1 Efficiency of financial management

During 2017, the Commission continued its actions to generate **synergies and efficiencies** in financial management. The legislator, based on a proposal from the Commission, has agreed to **simplify the Financial Regulation** and 15 other sectoral legal acts starting in 2018-2019. This provides a simplified basis for preparing the post-2020 generation of funding programmes. In addition, a working group on simplification and flexibility gave all Commission departments the opportunity to share lessons learned from current financial rules, thereby further facilitating the preparation of the new spending rules for the post-2020 Multiannual Financial Framework (e.g. a simplified template regulation for the post-2020 funding programmes to increase their flexibility and interoperability).

Further progress was also made towards harmonising and **simplifying contractual and financial circuits.** Best practices in terms of setting up more efficient circuits were identified and a platform for exchange of practice among procurement experts was created.

A **significant progress** has been achieved in the field of **eProcurement, eGrants and SEDIA** (Single Electronic Data Interchange Area). The new governance headed by the Grants Procurement Steering Board now recognises specifically the role of the Budget department's Central Financial Service in providing legal support on eProcurement related issues and sharing this responsibility for eGrants with the Legal Service. The joint coordinated efforts with the business process owners and business domain owners during 2017 enabled launching the first stage of SEDIA already in the beginning of 2018. The central validation services in the Research Executive Agency are now available to all interested departments. The second phase is expected by mid-2018 with the launch of the new portal serving as a common single entry point for all tenderers/applicants.

While new programmes keep joining the eGrants domain, a promising progress has been booked in the field of the compliance track for eProcurement (in particular eSubmission) – with the Budget department continuing to push for maximum efficiency gains through coordinated development of workflows, business processes models and legal alignment. This should allow **efficient use of funds allocated to big IT projects,** such as the one for the external actions programmes (working name 'OPSYS'), and the **possibility to reuse IT solutions on a corporate scale**.

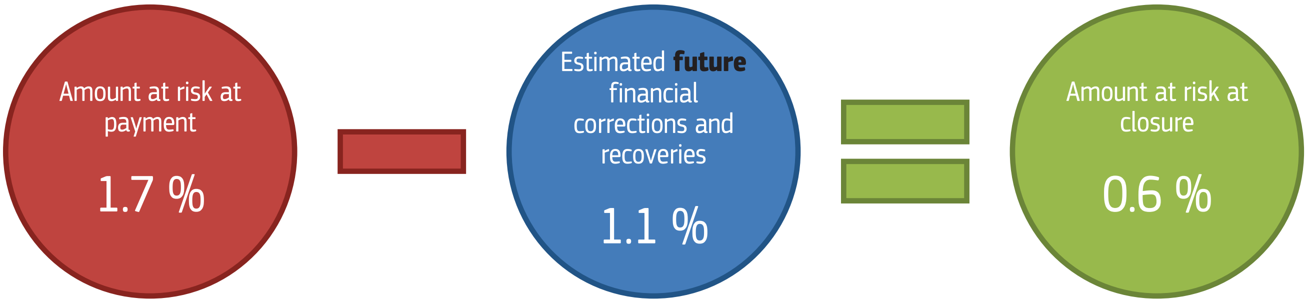
In terms of accounting transparency, guidance on the charge-back of services provided to other Institutions and bodies was adopted on 30 March 2017.

In terms of efficiency, the detailed data in Annex 6 shows that the global **average payment time** of the Commission departments **has steadily decreased** over the years and is below 30 days. The 2017 global average net payment time is 20.4 days. The share of the late payments has decreased as well, to 10.4 % in number and only 3.1 % in value for 2017.

2.1.2 Effectiveness of managing the legality and regularity risks

Note: Definitions and underlying terminology referred to in this subsection are defined in Annex 3

The Commission's spending programmes are multi-annual by design and, by implication, so are the related control systems and management cycles. While errors may be detected in any given year, they are corrected in subsequent years until after the end of the programmes' lifecycles.



Control systems: preventive and corrective measures

The Commission is ultimately responsible for ensuring that the EU budget[106] is properly spent, regardless of whether the funds are implemented by the Commission departments[107] themselves (direct management; approx. 24 %), entrusted to entities (indirect management; approx. 8 %) or executed by Member State authorities (shared management; approx. 68 %)[108].

For 76 % of the budget, the Commission is predominantly dependent on the reliability of the management and control information as reported by Member States and other entrusted bodies based on their own control systems. At a secondary level, but without duplicating control layers, the Commission may perform audits to verify the reliability of the control systems, the control results and/or the management reports of those entities.

In all management modes, the Commission departments' control models involve both preventive and corrective measures:

- ***Preventive measures*** are taken *before* the payment. They typically consist of 'at source'[109] and other **ex ante[110]** controls carried out by the Commission before making a payment[111] by itself or before accepting the expenditure made by the Member State or other entrusted body. Also, possible interruptions/suspensions of payments to Member States in the event of serious deficiencies in the management and control systems have a preventive character. In addition, the Commission provides training and guidance to Member State authorities and to grant beneficiaries. For 2017, the amount of *preventive* financial corrections and recoveries was EUR 836 million confirmed and EUR 897 million implemented (see details in Section 2.3).
- ***Corrective measures*** are taken *after* the payment. They typically include **ex post[112]** controls carried out by the Commission such as financial corrections and recoveries of irregular expenditure declared by Member States or beneficiaries, after having made a payment or after having accepted the expenditure made by the Member State or other entrusted body. For 2017, the amount of *corrective* financial corrections and recoveries was EUR 1 826 million confirmed and EUR 1 949 million implemented (see details in Section 2.3).

While all financial operations are subject to controls before payment[113] (i.e. ex ante), the intensity in terms of frequency and/or depth of these controls depends on the risks and costs involved. Consequently, risk-differentiated ex ante controls usually take the form of desk reviews rather than on-the-spot controls (prohibitive costs/benefits balance for a full coverage). By contrast, ex post controls typically are performed on-the-spot (on a representative sample basis, or based on a risk assessment).

Sources and root causes of errors detected by the Commission or Member States through audit work are also taken into account when preparing future (simplified) legislation and when (re)designing controls in order to further reduce the level of error in the future. *See the point on the 'Preparation of the Next MFF Programmes' at the end of Section 2.2.*

Control results for 2017: 'gross error – estimated corrections = net error' [114]

Estimated amount at risk at payment

Due to the inherent limitations of the ex ante controls performed before the payments, it is possible that some errors[115] can only be detected by the ex post controls (e.g. some ineligible costs reimbursed through grants can only be verified in-depth by on-the-spot audits performed on the premises of the beneficiary). This implies that the Commission's payments may be affected by errors.

The Commission's overall amount at risk at the moment of payment, based on **the ('gross') detected[116] error rates**, is estimated to be **1.7 % of the 2017 expenditure** (see summary table and graph(s) below[117]) – which is even below 2 % already this year.

As a concept, the overall amount at risk at payment corresponds to the European Court of Auditors' estimated level of error. The Court has recognised that the Commission figures were in most cases broadly in line with its own estimates last year[118].

Compared to 2016, the main change is the **significant decrease in Cohesion, Migration and Fisheries**. In this policy area, the current 2014-2020 programmes are coming up to speed, which have an inherent lower risk given the newly introduced annual clearance of accounts and the 10 % retention mechanism on interim payments until all controls and corrective measures are implemented (see under 'progress made' in Section 2.2). Furthermore, in absolute terms, the 2017 relevant expenditure in Cohesion is some EUR 13 billion lower than in 2016. This is mainly due to less clearing of pre-financing compared to last year (which saw a high level of catching up and closure-related certifications and clearings for the 2007-2013 programmes) and a lower start of implementation for the Regional Development and Cohesion Funds compared to the same period of the previous programming period.

Estimated future corrections

A sizeable proportion[119] of the errors detected will subsequently be corrected either by recoveries or by offsetting against future payments. As this may take some time, those corrections will often not be made in the same financial year as the related payment. Instead, the multi-annual control systems ensure that the corrections will take place during the subsequent year(s) in the programmes lifecycles.

*The **Research and Innovation family** as a whole had a multi-annual target of 4 056 audits of expenditure under the 7th Framework Programme, which has already been exceeded (4 324 audits completed by the end of 2017). The expenditure covered by the audits amounts to 64.2 % cumulatively[120]).*

*The **Humanitarian department'**s multi-annual audit strategy provides for ex-ante and/or ex-post financial audits: field audits are conducted during implementation of the projects while headquarters audits are carried out after the finalisation of the actions. The audit strategy ensures that every partner organisation is selected on average every 4 years, when a broad sample of grant and contribution agreements with each selected partner is audited.*

*For the activities under shared management with the Member States, the Commission cannot on its own reduce the level of error: the detection and correction of errors is first and foremost in the hands of the Member States. However, the Commission departments concerned also assume their share of the responsibilities. For example, in 2017 the **Agriculture department** carried out 128 audit missions and opened 31 desk audits in order to check that EU rules are complied with by the Paying Agencies when making payments to beneficiaries or recovering undue payments. Also 15 Certification Bodies were audited, to check the quality of their audit work and consequently consolidate assurance on the reliability of their opinion on legality and regularity of the expenditure. As a result of the conformity clearance procedure, the Commission imposes net financial corrections on the Member States by which they reimburse the EU budget the amounts corresponding to those corrections. These remedial actions are elements of the multi-annual control system which protects the EU's financial interests.*

In the meantime, i.e. at the end of each financial year during the multi-annual management cycles, the Commission's Authorising Officers by Delegation duly disclose for full transparency each programme for which the residual error rate up to that time of reporting would not (yet) be lower than the materiality threshold (in most cases set at 2 %). See Section 2.2 on management assurance and possible reservations.

The Commission departments have estimated the future corrections that they will be able to make for the 2017 expenditure. To some extent, these estimates are based on the average actual corrections made in previous years. However, this historical basis is not always relevant for the estimation of future corrections. In particular, the historic data may be affected by one-off events or related to previous programmes with different risk profiles than the current ones (which may have been simplified and have become less error-prone). For these reasons, the historical basis is adjusted or replaced as needed. In any case, the resulting estimates are conservative in order to avoid any possible overestimation of the corrective capacity.

The Commission's overall future corrections are estimated to be **1.1 % of the 2017 expenditure** (see summary table below[121]).

Compared to 2016, the decrease here is also mainly due to Cohesion's lower estimated amount at risk at payment (see above), hence lower estimated corrections as well.

For an analysis of the actual financial corrections and recoveries made during the 2017 reporting year, see Section 2.3 on the protection of the EU budget.

Estimated amount at risk at closure

After deduction of the future corrections from the amount at risk at payment, the amount at risk at closure provides a forward-looking conservative estimate of the **('net') error** that could remain after all projected corrections will have been made by the end of the programmes' lifecycles.

The Commission's overall amount at risk at closure is estimated to be **0.6 % of the 2017 expenditure** (see summary table and graph(s) below[122]).

Compared to 2016, the decrease here is also mainly due to Cohesion's inbuilt mechanism for annual residual risks below 2% through required financial corrections in the annual assurance packages prepared by Member States (see above), plus to a lesser extent a reduction of the estimated amount at risk at payment in Agriculture as well (which has now even lower figures).

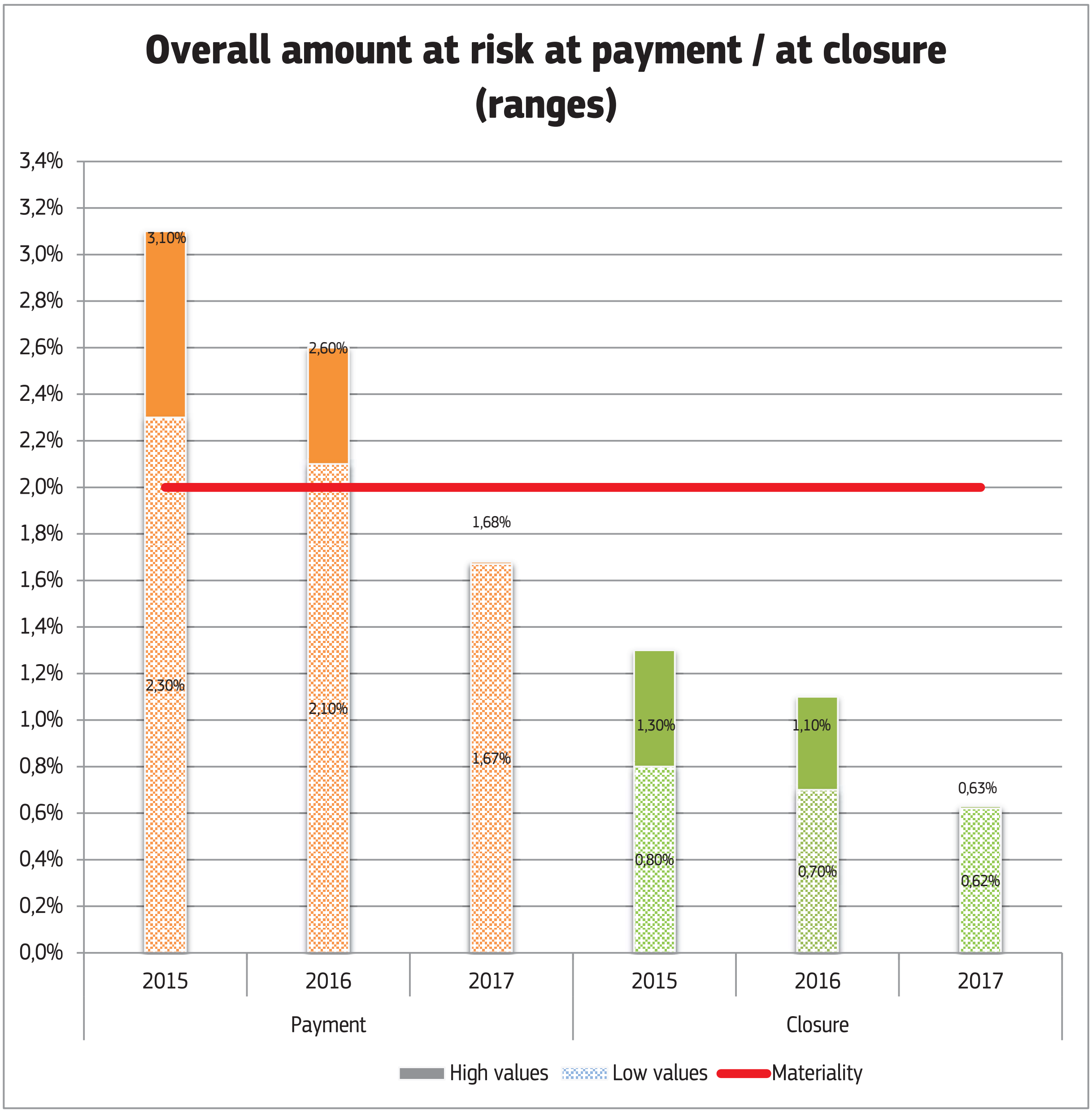
Conclusion

Over the last few years, the overall amount at risk at closure has decreased from 1.3 % to 0.6 %. See the graph(s) below.

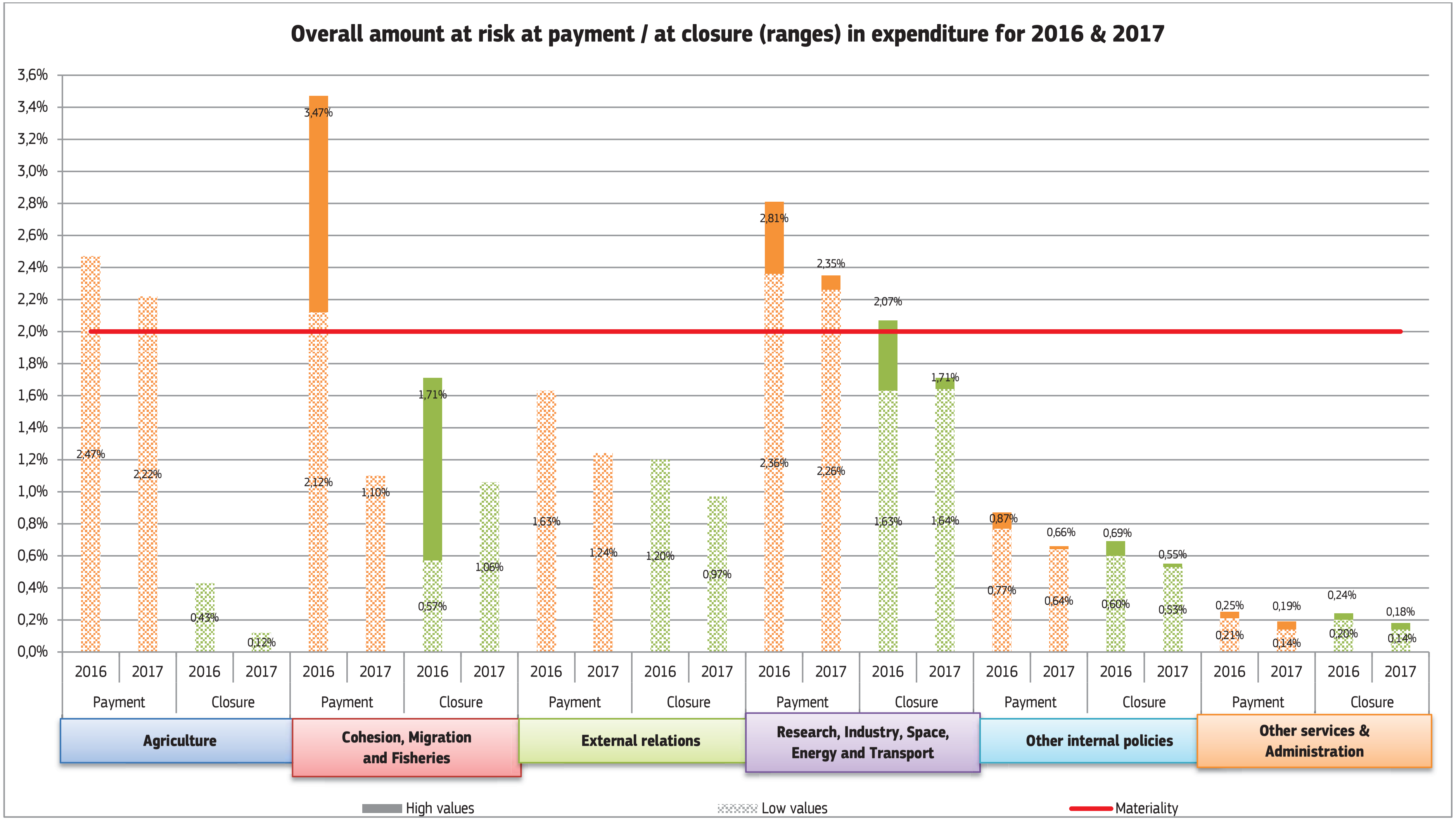
Given that the overall amount at risk at closure is estimated to be less than 2 % of the total relevant expenditure, the Commission departments' multiannual control mechanisms in general ensure an adequate management of risks relating to the legality and regularity of the transactions and ensure that the financial corrections and recoveries made over the subsequent years do protect the EU budget overall.

Policy area	Total relevant expenditure (EUR millions)	Estimated amount at risk at payment		Estimated future corrections		Estimated amount at risk at closure taking into account future corrections	
		lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	55 957.0	2.22 %	2.22 %	2.10 %	2.10 %	0.12 %	0.12 %
Cohesion, Migration and Fisheries	32 533.8	1.10 %	1.10 %	0.04 %	0.04 %	1.06 %	1.06 %
External Relations	10 633.5	1.24 %	1.24 %	0.27 %	0.27 %	0.97 %	0.97 %
Research, Industry, Space, Energy and Transport	13 348.1	2.26 %	2.35 %	0.63 %	0.64 %	1.64 %	1.71 %
Other Internal Policies	6 065.0	0.64 %	0.66 %	0.11 %	0.11 %	0.53 %	0.55 %
Other Services & Administration	6 590.4	0.14 %	0.19 %	0.01 %	0.01 %	0.14 %	0.18 %
Reconciliations	-116.4						
TOTAL 2017	**125 011.4**	**1.67 %**	**1.68 %**	**1.05 %**	**1.05 %**	**0.62 %**	**0.63 %**
TOTAL 2016	*137 127.9*	*2.13 %*	*2.62 %*	*1.48 %*	*1.55 %*	*0.65 %*	*1.07 %*

Table: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure). See details in Annex 2-A and definitions in Annex 3



Graph: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure). See details in Annex 2-A and definitions in Annex 3.



Graph: Overall estimated amount at risk at payment / at closure (ranges, in % of relevant expenditure) – per policy area. See details in Annex 2-A and definitions in Annex 3.

2.1.3 Cost effectiveness of controls

One of the objectives of the Commission is to ensure cost effectiveness when designing and implementing the management and control systems. The departments' control systems are aimed at preventing, identifying and correcting errors, but should also have a **reasonable cost** compared to the funds managed. Therefore, control strategies should be **risk-differentiated**, in other words they consider a higher level of scrutiny and/or frequency in riskier areas, and a lower level in low-risk areas.

In 2017, all 50 Commission departments have duly[123] assessed the cost effectiveness and the efficiency of their own control systems. **For the second year, all Commission departments concluded affirmatively that overall their controls are cost-effective and efficient.**

In addition, where the funds are managed by the Member States' authorities or entrusted to other entities, the available information on the cost of controls borne by those authorities and entities has been reported separately by the departments concerned[124].

Besides the costs of control, nearly all departments reported also on benefits of controls. Some of them were able to quantify them in monetary terms on the basis of rejections of ineligible costs, corrections, recoveries. Beyond contributing to lowering the net error rates, other benefits of well-designed control systems include better value for money and reduced risk of fraud.

Leaner, less burdensome and less costly controls were achieved, in particular through more automated reporting, elimination of redundant workflows, more proportionate controls for low-risk transactions and more extensive use of simplified cost options[125].

The Commission's reported costs and benefits of controls vary quite substantially between departments. This can be explained by a number of factors, in particular: (i) the different degrees of complexity of the programmes managed; (ii) the volumes and amounts to be processed (i.e. processing a high number of low-value transactions is more labour-intensive); (iii) the specific risk profiles of the programmes managed; and (iv) possible diseconomies of scale for certain smaller programmes. Therefore, a simple comparison between the quantifiable aspects reported by the departments would be of limited value.

To ensure that controls remain cost-effective over time, the vast majority of departments have reviewed their control systems at least once during the past 3 years. As a result of such reviews in 2017, 22 departments have adapted or will adapt them by re-directing the control resources towards more stringent controls where needed while having leaner and less burdensome controls where appropriate. 11 departments concluded that no control changes were needed. Of the 17 departments that did not do a system review in 2017, 12 had nevertheless reviewed it already in 2016.

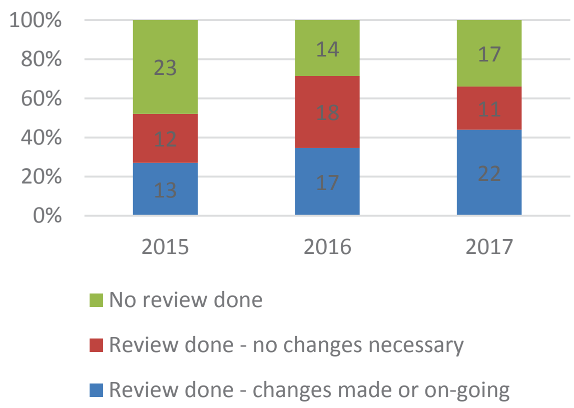


Chart: Review of control strategies in 2015-2017. Source: 2015-2016 Annual Management and Performance Reports for the EU budget

The Commission continues its efforts to further improve the cost effectiveness of controls. In this respect, following a 2017 audit by the Internal Audit Service, the Budget department is reviewing its guidance for the estimation, assessment and reporting on the cost effectiveness of controls with a view to simplify them.

Moreover, for the **next spending programmes**, the legislative financial statements (annexed to the legislative proposals) will justify why the proposed management mode(s), funding implementation mechanism(s) and payment methods are considered to be the most appropriate solutions – not only in terms of the policy/programme objectives but also in terms of **balancing three of the internal control objectives, i.e. fast payments, low errors and low cost of control**.

2.1.4 Anti-fraud strategies

The EU and the Member States have a mandate to counter fraud and any other illegal activities affecting the financial interests of the Union[126]. The Commission implements the EU budget in cooperation with the Member States, in compliance with relevant Union legislation and the principles of sound financial management[127]. The budget is implemented in compliance with effective and efficient internal control, which includes the objective of prevention, detection, correction and follow-up of fraud and irregularities[128].

Within this legal framework, the **European Anti-Fraud Office (OLAF)** plays a key role in protecting the EU's financial interests from fraud. In 2011 the Commission adopted its current anti-fraud strategy under the lead of the **European Anti-Fraud Office**. The **Commission Anti-Fraud Strategy** provides a policy framework for the prevention, detection, investigation and reparation of fraud at the level of the Commission and for the good functioning of the Commission departments in their management responsibilities for the protection of the financial interests of the EU.

The Commission Anti-Fraud Strategy requires every Commission department to develop, implement and regularly update when necessary its own anti-fraud strategy for the policy area that they are responsible for. They have fulfilled this task as presented in the table below.

The Commission has used the opportunity of its proposals for the Union's long-term spending plan after 2020 to examine anti-fraud approaches across different EU policies and to boost anti-fraud measures where appropriate, so as to protect the European taxpayer in the best way possible.

To that end, the **European Anti-Fraud Office** is working in cooperation with other Commission departments on an evaluation and an update of the Commission Anti-Fraud Strategy. In preparation, all departments have been asked for a fresh fraud risk assessment. Several have used that occasion to update their own anti-fraud strategies; that way, the update exercise at the corporate level has already benefitted the Commission's fight against fraud. New actions likely to be included in the update of the Anti-Fraud Strategy at Commission level will aim at:

- stronger coordination of Commission-wide anti-fraud policies;
- gathering more ample information on fraud patterns threatening the Union's financial interests, for instance through improving information technology tools and databases;
- strengthened anti-fraud controls in the areas of customs and value-added tax.

The department services concerns took immediate action to address the weaknesses identified by the Internal Audit Service as regards the planning, management and coordination of fraud prevention and detection activities in the traditional own resources. These departments set up improved cooperation mechanisms, notably a strategic steering function of the European Anti-Fraud Office (OLAF), the Taxation and the Budget departments to ensure enhanced prevention and detection of fraud regarding traditional own resources.

*The **Structural Reform Support Service** is a recently created service within the Secretariat-General. Its mission is to help Member States to address the implementation of structural reforms by offering tailor-made expertise and practical technical support.*

*Since April 2016, the Structural Reform Support Service has a formal administrative organization; in July 2017, it adopted its **first Anti-Fraud Strategy**, based on the methodology provided by **the European Anti-Fraud Office**. The Service works in difficult funding conditions, characterised by geographic decentralisation and a complex legal and political working environment, as well as time pressure and reliance on technically specialised staff. With its Anti-Fraud Strategy, geared to spreading and deepening anti-fraud know-how among staff, the Service ensures that tax-payers' money is spent strictly on the pressing needs served by it.*

Year of latest update of the departments' anti-fraud strategies	2017	2016	2015	2014 or before	Total
Number of Commission departments	20	11	11	8	50

Table: Anti-Fraud Strategies updates by Commission departments. Information from the Annual Activity Reports.

In the context of the protection of the Union's financial interest, the European Anti-Fraud Office (OLAF) has a unique role to conduct independent investigations into fraud and corruption involving EU funds and to develop EU policies to counter fraud.

EU funds are not only spent by the EU institutions, bodies, offices and agencies, but to about 74 % through shared management, i.e. at local, regional and national levels in the Member States. This raises the level of complexity substantially. The EU programmes and projects often involve actors – contractors and subcontractors and their staff – from EU, Member States, third countries and international organisations. This makes the prevention and early detection of fraud a significant challenge, also because the applicable rules on financial management are numerous and often complicated.

Regulation (EU, EURATOM) No 883/2013 concerning investigations conducted by the European Anti-Fraud Office empowers the Office to conduct external administrative investigations at national level and internal administrative investigations within the EU institutions and bodies, wherever the EU's financial interests are at stake, as well as internal investigations concerning the discharge of professional duties. In that respect, the European Anti-Fraud Office plays an important role in guaranteeing the integrity of EU staff, a necessary precondition for the EU institutions to function efficiently.

At the conclusion of an investigation, the Office may issue recommendations to be followed-up by the relevant EU or national authorities. Such recommendations may be of different nature: financial, to seek the recovery of defrauded EU funds or to prevent additional amounts from being disbursed, judicial, to take judicial action, disciplinary, to take disciplinary action against a specific staff member or administrative, to address any weaknesses in administrative procedures.

The European Anti-Fraud Office (OLAF) is able to detect and investigate complex fraud schemes across Europe and beyond. A number of large scale investigations have been closed in 2017.

OLAF investigations ranged from major undervaluation fraud cases where fraudsters made profit from declaring falsely low values for goods at import in the EU, to cases where OLAF tackled organised crime groups defrauding funds destined for agriculture, or cases where investigators uncovered fraud in large infrastructure projects.

OLAF'S investigative performance in 2017:

- OLAF concluded 197 investigations, issuing 309 recommendations to the relevant national and EU authorities;
- OLAF recommended the recovery of over EUR 3 billion to the EU budget;
- OLAF opened 215 new investigations, following 1111 preliminary analyses carried out by OLAF experts

On 2 October 2017, the Commission adopted the evaluation report on Regulation 883/2013 governing the investigative activities of the European Anti-Fraud Office. The added value of the European Anti-Fraud Office's investigations and their continued relevance in the context of the establishment of the European Public Prosecutor's Office were confirmed by the evaluation. The Commission has proposed in 2018 further improvements to the legal framework for the European Anti-Fraud Office's investigations, driven by the on-going steps to establish the European Public Prosecutor's Office by the end of 2020 (at the earliest) and by the findings of the evaluation of Regulation 883/2013.

Early Detection and Exclusion System (EDES)

The Early Detection and Exclusion System (EDES), set-up to strengthen the protection of the EU's financial interests, aims at ensuring:

- the early detection of economic operators representing risks to the EU's financial interests;
- the exclusion of unreliable economic operators from obtaining EU funds and/or the imposition of a financial penalty;
- the publication, in the most severe cases, on the Commission's website of information related to the exclusion and/or the financial penalty, in order to strengthen the deterrent effect.

EU institutions, agencies and bodies can only decide to impose sanctions on unreliable economic operators after obtaining a recommendation from a centralised panel. The Early Detection and Exclusion System (EDES) Panel assesses cases where there is no final judgment or final administrative decision. It has no investigative powers. In principle, the panel bases its assessment on facts and findings resulting from audits performed under the responsibility of the competent Commission department or investigations conducted by the **European Anti-Fraud Office**.

The cases brought to this **Panel** are selected based on the exclusion situations listed under Article 106(1) c) to f) of the Financial Regulation, which are:

- grave professional misconduct;
- fraud, corruption, participation in a criminal organisation, money laundering or terrorist financing, terrorist-related offences or offences linked to terrorist activities;
- significant deficiencies in complying with main obligations in the performance of a contract financed by the budget;
- irregularity.

This does not take into account the cases of Article 106(1) (a) and (b) which corresponds to cases of bankruptcies and non-payment of taxes and social security contributions which are however included in the EDES database (around 300 cases a year).

Since 1/1/2016, 37 cases have been sent to the secretariat of the Panel of which:

- 27 recommendations adopted by the Panel (included 3 for non-exclusion);
- 6 replies of the Panel;
- 3 withdrawal of cases by the requesting authorising officer concerned;
- 1 case suspended.

So far, 19 decisions have been taken by authorising officers (included 3 decisions not to exclude).

In 12 cases, the publication of the exclusion was decided (2 publications are suspended due to the lodging of an action before the Court of Justice).

More particularly, in 2017, 11 Panel cases, each involving one economic operator, were referred to it through its permanent secretariat by authorising officers. In addition, 4 cases sent to the permanent secretariat in 2016 were referred to the Panel in 2017, once the respective files had been completed.

Out of these 15 cases, the Panel issued a recommendation to exclude economic operators from EU funds in 9 occurrences. This was based on various legal grounds, including fraud and significant breaches with complying with main obligations in the implementation of a contract. The exclusion decisions taken so far by the authorising officers concerned follow in full the recommendation of the Panel. In all of these decisions, the sanctions were published. The publication was justified by e.g. the refusal of audits, the refusal to reimburse the misused EU funds, the non-replacement of a guarantee issued by a non-authorised guarantor, or the inherent the gravity of the violations.

In 3 cases, the Panel also recommended to register in the EDES database "*a person with power of representation, decision-making or control*" over the excluded operator, as linked to the exclusion. The purpose of this registration is to inform all authorising officers that these persons were personally involved in the related situations of exclusion of the economic operators concerned.

2.2. Management assurance and reservations

Annual Activity Report reservations

In their 2017 Annual Activity Reports[129], **all 50[130] Authorising Officers by Delegation declared having reasonable assurance that: (i) the information contained in their report presents a true and fair view; (ii) the resources assigned to the activities have been used for their intended purpose and in accordance with the principle of sound financial management; and (iii) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.**

The Authorising Officers by Delegation assessed the control objectives using all available information, in particular the control results. They considered any significant weaknesses identified and assessed their cumulative impact on the assurance, in both quantitative and qualitative terms, with a view to determining whether it was material. As a result, **30 Authorising Officers by Delegation declared unqualified assurance, while 20 declarations were qualified with a total of 38 reservations for 2017**. *See detailed tables in Annex 2-B.* These reservations affect each of the six expenditure areas but only the Traditional Own Resources segment of revenue. In all cases, the Authorising Officers by Delegation concerned have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

Reservations are keystones in the accountability construction. The qualification of the declarations of assurance in the Annual Activity Reports is an element of sound financial management. Reservations are – if possible – always accompanied by an action plan identifying actions to improve the internal control environment furthermore. Although most reservations are prompted by findings regarding the management and control of past payments, they have a positive preventive effect as well, as the action plans developed in relation to reservations aim to mitigate future risks and to strengthen the control systems. Reservations are also integral to accountability because they provide transparency as regards the challenges or weaknesses encountered, and an estimation of their financial impact.

Furthermore, **the number of reservations is not an indicator of the quality of financial management.** This is partly because there is no direct link between the number of reservations and the amounts at risk but also because some weaknesses trigger multiple reservations. For instance because they relate to programmes which are implemented by more than one department but also because the related weakness in 'new' reservations are a continuation of previous 'legacy' ones for the next programming period (e.g. in Cohesion, Migration and Fisheries, albeit now for fewer programmes in fewer Member States than in the previous period) and/or they cover several segments of the same programmes managed by several departments. This provides more precision and transparency.

When comparing the 38 reservations for 2017 to the 37 in 2016, 34 reservations are recurrent. However, **half of them concern the 'legacy' generation of the 2007-2013 programmes, which are phasing out by now**. Three previous reservations were lifted and four reservations are newly introduced. In addition, four recurrent reservations are maintained but have been reduced in scope and/or exposure. Also the Cohesion, Migration and Fisheries 'legacy' programmes have by now fewer programmes in fewer Member States under reservations. Five recurrent and three new reservations are entirely or partially 'non-quantified'[131]; i.e. with no financial impact for 2017.

For the 34 **recurrent reservations**, that affect the 2017 expenditure or revenue, see the complete list in annex 2-B.

For the **reservations that have changed compared to 2016**, see the box below:

Two reservations have been lifted

- *The Human Resources department no longer qualified its declaration with the (reputational) reservation on the European Schools as the treasury management weakness is sufficiently mitigated.*
- *The Regional and Employment departments each lifted their 2000-2006 related (non-quantified) reservation, taking into account the reduced scope of the financial corrections or that the remaining pending court case has been ruled in favour of the Commission decision on the amounts of the financial corrections to be applied (case to be followed up as the Member State has appealed the decision).*

Four new reservations have been introduced

- *The Structural Reform Support Service made a new (non-quantified) reservation on non-assurance for the part its portfolio dispensed through grants.*
- *The Education, Audiovisual and Culture Executive Agency made a new (non-quantified) reservation related to the internal control weaknesses identified by the Internal Audit Service and the corresponding recommendations (one rated critical[132] and eight very important).*
- *The department for Home Affairs made a new (non-quantified) reservation referring to the weakness(es) in the internal control system of the European Asylum Support Office, which also appeared following the European Court of Auditors' qualified opinion and the decision of the European Parliament to postpone the discharge decision on this agency.*
- *The Neighbourhood department: new reservation on their high-risk segment of 'direct management grants' (similar as for the Development department, see below, and in line with the European Court of Auditors' recommendations).*

Four recurrent reservations have been maintained, but with a reduced coverage (because of fewer segments with a Residual Error Rate above 2%)

- *The Development department maintained its reservation, but reduced its coverage from four segments to one (regarding 'direct management grants').*
- *The Development department maintained its reservation on the programmes managed by the African Union Commission, but reduced its scope to the programmes involving a significant level of procurement.*
- *The Service for Foreign Policy Instruments narrowed the scope of its reservation to the Instrument for Cooperation with Industrialised countries only, i.e. excluding the Common Foreign and Security Policy.*
- *The Maritime department changed its quantified reservation on the European Fisheries Fund for 2007-2013 into a non-quantified reservation because there was no financial exposure in 2017.*

Exposure (financial impact) from reservations for current and 'legacy' programmes

To ensure full transparency, the Authorising Officers by Delegation issue a reservation for each programme for which the Residual Error Rate up to the time of reporting would not (yet) be lower than the materiality threshold (in most cases set at 2 %).

This applies not only to the current programmes (2014-2020 generation), but also to the 'legacy' generation of programmes (2007-2013). Departments do not lift the 19 reservations of the latter even when the amounts at risk for these legacy programmes have decreased significantly.

This concerns four reservations covering six funds/programmes in shared management (the European Regional Development Fund, the Cohesion Fund, European Territorial Cooperation, the European Social Fund, the European Fisheries Fund, the Solidarity and Migration general programme), the Seventh Framework Programme for Research (eight reservations), the Competitiveness and Innovation Programme (four reservations), and Education, Culture & Youth programmes (three reservations) – which are all phasing out.

The 'legacy' generation of the 2007-2013 programmes, which are phasing out by now, accounts for half of the number of reservations.

Although the 'legacy' programmes account for half[133] of the number of reservations, their share in terms of actual financial impact is merely an eighth (12 %) of the overall exposure. See table below.

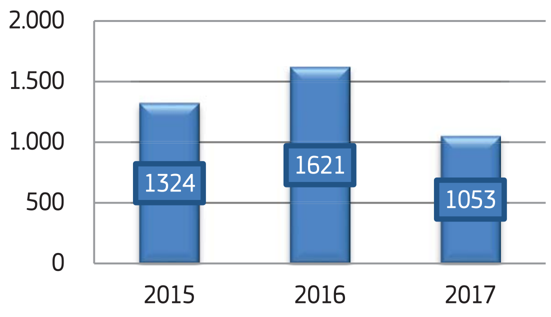
Policy area	Total 2017 payments	Amount at risk at reporting = exposure
Agriculture	55 872.0	769.7
Cohesion, Migration and Fisheries	39 234.0	134.6
External Relations	13 609.5	43.4
Research, Industry, Space, Energy and Transport	15 526.2	94.7
Other Internal Policies	6 983.5	10.4
Other Services & Administration	6 612.8	0.0
Reconciliations	-39.2	
Total	**137 798.8**	**1052.9**
of which: current programmes		*924.3*
of which: 'legacy' programmes		*128.6*
Policy area	**Total 2017 own resources**	**Amount at risk at reporting = exposure**
Own Resources	121 832.2	430.7
Total	**121 832.2**	**430.7**

Table: Amount at risk of the 2017 reservations (EUR millions). See details in Annex 2-B.

The Commission's overall exposure in terms of amount at risk at reporting for the 2017 expenditure under reservations is estimated at EUR 1.1 billion. The decrease compared to 2016 (EUR 1.6 billion – see graph below) is mainly due to lower exposure from the Agricultural and Cohesion funds.

Among the reservations maintained for the current 2014-2020 programmes, four reservations were reduced in coverage (see box above). In Cohesion, Migration and Fisheries (three reservations), as the implementation of the current programmes is coming up to speed, the number of Member States and/or Operational Programmes under reservations increased compared to last year, but appears to be lower than for the previous programming periods.

The amount at risk at reporting for the Traditional Own Resources under reservation is estimated at EUR 0.4 billion (EUR 0.5 billion in 2016). This decrease in exposure is due to the actions by the Budget department and the measures introduced on the UK imports since 12 October 2017 (Operation Swift Arrow), due to which the imports of undervalued textiles dropped significantly. This has led to a significant reduction of Traditional Own Resources losses in the UK in last months of 2017.



Graph: Financial impact from quantified reservations (Amounts of expenditure in EUR millions).

Progress made in assurance building during 2017

Also during 2017, the Commission departments continued their efforts to strengthen their assurance building in the Annual Activity Reports. Some examples of achievements are:

- The **External Relations** departments for Development and Neighbourhood have further improved their 'segmented' assurance building for their portfolios, thereby better focussing their reservation on the relevant higher-risk segment (direct grants). Both departments thereby duly responded to the observations by the European Court of Auditors on their 2016 Annual Activity Reports.
- The departments concerned[134] now cover in a transparent and complete manner the **EU Trust Funds**[135] in their management reporting. They distinguish better between accountability for contributions from the EU budget and the European Development Fund paid into the EU Trust Funds, and for the transactions made as fund managers out of the EU Trust Funds (i.e. using the EU budget, European Development Fund and other donors' funds). See also in Annex 9.
- The **Research departments and executive agencies** are duly applying the specific (risk-adjusted) 2 to 5 % materiality threshold[136] provided for in the legislative financial statement accompanying the Commission's proposal for the Horizon 2020 sectoral legislation. Consequently, their declarations of assurance are not qualified with Horizon 2020 related reservations. This strategy has been recognised by the Legislative Authority[137] from the outset of this multiannual programme, in recognition of: (i) the inherent programme risks retained (e.g. grant delivery mechanism still predominantly based on reimbursements of eligible costs, targeting of riskier beneficiaries such as newcomers and small and medium-sized enterprises); and (ii) the control limitations set (ceiling on ex post controls, time-limit for extending systemic audit findings to the same beneficiary's other projects)[138].
- The **Cohesion Regional, Employment and Maritime departments** introduced an annual clearance of accounts and a 10 % retention from each interim payment by the Commission, which guarantees the effective 'recovery' (upfront) of any potential errors detected (up to 10 %) at the time of the acceptance of the accounts. This feature is now fully and consistently reflected in the calculation of their relevant expenditure and the related amounts at risk.
- Since its autonomy in 2016, the **Structural Reform Support Service** has made significant progress in setting up a mature system for internal control and management reporting which will enable appropriate management of its expanding budget. The action plan made in the light of the reservation in its Annual Activity Report (non-assurance for grants) and following an internal audit provided the way forward.

The Internal Audit Service's overall opinion and emphasis of matter

In the context of its 2016 overall opinion, the Internal Audit Service had reiterated its emphasis of matter that departments relying on entrusted entities to implement parts of their policy and/or budget should strengthen their monitoring and supervision strategies and activities, while also duly taking into account the different nature, origins and (sometimes limited) mandates in this context.

Given inter alia the two reservations that concern issues in agencies (Education, Audiovisual and Culture Executive Agency, European Asylum Support Office), this remains a point of particular attention in the 2017 overall opinion as well. See more details in Subsection 2.4 and/or Annex 5. See also under developments for 2018 below.

Developments for 2018

Oversight on executive agencies (e.g. the Education, Audiovisual and Culture Executive Agency) and entrusted entities (e.g. European Asylum Support Office, African Union Commission) is challenging. Commission central services and departments will set up joint working groups to clarify and delineate the role of the parent departments' in supervising such bodies.

Looking forward beyond 2018 and/or 2020

The new Financial Regulation will enter into force as from 2019 (some provisions even already in the second half of 2018). This provides a simplified basis for preparing the post-2020 generation of funding programmes.

In fact, the preparation of the post-2020 sectoral programmes is currently ongoing. Special attention is being given to maximising simplifications, synergies and efficiencies, risk-differentiated and cost-effective control systems. The aim is to achieve the policy/programme objectives and the internal control objectives, i.e. fast payments, low errors and low cost of control.

The European Court of Auditors announced in its 2018-2020 Strategy (‘Fostering trust through independent audit’)[139] its intention to benefit from the positive developments in the EU financial management and increase the added value of its annual statement of assurance. The ECA in particular wants to make better use of the work of other auditors and the information provided by its auditee on the legality and regularity of spending. In that context, the ECA published a background paper on a modified approach to the Statement of Assurance audits in the field of Cohesion policy[140]. The audit work is currently ongoing and its results will be reported in the ECA next annual report in 2018.

2.3. Protection of the EU budget: financial corrections and recoveries

Financial corrections and recoveries

An important consideration in implementing the EU budget is the need to ensure proper prevention or detection and subsequent correction of system weaknesses leading to errors, irregularities or fraud.

The Commission takes preventive and corrective actions as provided for in EU legislation to protect the EU budget from illegal or irregular expenditure.

Where preventive mechanisms are not effective, the Commission, as part of its supervisory role, is required to apply corrective mechanisms as a last resort.

The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget.

The workflow of corrective actions is as follows:

A financial correction is confirmed as soon as it is accepted by the Member State or decided by the Commission. A financial correction is considered implemented when the correction has been applied and recorded in the Commission accounts, which means the financial transaction was validated by the responsible authorising officer in the following cases: deduction from the interim or final payment claim, recovery order and/or a de-commitment transaction[141].

Fund	Total EU budget payments in 2017	Financial corrections and recoveries confirmed in 2017			% of payments of the EU budget	Financial corrections and recoveries implemented in 2017			% of payments of the EU budget
		Preventive	Corrective	TOTAL		Preventive	Corrective	TOTAL	
Agriculture:	***55 808***	***277***	***1 241***	***1 518***	***2.7%***	***275***	***1 404***	***1 679***	***3.0%***
EAGF	44 695	277	903	**1 180**	*2.6%*	275	1 073	**1 348**	*3.0%*
Rural Development	11 113	-	338	**338**	*3.0%*	-	331	**331**	*3.0%*
Cohesion Policy:	***35 417***	***9***	***505***	***515***	***1.5%***	***73***	***467***	***539***	***1.5%***
ERDF	16 853	9	237	**246**	*1.5%*	70	100	**170**	*1.0%*
Cohesion Fund	8 366	-	198	**198**	*2.4%*	-	250	**250**	*3.0%*
ESF	9 797	-	65	**65**	*0.7%*	2	21	**23**	*0.2%*
FIFG/EFF	401	0	4	**5**	*1.2%*	1	95	**96**	*23.9%*
EAGGF Guidance	0	-	1	**1**	*n/a*	-	1	**1**	*n/a*
Internal policy areas	***25 415***	***334***	***58***	***391***	***1.5%***	***334***	***46***	***380***	***1.5%***
External policy areas	***9 793***	***212***	***22***	***234***	***2.4%***	***212***	***31***	***244***	***2.5%***
Administration	9 656	3	**0**	**3**	*0.0%*	3	**0**	**3**	*0.0%*
TOTAL	**136 089***	**836**	**1 826**	**2 662**	***2.0%***	**897**	**1 949**	**2 845**	***2.1%***

Fund	Total EU budget payments in 2017	Financial corrections and recoveries confirmed in 2017			% of payments of the EU budget	Financial corrections and recoveries implemented in 2017			% of payments of the EU budget
		Preventive	Corrective	TOTAL		Preventive	Corrective	TOTAL	
Agriculture:	***55 808***	***277***	***1 109***	***1 386***	***2.5%***	***275***	***1 404***	***1 679***	***3.0%***
EAGF	44 695	277	896	**1 173**	*2.6%*	275	1 073	**1 348**	*3.0%*
Rural Development	11 113	-	213	**213**	*1.9%*	-	331	**331**	*3.0%*
Cohesion Policy:	***35 417***	***9***	***505***	***515***	***1.5%***	***73***	***467***	***539***	***1.5%***
ERDF	16 853	9	237	**246**	*1.5%*	70	**100**	**170**	*1.0%*
Cohesion Fund	8 366	-	198	**198**	*2.4%*	-	**250**	**250**	*3.0%*
ESF	9 797	-	65	**65**	*0.7%*	2	**21**	**23**	*0.2%*
FIFG/EFF	401	0	4	**5**	*1.2%*	1	**95**	**96**	*23.9%*
EAGGF Guidance	0	-	1	**1**	*n/a*	-	**1**	**1**	*n/a*
Internal policy areas	***25 415***	***404***	***58***	***462***	***1.8%***	***404***	***47***	***452***	***1.8%***
External policy areas	***9 793***	***210***	***22***	***231***	***2.4%***	***210***	***30***	***240***	***2.5%***
Administration	9 656	3	0	3	*0.0%*	3	0	3	*0.0%*
TOTAL	136 089*	904	1 694	2 598	*1.9%*	965	1 949	2 914	*2.1%*

Table: Financial corrections and recoveries overview for 2017[142] (EUR million); the preventive measures include the ex ante deductions and at source financial corrections, while the corrective measures cover the ex post recoveries, financial corrections and withdrawals.

It should be noted that due to the rounding of figures into EUR millions, some financial data in the table above may appear not to add up.

** Excludes EUR 1 291 million paid out under the 'Special Instruments' heading.*

In 2017, the total financial corrections and recoveries amounted to EUR 2.7 billion confirmed or EUR 2.8 billion implemented. This amount covers corrections and recoveries made during 2017 irrespective of the year during which the initial expenditure had been made. More details can be found in Annex 4 'Protection on the EU Budget'.

Types of financial corrections and recoveries in 2017 and cumulative results 2011-2017

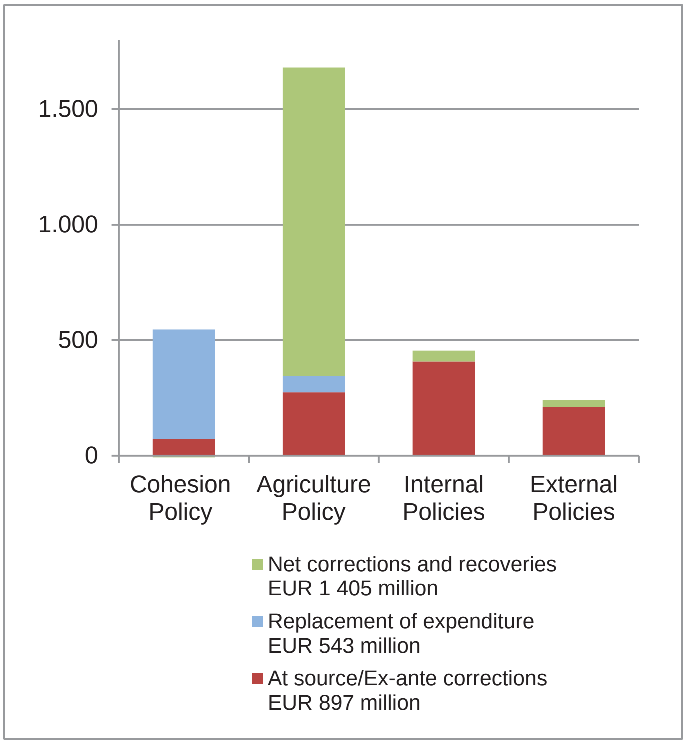


Chart: Types of financial corrections and recoveries implemented in 2017 (EUR millions).

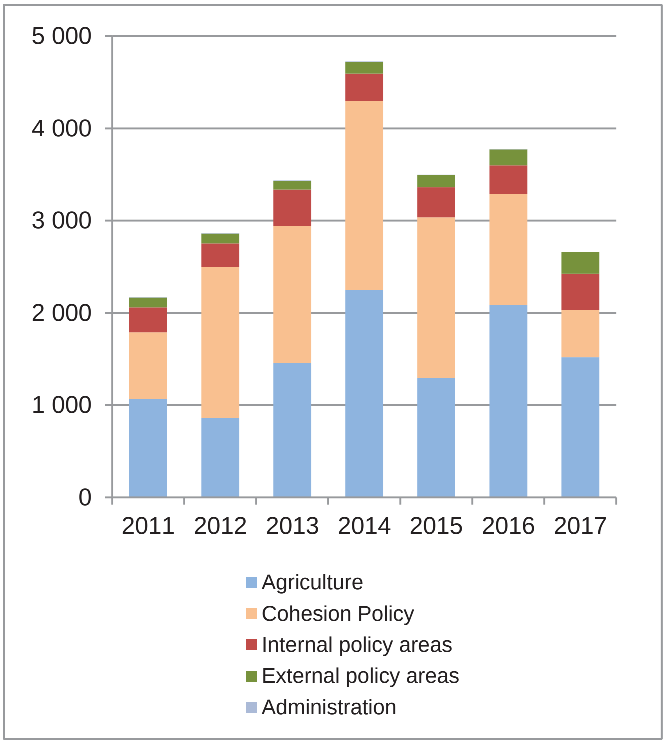


Chart: Financial corrections and recoveries confirmed 2011-2017 cumulative (EUR millions.)

The Commission focuses more and more on preventive measures such as interruptions and suspensions with a view to better protecting the EU budget. This also serves as an incentive for the Member States to reduce irregular payments and apply corrections only as a last resort.

Net corrections leading to a reimbursement to the EU budget are characteristic for agriculture and rural development and for direct and indirect management.

For cohesion policy, net corrections are, up to the 2007-2013 programming period, the exception. They were applied in cases where Member States were not able to replace irregular expenditure with new expenditure. Under the legal framework for 2014-2020, the Commission shall apply net financial corrections, even if the Member State agrees to the corrections, if EU audits detect that a serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected, uncorrected and unreported by the Member State. Otherwise if any of the regulatory conditions is fulfilled the Commission must apply financial corrections in the traditional way, meaning the Member State can re-use the funds if it accepts the corrections.

Cumulative figures provide more useful information on the significance of corrective mechanisms used by the Commission because they take into account the multi-annual character of most EU spending and neutralise the impact of one-off events.

For the European Agricultural Guarantee Fund (EAGF), the average correction rate for Commission financial corrections under conformity clearance of accounts for the period 1999 to end 2017 was 1.8 % of expenditure (all of which are net financial corrections) - see Annex 4, Section 2.4.

For the 2007-2013 European Regional Development Fund and European Social Fund, at the end of 2017 the combined rate of financial corrections, based on Commission supervision work only, was 1.9 % of the allocations made - see Annex 4, Section 3.4.2.

Overall, during the 2011-2017 period, the two average amounts (total financial corrections and recoveries confirmed and total financial corrections and recoveries implemented) were EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget.

2.4. Assurance obtained through the work of the Internal Audit Service (IAS)

The Commission departments also based their assurance on the work done by the Internal Audit Service (IAS). Annex 5 to this report includes more information on the assurance provided by the Internal Audit Service. A summary report of the internal auditor's work will be forwarded by the Commission to the discharge authority in accordance with Article 99(5) of the Financial Regulation.

The Internal Audit Service concluded that 95 % of the recommendations followed up during 2013-2017 had been effectively implemented by the auditees. Of the 359 recommendations still in progress at the cut-off date of 31 January 2018 (representing 20 % of the total number of accepted recommendations over the past 5 years), one was classified as critical and 133 as very important. Out of these 134 recommendations, 12 very important ones were overdue by more than 6 months at the end of 2017, representing 0.7 % of the total number of accepted recommendations of the past 5 years. The follow-up work by the Internal Audit Service confirmed that recommendations are overall being implemented satisfactorily and the control systems in the audited departments are improving.

The Internal Audit Service continued to carry out performance audits in 2017 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money.

(i) As regards governance and oversight arrangements, following the administrative reform of 2000, the Commission made significant advances in strengthening its accountability, responsibility and assurance building processes. The decentralised model of financial management is well understood and embedded in the culture of the organisation and clear accountability instruments are in place together with a robust assurance building process. Furthermore, in October 2017 the Commission adopted a Communication on governance in the European Commission. Nevertheless, the IAS identified the need for proportionate improvements at the corporate level, in particular as regards risk management and more general aspects of the current governance arrangements, including IT governance.

As regards performance in other areas:

- on human resources management, the IAS concluded that the DGs and Executive Agencies have taken adequate measures to manage the human resources challenges they face, but also identified significant areas for improvement as regards strategic human resources management (DG HOME and EACEA) or the allocation of human resources (DG HOME and DG JUST);
- on IT management processes, several IT audits concluded that there is room for improving the effectiveness of IT security in the Commission in specific areas at corporate or operational (DG ENER, OLAF) level.
- on the production process and the quality of statistics not produced by Eurostat, the Internal Audit Service concluded that the framework currently in place in the Commission is not robust enough to ensure that the quality of statistics not produced by Eurostat used by the departments to support their key policies and report on their performance is of a satisfactory quality overall.

(ii) Concerning performance in implementing budget operational and administrative appropriations, the Internal Audit Service did not identify significant performance weaknesses in the area of directly managed funds. However, for indirectly managed funds, several audits focused on the supervision arrangements in place in the departments revealed significant performance issues (e.g. lack of a clearly defined supervision strategy for Shift2Rail (S2R) by DG MOVE, DG DEVCO's monitoring and supervision of the operational performance of the international financial institution's (IFIs) entrusted with the management of investment facilities)). On shared management, several audits assessed programme and project management processes and revealed several significant performance weaknesses some of which may endanger the achievement of the policy objectives (e.g. the consistency, effectiveness and timeliness of the operational programmes amendment process by DGs REGIO, EMPL and MARE, through which Member States can re-direct the delivery mechanisms for implementing the operational programmes).

In addition, the Internal Audit Service issued limited conclusions on the state of internal control to every department in February 2018 based on its audit work undertaken between 2015 and 2017. These conclusions were intended to contribute to the 2017 Annual Activity Reports of the departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important'. In four cases (DG CLIMA, DG DEVCO, SRSS and EACEA) the Internal Audit Service stated that the department concerned should duly assess if they require the issuing of a reservation in the respective Annual Activity Report. In three cases (DG CLIMA, DG DEVCO and EACEA) the department issued such reservations in line with Internal Audit Service limited conclusions. In the case of the Structural Reform Support Service, the Internal Audit Service drew particular attention to the public procurement issues identified in an audit on financial management and indicated that the service should duly assess if these require a reservation in the Annual Activity Report. The service concluded that there was no basis for a financial reservation and no need for a reservation in the Annual Activity Report on reputational grounds as the reputational risks identified did not materialise. The Internal Audit Service agreed with this assessment.

As required by its mission charter, the Commission's internal auditor also submitted an overall opinion, which is based on the audit work in the area of financial management in the Commission carried out by the Internal Audit Service during the previous 3 years (2015-2017) and also takes into account information from other sources, namely the reports from the European Court of Auditors. Based on this audit information, the internal auditor considered that, in 2017, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officer by Delegation's Declarations of Assurance issued in their respective Annual Activity Reports.

In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as these go beyond the amounts put under reservation. The overall amounts at risk are the Authorising Officers by Delegation's best estimation of the amount of the expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2017. In their 2017 AARs, the DGs estimate the amounts at risk at payment. Taken together, these correspond to an overall amount below the materiality of 2 %, as defined in the instructions for the preparation of the 2017 Annual Activity Reports, of all executed payments in the Commission budget, the European Development Fund and the EU Trust Funds in 2017. These amounts at risk at payment in 2017 do not yet include any financial corrections and recoveries related to deficiencies and errors the DGs will detect and correct in the next years due to the multi-annual corrective mechanisms built into the Commission's internal control systems. Given these elements, the IAS considers that the EU budget is therefore adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added an 'emphasis of matter', relating to the supervision strategies regarding third parties implementing policies and programmes, which is described in Annex 5 to this report.

2.5. Summary of conclusions on the work carried out by the Audit Progress Committee

The Audit Progress Committee (APC) has focussed its work on four key objectives set out in its 2017 and 2018 work programmes, namely: considering the IAS's audit planning; analysing the results of internal and external audit work to identify potentially significant risks, including where appropriate in a thematic manner; monitoring the follow-up to significant residual risks identified by audit work; ensuring the independence of the Internal Auditor and monitoring the quality of internal audit work.

The APC is satisfied as to the independence and quality of internal audit work and that the audit planning adequately covers the financial universe and continues to cover the key risk areas. In its Annual Report 2017-2018 it has drawn the attention of the College to the following issues in particular:

The Internal Auditor's overall opinion for 2017 is positive but qualified with regard to the management reservations as expressed in the DGs' AARs. It contains one emphasis of matter on 'supervision strategies regarding third parties implementing policies and programmes' which has already appeared in two successive Overall Opinions (2015 and 2016). The APC stressed that externalisation remains a key concern which the APC has highlighted on numerous occasions (see below).

The key cross-cutting issues highlighted in the Annual Internal Audit Report relate to governance, including IT governance, IT and HR management processes as well as supervision arrangements in the area of indirectly managed funds. Most of these findings have been discussed by the APC.

One critical recommendation was issued during the reporting period, addressed to the Education, Audiovisual and Culture Executive Agency (EACEA)[143]. Due to the criticality of the findings (one critical and eight very important recommendations) the APC has ensured that the follow-up on the recommendations is satisfactory and on track. Discussions have taken place with EACEA and its parent DGs as well as with DG BUDG and the Secretariat-General in three Preparatory Group meetings throughout January and February 2018 and at the APC on 7 March. The APC welcomed the substantial progress made towards implementation of the action plan but stressed that a cultural change is needed within the Agency to fully address the issues. The APC was informed that based on the IAS follow-up conducted between mid-February and mid-March 2018, sufficient progress has been made to partially mitigate the underlying risks and therefore the rating of the critical recommendation was downgraded to very important. The APC also encouraged the central services to continue and where appropriate further strengthen their role in providing guidance and support to executive agencies and their parent DGs, both in this specific case and more generally.

The IAS audit on the Commission's Governance/Oversight arrangements concerning Risk Management, Financial Reporting and the Ex-post verification/audit function, which was performed in response to the European Court of Auditors' recommendation issued in the context of its Special Report on Commission governance and at the invitation of the College, confirmed the robustness of the design of the decentralised accountability and assurance building process. The IAS has however flagged a series of incremental targeted improvements in particular in the areas of risk management and some aspects of the governance set-up. A dialogue between the Internal Auditor and the Secretariat-General and DG BUDG as auditees with regard to the finalisation of the action plan is ongoing. By its nature this audit report affects the institution as a whole and requires attention at the highest political level. The APC discussed the audit findings overall as well as several recommendations touching directly on the role and work of the APC. In this context the Internal Auditor confirmed that the APC Charter is fully compliant with the provisions of the new Financial Regulation. The APC's advice should help to contribute to the decision-making process leading to the finalisation of the action plan.

The IAS audit on performance of anti-fraud activities in the own resources and taxation areas identified significant weaknesses related to the planning, management and coordination of fraud prevention and detection activities in the traditional own resources area, which may lead to ineffective prevention and detection of fraud. In addition, issues of cross-cutting relevance related to the availability and management of anti-plagiarism tools were raised by the IAS audit report on H2020 project management in DG CNECT.

The APC followed-up the issues raised in its Annual Report 2016-2017 and continued to pay particular attention to the externalisation and performance themes:

- in addition to the *externalisation*-related cross-cutting issues discussed in the context of the above-mentioned IAS audit report addressed to EACEA, the APC also discussed the IAS audit on DG MOVE's monitoring of the aviation and maritime security policies, including related working arrangements with the European Maritime Safety Regulatory Agency. The IAS concluded that there are significant weaknesses in DG MOVE's current system to monitor both aviation and maritime security policy (three very important recommendations). The APC was satisfied that DG MOVE has accepted all the recommendations and has prepared an action plan which the IAS considers satisfactory in addressing the identified risks. Concerning the IAS audit of the supervision on ITER in DG ENER which raised two very important issues and which the APC brought to the attention of the College in its last Annual Report, the IAS conducted a follow-up and concluded that one recommendation had been adequately and effectively implemented and for the second sufficient progress had been made to partially mitigate the risk and therefore the rating of the recommendation was downgraded to important;

- the APC continued to prioritise *performance related issues* in its work and discussed the IAS findings stemming from the audit on the production process and the quality of statistics not produced by Eurostat. The IAS concluded that the current framework for monitoring the quality of these statistics is not sufficiently robust to ensure that they are of a satisfactory standard. The APC was concerned about the lack of a complete picture of statistical production in the institution and stressed the importance of quality of data due to the increasing focus on performance issues both in the Commission and in the Parliament and the ECA. The APC noted the cross-cutting nature of the issues raised and decided to bring the report to the attention of the Corporate Management Board for further follow up;
- furthermore the APC followed-up on the implementation of the recommendations addressed to PMO[144] concerning roles and responsibilities, planning, monitoring and execution of the budget line of the OLAF Supervisory Committee which were flagged in the last APC annual report due to the residual financial and reputational risks. The recent IAS follow-up concluded that whilst one recommendation could be downgraded to important neither of the two very important recommendations has been fully and/or adequately implemented. The APC noted the ongoing detailed work by the PMO to implement the recommendations and that the remaining actions for both recommendations are expected to be completed by end of June2018. The APC welcomed that improved financial procedures and guidance have now been provided to OLAF Supervisory Committee members.

The Commission's management has drawn up satisfactory action plans to address the risks identified in the IAS's reports while for the audits concerning the Commission's governance and corporate IT governance the finalisation of the action plan is ongoing. All IAS recommendations issued in 2017 were accepted by the auditees except for 10 recommendations which were accepted only partially. These include one important recommendation on workload indicators relating to the audit on HR management in Innovation and Networks Executive Agency (INEA)[145], one important recommendation on the establishment of control plans relating to the audit on procurement under Instrument for Pre-Accession (IPA)[146] as well as the recommendations relating to the audit on the Commission's Governance/Oversight arrangements concerning Risk Management, Financial Reporting and the Ex-post verification/audit function (see above).

The number of long-overdue actions to address very important recommendations, which are the subject of close APC monitoring and where needed discussion with the auditees, has decreased over the reporting period (i.e. 12 at the cut-off date of 31 January 2018 compared to 18 at the same cut-off date in 2017).

The APC strengthened its follow-up to the recommendations of the European Court of Auditors. The first report on the state of play on the Court's recommendations was prepared by DG BUDG in June 2017 and a more detailed report in September 2017. On this basis the APC followed-up the Court's recommendations in a similar way as it does for the IAS's recommendations. The APC noted the added value of this follow-up work, and that the exercise undertaken as concerns recommendations issued in 2014 had contributed to ensuring the Commission is well-prepared for the Court's own follow-up exercise.

2.6. Follow-up of discharge and external audit recommendations

The European Parliament adopted its discharge resolution for the financial year 2016 on 18 April 2018 after having examined in particular the Council's discharge recommendation and the reports of the European Court of Auditors'. The European Parliament also examined the Commission's 2016 Annual Management and Performance Report for the EU Budget, including information on the protection of the EU budget, the Annual Report on internal audits carried out in 2016, and the report on the follow-up of the discharge recommendations/requests for the financial year 2015. The Parliament also invited selected Commissioners and Directors-General for exchanges of views during the discharge procedure.

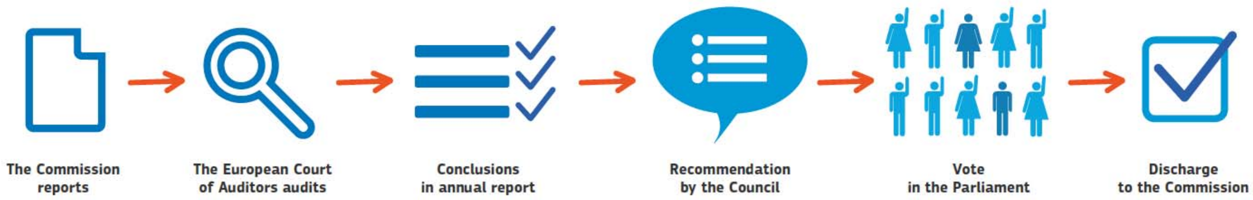
In its discharge recommendation adopted on 20 February 2018, the Council welcomed the gradual reduction of the estimated level of error reported by the European Court of Auditors in its Statement of Assurance from 4.4 % in 2014 to 3.1 % in 2016 and the fact that the Court gave for the first time a qualified opinion rather than an adverse one. However, the Council regretted that the overall error rate remained above the materiality threshold of 2 %. As has been the case for the last 9 years, the Council appreciated the clean opinion given by the European Court of Auditors on the reliability of the annual accounts.

The Parliament addressed concrete requests to the Commission on specific policy areas as well as on horizontal aspects such as performance and performance reporting, the use of financial instruments and related accountability issues, budgetary and financial management, and financial mechanisms supporting Union policies. In this context, Parliament especially highlighted the need for better aligning policy objectives, financial cycles and the legislative periods, of presenting the EU budget according to political objectives and priorities of the Multiannual Financial Framework (Budget Focused on Added Value Initiative) and of speeding up the delivery of programmes in various policy areas.

The Commission will, like every year, adopt a comprehensive report in 2018 on the follow-up of requests addressed by the European Parliament and the Council to the Commission in due time for the start of the discharge procedure for the financial year 2017.

The European Court of Auditors has also increased the number and scope of its Special Reports during the past few years. While the Court adopted 23 Special Reports in 2017, compared to 36 in 2016, the Commission is facing, overall, an increasing number of recommendations. It will continue to ensure an adequate follow-up of these recommendations, and report on the measures taken in its Annual Activity Reports. Moreover, the Commission is further improving its reporting on the implementation of recommendations to the Audit Progress Committee which performs certain monitoring activities under its mandate.

The European Court of Auditors monitors the Commission's implementation of its recommendations and provides feedback, helping the Commission to enhance its follow-up activities. In its 2016 Annual Report, the European Court of Auditors assessed the quality of the Commission's follow-up measures on the basis of a sample of 108 audit recommendations from 13 Special Reports published during the period 2010-2013. The European Court of Auditors noted that the Commission had implemented 67 % of the recommendations fully, 17 % were implemented in most respects and 11 % in some respects, while 5 % were not implemented. This outcome is broadly in line with previous years. However, the percentage of fully implemented recommendations was the highest since the European Court of Auditors started to publish these consolidated figures.



2.7. Conclusions on internal control and financial management achievements

All Authorising Officers by Delegation have provided reasonable assurance on their control systems and financial management although, where appropriate, qualified with reservations. These reservations are a keystone in the accountability chain: they provide transparency on the challenges and weaknesses encountered and on the measures to address them, while also providing an estimation of their financial impact.

The 2017 Annual Activity Reports demonstrate that all Commission departments have put in place solid internal controls and provide evidence of the efforts undertaken to improve control efficiency and cost-effectiveness, further simplify the rules and adequately protect the budget from fraud, errors and irregularities.

The Commission has produced a consolidated estimation of the amount at risk at closure, presenting the Commission management's view on the performance of both preventive (ex ante – before payment) and corrective (ex post – after payment) controls, over the multiannual control cycle.

Following ex ante and ex post controls, financial corrections and recoveries in 2017 amounted to EUR 897 million before payments and EUR 1 949 million after payments.

On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2017 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.

2.8. Organisational management

2.8.1 Robust governance arrangements

The Commission's governance system is characterised by a clear distinction between the operational responsibility of the Commission's managers for the day-to-day management of the budget and the overall political responsibility of the College of Commissioners for the management of the budget.

This decentralised system is supported by guidance and support from the central services and oversight from number of senior-level corporate governance bodies such as the Corporate Management Board and steering boards dedicated to IT governance, IT security and information management.

This system is based on a number of key principles underpinning good governance: a clear division of roles and responsibilities, a strong commitment to performance management, compliance with the legal framework, clear accountability mechanisms, a high quality and inclusive regulatory framework, openness and transparency, and high standards of ethical behaviour.

> *In the Commission, the roles and responsibilities in financial management are clearly defined and applied. This is a decentralised approach with clear responsibilities with the aim of creating an administrative culture that encourages civil servants to take responsibility for activities over which they have control and to give them control over the activities for which they are responsible.*

The decentralised model was introduced as part of the administrative reform of 2000. The model is now well-established and has proved to be a robust approach, well adapted to the Commission's role and structure. It has evolved over time to adapt to a changing environment[147].

The Commission continues to keep the system under review and to make targeted improvements where justified. For instance, during 2017, **risk management has been stepped up through revised guidance to services and by greater oversight at the** corporate level (via the Corporate Management Board) and involvement of the IAS.

A number of other steps to strengthen its governance arrangements have been taken following the Special Report of the Court of the European Court of Auditors on 'Governance at the European Commission – best practice?'[148]. For instance,

– The Commission has **updated its internal control framework**/ to bring it in line with the 2013 framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ; (see section 2.1 above).

– In October 2017, the Commission published an **updated statement of its governance arrangements.**[149]. This statement provides a clear and comprehensive description of the Commission's governance system.

– The Commission makes its **financial reporting more accessible** for citizens. For instance, the Integrated Financial Reporting Package provides a comprehensive overview of how the EU budget is supporting the Union's political priorities, and how it is spent in line with EU rules.

– The Commission's **Internal Audit Service has conducted its own audit on the Commission's governance and oversight arrangements and** has made a number of recommendations. The Commission is now following up on these recommendations, for example by clarifying the functions and responsibilities of the corporate bodies that play an increasingly important role in the Commission's corporate governance.

– **The Charter of the Audit Progress Committee (APC) was updated in April 2017**, to change the composition of the Audit Progress Committee, to simplify certain of its procedures and to improve the structure and readability of the document. The Charter establishes the role, purpose, responsibilities, membership and composition, values and operational principles, and reporting arrangements of the APC. One of the changes to the composition is the addition of a third external member.to provide fresh insights on audit and financial control issues.

2.8.2 Reinforced Code of Conduct for Commissioners

All Members of the European Commission are required to follow the rules regarding ethics and integrity contained in the treaties and the Code of Conduct for Commissioners while carrying out their duties.

On the occasion of his 2017 State of the Union address, President Juncker announced a new Code of Conduct for Members of the Commission. The new Code entered into force on 1 February 2018. It puts the Commission at the forefront of ethics in public sector organisations. The modernised rules set new standards in Europe. The new Code of Conduct continues President Juncker's push for greater transparency since the beginning of his mandate and **extends the 'cooling-off' period for former Commissioners from 18 months to two years and to three years for the President of the Commission**. The modernisation goes further by setting clearer rules and higher ethical standards as well as introducing greater transparency in a number of areas.

2.8.3 Strengthened performance framework

A robust performance framework is essential for ensuring a strong focus on results. EU added value and the sound management of EU programmes. The performance framework of the EU budget is highly specified, scoring higher than any country of the Organisation for Economic Co-operation and Development (OECD) (measured using the standardised index for performance budgeting frameworks.)

The performance framework for the EU budget includes well-specified objectives and indicators **based on the Europe 2020 strategy and other political priorities**. It also takes into account the complementarity and mainstreaming of policies and programmes and the key role of the Member States in implementing the EU Budget.

Objectives, indicators and targets are embedded in the legal bases of the financial programmes and every year the Commission reports on them through the Programme Statements that accompany the draft budget. They provide key necessary for programme scrutiny and performance measurement.

To ensure resources are allocated to priorities and that every action brings high performance and added value, the Commission continues to implement its EU Budget Focused on Added Value initiative. Building on the 2014–2020 performance framework, it promotes a better balance between compliance and performance.

The performance reports produced by the Commission, including the Annual Activity Reports, the programme statements, evaluations and this Annual Management and Performance Report, together provide a wealth of information on the performance, management and protection of the EU budget. They explain how the EU budget supports the European Union’s political priorities, the results achieved with the EU budget, and the role the Commission plays in ensuring and promoting the highest standards of budgetary and financial management.

The main vehicle of EU financial reporting is the Integrated Financial Reporting Package of the EU which comprises the consolidated annual accounts of the EU, the Annual Management and Reporting Package for the budget and the report on the follow-up to the discharge. The Integrated Financial Reporting Package provides the public with a comprehensive view of the financial and operational situation of the EU each year.

These reports allow the budgetary authority – the European Parliament and the Council - to take performance into account as a significant factor in deciding on the annual budget.

The Commission is proposing a significant reinforcement of the performance framework as part of the proposals for the programmes under the future Multiannual Financial Framework. For example, the indicators will be streamlined and improved.

In addition to implementing the performance framework for the EU budget, the Commission has also reformed and reinforced its own internal performance management framework – the Strategic Planning and Programming Cycle. As a result, **there is strengthened focus on results and better alignment between the Commission's activities and the political priorities.**

Under the new system, all Commission departments have produced Strategic Plans for the period 2016-2020, setting out how they contribute to the Commission's ten political priorities. Through these plans, departments define specific objectives and indicators against which their performance will be measured over a five-year period.

Annex 1 to this report provides a snap-shot of the current status for the impact indicators defined in the strategic plans.

The Strategic Plans also introduce a harmonised approach to measuring organisational performance in areas such as human resource management, financial management and internal control, and communication.

These strategic plans are supplemented by annual Management Plans setting out the outputs for the year and explaining how these contribute to the objectives.

The 2017 Annual Activity Reports have reported on the set of objectives and related indicators defined in the Strategic Plans and the outputs for 2017 in the Management Plans.

Integrated Financial Reporting Package	• Consolidated Annual Accounts of the EU • Annual Management and Performance Report for the budget • Report on the follow up to the discharge
Other Reports	• General Report on the activities of the EU • Annual Activity Reports of the Directorates-General • Report on Budgetary and Financial Management

Table: Reporting and accountability chain in the Commission:

2.8.4 Synergies and efficiencies

As explained above in section 2.1, the Commission continues to improve the efficiency of its operations and to harness the benefits from synergies between different parts of the organisation.

Major progress has been made in the area of financial management. The revised Financial Regulation will bring a considerable number of simplifications. Contractual and financial circuits are being simplified and harmonised, for example through a new platform establishing a single entry point for recipients and corporate support services (SEDIA). The Commission's proposals for the future Multiannual Financial Framework will also bring about a significant simplification of the rules for the EU financial programmes, reducing administrative burdening while still providing a high level of control.

The Commission's efforts to improve its organisational management go beyond financial management. The Court has reviewed[150] how the European Union institutions, bodies and agencies implemented the commitment made in the Interinstitutional Agreement of 2 December 2013 to cut 5 % of the staff in their establishment plans during the period 2013-2017. **The Court concluded that the Commission has succeeded in hitting the target of a 5 % staff reduction.**

This reduction has made it all the more necessary for the Commission to work efficiently given the wide range of challenges the EU is currently facing and the new tasks being given to the Union. The Commission's sustained efforts to improve efficiency and working methods in areas such as human resource management, information and communication technology, communication, logistics and events management will help to ensure that efficient use is made of scarce resources.

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ANNEXES 1 to 9

ANNEXES

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

2017 Annual Management and Performance Report for the EU Budget

List of annexes

Annex 1: Snapshot of the Commission-wide impact indicators

These statistical indicators are high-level context indicators designed to track the longer-term and indirect impacts of EU action. They were identified in the Strategic Plans of the Commission services. This annex presents an intermediate reporting on the current trends.

General objective: A New Boost for Jobs, Growth and Investment

1. Percentage of EU GDP invested in R&D (combined public and private investment)		
Baseline (2012) 2.01 %	Latest known value (2016) 2.03 %	Target (2020) 3 %
Source: Eurostat[151]		
2. Employment rate population aged 20-64		
Baseline (2014) 69.2 %	Latest known value (2016) 71.1 %	Target (2020) At least 75 %
Source: Eurostat		
3. Tertiary educational attainment, age group 30-34		
Baseline (2013) 37.1 %	Latest known value (2016) 39.1 %	Target (2020) At least 40 %
Source: Eurostat		
4. Share of early leavers from education and training152		
Baseline (2013) 11.9 %	Latest known value (2016) 10.7 %	Target (2020) Less than 10 %
Source: Eurostat		
5. People at risk of poverty or social exclusion		
Baseline (2013) 122.7 million	Latest known value (2016) 118.0 million	Target (2020) At least 20 million people fewer than in 2008 (116.2 million)
Source: Eurostat		
6. GDP growth		
Baseline (2014) 1.8 %	Latest known value (2016) 2.0 %	Target (2020) Increase
Source: Eurostat		
7. Gross Fixed Capital Formation (GFCF) investments to GDP ratio		
Baseline (2014) 19.4 %	Latest known value (2016) 19.8 %	Target (2016-2020) 21 %-22 %
Source: Eurostat		
8. Labour productivity EU-28 as compared to US (US=100)[153]		
Baseline (2014) 75	Latest known value (2016) 76	Target (2020) Increase
Source: AMECO database of the European Commission's Directorate-General for Economic and Financial Affairs		

9. Resource productivity: Gross Domestic Product (GDP, €) over Domestic Material Consumption (DMC, kg)[154] Explanation:		
Baseline (2010 – Eurostat estimate)	Latest known value (2016)	Target (2020)
1.8 €/kg (EU-28)	2.1€/kg (EU-28)	Increase
Source: Eurostat		

General objective: A Connected Digital Single Market

10. Aggregate score in Digital Economy and Society Index (DESI) EU-28[155]		
Baseline (DESI 2015)	Latest known value (DESI-2017)	Target (2020)
0.46	0.52	Increase
Source: DESI		

General objective: A Resilient Energy Union with a Forward-Looking Climate Change Policy

11. Greenhouse gas emissions (index 1990=100)		
Baseline (2013)	Latest known value (2016 prox. estimates by EEA)	Target (2020)
80.2 %	77.4 %	At least 20 % reduction (index ≤80)
Source: European Environmental Agency; Eurostat		

12. Share of renewable energy in gross final energy consumption				
Baseline (2013)	Interim Milestone (2015/2016)	Interim Milestone (2017/2018)	Latest known value (2015)	Target (2020)
15 %	13.6 %	15.9 %	16.7 %	20 %
Source: Eurostat				

13. Increase in energy efficiency – Primary energy consumption		
Baseline (2013)	Latest known value (2015)	Target (2020)
1 569.9 million tonnes of oil equivalent (Mtoe)	1 529.6 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency (No more than 1 483 Mtoe of primary energy consumption)
Source: Eurostat		

14. Increase in energy efficiency – Final energy consumption		
Baseline (2013)	Latest known value (2015)	Target (2020)
1 106.2 million tonnes of oil equivalent (Mtoe)	1 082.2 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency (No more than 1 086 Mtoe of final energy consumption)
Source: Eurostat		

15. Number of Member States at or above the electricity interconnection target of at least 10 %			
Baseline (2014)	Interim Milestone(2018)	Latest known value (2017)	Target (2020)
16 Member States at or above 10 % electricity interconnection target	19 Member States at or above 10 % electricity interconnection target	17 Member States at or above 10 % electricity interconnection target	24 Member States at or above 10 % electricity interconnection target (Spain and Cyprus to follow later)
Source: ENTSO-e			

General objective: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

16. Gross value added of EU industry in GDP		
Baseline (2014)	Latest known value (2016)	Target (2020)
17.1 %	17.4 %	20 %
Source: Eurostat		

17. Intra-EU trade in goods (% of GDP)		
Baseline (2014)	Latest known value (2015)	Target (2020)
20.4 %	20.3 %	Increase
Source: Eurostat		

18. Intra-EU trade in services (% of GDP)		
Baseline (2014)	Latest known value (2015)	Target (2020)
6.3 %	6.6 %	Increase
Source: Eurostat		

19. Share of mobile EU citizens as % of the labour force		
Baseline (2014)	Latest known value (2016)	Target (2020)
3.4 %	3.9 %	Increase
Source: Eurostat (age group 15-64)		

20. Composite indicator of financial integration in Europe (FINTEC)[156]		
Baseline (2014)	Latest known value (2017)	Target (2020)
0.5/0.3 The first entry is the price-based, the second the volume-based indicator value.	0.56/0.28	Increase
Source: European Central Bank		

General objective: A Deeper and Fairer Economic and Monetary Union

21. Dispersion of GDP per capita[157]		
Baseline (2014)	Latest known value (2016)	Target (2020)
Euro area: 42.3 %	42.0 %	Reduce
EU 27: 41.9 %	41.5 %	Reduce
EU 28: 42.5 %	42.1 %	Reduce
Source: Eurostat		

22. Composite Indicator of Systemic Stress (CISS)[158]		
Baseline (Average range 2010-2014)	Latest known value (2017)	Target (2020)
0.25 in normal times 0.8 in a crisis mode	0.0308	Stable trend
Source: European Central Bank		

23. Income quintile share ratio[159]		
Baseline (2014)	Latest known value (2016)	Target (2020)
5.2	5.2	Reduce
Source: Eurostat		

General objective: A balanced and progressive trade policy to harness globalisation

24. Percentage of EU trade in goods and services as well as investment covered by applied EU preferential trade and investment agreements

Baseline Goods average for 2014-2016, Services and FDI average for 2013-2015	Latest known value (2017) Goods, Services and FDI average for 2014-2016	Milestone** (2018)	Target** (2020)
Goods: Imports 27 % Exports 32 % Total 29 %	Goods: Imports 27 % Exports 32 % Total 30 %	Goods: Imports 32 % Exports 37 % Total 34 %	Goods: Imports 51 % Exports 61 % Total 56 %
Services: Imports 10 % Exports 9 % Total 9 %	Services: Imports 10 % Exports 10 % Total 10 %	Services: Imports 15 % Exports 15 % Total 15 %	Services: Imports 54 % Exports 52 % Total 53 %
FDI stocks: Imports 4 % Exports 7 % Total 6 %	FDI stocks: Imports 4 % Exports 7 % Total 6 %	FDI stocks: Imports 9 % Exports 13 % Total 11 %	FDI stocks: Imports 55 % Exports 59 % Total 57 %

Source: Eurostat for the raw indicators and DG Trade for the list of countries covered by trade and investments agreements*
Source of goods: Eurostat
Source of services: Eurostat
Source of FDI stocks: Eurostat

* See agreements under "In place" and "Agreements partly in place".
** The milestone and target figures are based on expectations of provisional application/entry into force of agreements that are currently under negotiation (see also result indicator 1.1 : "Number of on-going EU trade and investment negotiations and number of applied EU trade and investment agreements" of DG TRADE's Strategic Plan 2016-2020).

General objective: An Area of Justice and Fundamental Rights Based on Mutual Trust

25. Share of the population considering themselves as "well" or "very well" informed of the rights they enjoy as citizens of the Union

Baseline (2015)	Latest known value	Target (2020)
42 %	Next survey planned for 2019	Increase

Source: Eurobarometer on Citizenship

26. Citizens experiencing discrimination or harassment

Baseline (2015)	Latest known value	Target (2021) The Eurobarometer takes place every 3 years.
21 %	Next survey planned for 2019	Decrease

Source: Eurobarometer on discrimination

27. Gender Pay Gap (GPG) in unadjusted form, EU-28[160]

Baseline (2013 - provisional figure)	Latest known value (2015)	Target (2020)
16.8 %	16.3 %	Decrease

Source: Eurostat

General objective: Towards a New Policy on Migration[161]

28. Rate of return of irregular migrants		
28.1. Explanation: The indicator measures the total return rate (number of persons returned divided by return decisions issued by the Member States)		
Baseline (2014) 41.8 %	Latest known value (2016) 50.6 %	Target (2020) Increase
Source: Eurostat[162], DG HOME; Eurostat: Return decisions; Eurostat: Total number of persons returned		
28.2 Explanation: The indicator measures the % of effective returns to third countries (returns to third countries divided by return decisions issued by the Member States)		
Baseline (2014) 36.2 %	Latest known value (2016) 46.3 %	Target(2020) Increase
Source: Eurostat: Return decisions; Eurostat Returns to third countries		
29. Gap between the employment rates of third-country nationals compared to EU nationals163, age group 20-64		
Baseline (2014) Gap: 13.4 points EU nationals: 69.8 % Third-country nationals: 56.4 %	Latest known value (2016) Gap: 15.3 points EU nationals: 71.8 % Third-country nationals: 56.5 %	Target (2020) Decrease
Source: Eurostat		

General objective: A Stronger Global Actor

30. GDP per capita (current prices-PPS) as % of EU level in countries that are candidates or potential candidates for EU accession		
Baseline (2014) 34 % for Western Balkans (excluding Kosovo[164]) 64 % for Turkey	Latest known value (2016) 35 % for Western Balkans (excluding Kosovo[165]) 64 % for Turkey	Target (2020) Increase
Source: Eurostat		
31. Ranking to measure political stability and absence of violence in countries part of the European Neighbourhood Policy (ENP)[166]		
Baseline (2014) NE*: 33.89 - 4 countries above 30 NS**: 11.99 - 4 countries above 10	Latest known value (2016) NE: 28.41 – 3 countries above 30 NS: 13.14 -5 countries above 10	Target (2020) NE: decrease in the number of countries above 30 by 1 NS: increase in the number of countries above 10 by 1
* Neighbourhood East (NE): Number of countries in a percentile rank above 30. ** Neighbourhood South (NS): Number of countries in a percentile rank above 10. Source: Worldwide Governance Indicators (WGI) project (WB group)		

32. Sustainable Development Goal 1.1.1: Proportion of population below international poverty line			
Baseline[167] (Computed on country level data from 2012 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2017 to take into account data revisions)	Interim Milestone	Latest known value (Computed on country level data from 2016 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2017)	Target (2030) UN Sustainable Development Goals
17.0 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out)	Rolling On course for 2030 based on annual progress report prepared by UN Secretary General.	15.1 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out)	0 %
28.4 % (excluding the graduated countries)		26.7 % (excluding the graduated countries)	
Source: World Bank (poverty rate); UN Population Division (population weights)			

General Objective: EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI: a) in total, b) to LDCs (Least Developed Countries)

33. EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI: a) in total, b) to LDCs (Least Developed Countries)			
Baseline (2014)	Interim Milestone (2020)	Latest known value (2015)	Target (2030) Council Conclusions of 26 May 2015, in the framework of the 2030 Agenda for Sustainable Development
In total: 0.43 % To LDCs: 0.11 %	In total: n/a To LDCs: 0.15 %	In total: 0.47 % To LDCs: 0.11 %	In total: 0.70 % To LDCs: 0.20 %
Based on analysis of final 2014 ODA spending by EU Member States and non-imputed spending by the EU institutions as reported by the OECD DAC. Final data for two EU Member States was not available so earlier data was extrapolated.			
Source: OECD Development Assistance Committee (DAC)			

General objective: A Union of Democratic Change

34. Voter turnout at European Elections		
Baseline (2014)	Latest known value (insert also date)	Target (2019)
42.61 %	No new value	Increase
Source of the data: European Parliament		

35. Number of opinions received from National Parliaments[168]			
Baseline (2014)	Latest known value		Target (2020)
	(2016)	(30/9/2017)	
506	620	417	Increase
Source: European Commission Annual report on relations between the European Commission and national parliaments			

General objective: To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents

36. Trust in the European Commission		
Baseline (EB 83 – Spring 2015)	Latest known value (EB 87 – Spring 2017)	Target (2020)
40 % tend to trust	41 % tend to trust	Increase
Source: Standard Eurobarometer on Public Opinion in the European Union		

37. Staff engagement index in the Commission		
Baseline (2014)	Latest known value (2016)	Target (2020)
65.3 %	64.3 %	Increase
Source: European Commission		

Annex 2: Amounts at risk and reservations in the 2017 Annual Activity Reports

2-A. Overall estimated amount at risk at closure (EUR millions) reported in the 2017 Annual Activity Reports

The following tables show a consolidated overview of the Commission's overall amount at risk at closure, **first per policy area and next per department** (in its entirety per Authorising Officer by Delegation). To allow comparison with previous Annual Management and Performance Reports, our groupings of Commission departments is kept stable. Consequently, our policy areas do not necessarily equal the European Court of Auditors Annual Report chapters (of which the number, the titles and even the compositions have changed in each of the at least 4 previous years). E.g. "*Cohesion, Migration and Fisheries*" includes all other departments (beyond the Agriculture department) which execute the largest part(s) of their budget in shared management mode; i.e. not only the Regional and Employment departments (which are indeed *cohesion*), but also the Maritime and Home Affairs departments (which are resp. *natural resources* and *security & citizenship*).

The Development department and thus the Commission Total also include the **European Development Fund** relevant expenditure. In addition, the Development, Neighbourhood, Humanitarian, Home Affairs, Regional and Employment departments and thus the Commission Total also include the **EU Trust Funds** relevant expenditure[169].

Those departments ensure the transparent and complete coverage of the relevant Trust Fund(s) in their Annual Activity Report (based on the reports from the Trust Fund Managers). Their accountability for their contributions (from the EU budget and/or the European Development Fund) paid into the Trust Funds on the one hand, and for the transactions made out of the Trust Funds (i.e. with the EU budget, European Development Fund and other donors' funds) as a Trust Fund Manager on the other hand, is distinguished.

2017 (provisional) annual accounts	Payments made	- New Prefinancing	+ Retentions made	+ Cleared Prefinancing	- Retentions released	= Relevant expenditure
EU budget	133 294	- 29 708	2 311	16 790	- 701	121 986
of which: contributions to the EU Trust Funds	*- 233*					*- 233*
European Development Fund	4 158	- 2 648		1 818		3 328
of which: contributions to the EU Trust Funds	*- 150*					*- 150*
EU Trust Funds	730	- 676		27		81
Commission Total (*)	**137 799**	**- 33 032**	**2 311**	**18 635**	**- 701**	**125 012**

*For the **reconciliation** of the relevant expenditure of the Development, Neighbourhood, Humanitarian, Home Affairs, Regional, Employment, Research and Budget departments, and of the Innovation and Networks Executive Agency, see the overall amount at risk tables and related footnotes in their Annual Activity Reports.*

Full specifications of the tables columns [“(a) – (i)”]

(a) In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated departments (*since 2017 also for Type 3*). In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating departments (*the reporting on the latter is being reconsidered for 2018*).
Co-Delegations Type 1 are actually 'divided' between departments, with each department duly covering its own 'share' of (both) payments and pre-financings.
PS: "Pre-financings paid/cleared" are always covered by the Delegated departments, even in the case of Cross-SubDelegations.

(b) New pre-financing paid by 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).

(c) In Cohesion, the (10 %) retention made

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

(e) In Cohesion, the (10 %) retention which is released or (partially) withheld by the Commission

(f) For the purpose of equivalence with the European Court of Auditors' scope of the Commission funds with potential exposure to legality and regularity errors (*see the European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 10*), also our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out [& adds the retentions made], and adds the previous pre-financing actually cleared [& subtracts the retentions released and those (partially) withheld; and any deductions of expenditure made by Member States in the annual accounts] during the financial year. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(g) In order to calculate the weighted Average Error Rate for the total relevant expenditure in the reporting year, the detected or equivalent[170] error rates have been used. For types of low-risk expenditure with indications that the error rate might be close to 'zero' (e.g. administrative expenditure, operating subsidies to agencies), a 0.5 % error rate has nevertheless been used as a conservative estimate.

(h) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections, which is the best available estimate of the corrective capacity of the ex-post control systems implemented by the department over the past years, the Authorising Officer by Delegation has adjusted this historic average. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best but conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes[171]. Consequently, estimates are not necessarily comparable between (families of) departments.

(i) For some programmes with no set closure point (e.g. European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible afterwards (e.g. European Agricultural Fund for Rural Development and European Structural and Investment Funds), all corrections that remain possible are considered for this estimate.

When a department uses ranges of 'minimum-maximum' values for its estimates, then the columns are ‘split’ accordingly.

It should be noted that due to the rounding of values into EUR millions, some financial data in the tables may appear not to add up.

*For the **reconciliation** of the relevant expenditure of the Development, Neighbourhood, Humanitarian, Home Affairs, Regional, Employment, Research and Budget departments, and of the Innovation and Networks Executive Agency, see the overall amount at risk tables and related footnotes in their Annual Activity Reports.*

Policy area	Total payments (a)	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs (e)	Total relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)	Estimated amount at risk at payment (g) = Average Error Rate applied on (f)		Estimated future corrections (h) = Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) = (g)-(h)	
							lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	55 872.0	98.9										
Cohesion, Migration and Fisheries	39 234.0	11 502.9										

External Relations	13 609.5	8 977.2											
Research, Industry, Space, Energy and Transport	15 526.2	8 593.0											
Other Internal Policies	6 983.5	3 379.5											

Other Services & Administration	6 612.8	83.1											
Reconciliations	-39.2	397.9											
Total 2017	**137 798.8**	**33 032.5**											

Total 2016													

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								l	h	l	h	lowest value	highest value
Agriculture	AGRI	55 872.0	98.9	-	183.9	-	55 957.0	1 243.6	1 243.6	1 173.9	1 173.9	69.7	69.7
Cohesion, Migration and Fisheries	EMPL	10 357.1	2 372.0	645.3	349.6	300.9	8 679.0	91.5	91.5	0.1	0.1	91.5	91.5
		1 705.4	1 179.8	-	1 182.0	-	1 707.5	26.9	26.9	14.3	14.3	12.6	12.6
		510.7	170.8	19.0	84.8	6.2	437.5	2.3	2.3	-	-	2.3	2.3

		26 660.8	7 780.3	1 646.5	1 576.9	394.0	21 709.8	238.0	238.0	-	-	238.0	238.0
External Relations	DEVCO	7 389.1	4 499.2	-	3 337.1	-	6 227.0	83.0	83.0	13.1	13.1	69.9	69.9
		2 370.3	1 980.4	-	1 146.5	-	1 536.4	16.6	16.6	6.1	6.1	10.4	10.4
		574.1	501.6	-	353.6	-	426.1	8.1	8.1	1.7	1.7	6.4	6.4
		3 260.8	1 991.6	-	1 162.5	-	2 431.8	23.9	23.9	7.5	7.5	16.4	16.4
		15.2	4.4	-	1.4	-	12.2	0.1	0.1	-	-	0.1	0.1
Research, Industry, Space, Energy and Transport	CNECT	1 720.9	758.9	-	748.3	-	1 710.3	67.0	67.4	20.7	20.7	46.3	46.7
		1 147.2	724.0	-	284.2	-	707.4	19.9	20.4	1.1	1.1	18.9	19.4
		1 343.2	1 116.0	-	833.9	-	1 061.1	6.8	6.8	2.4	2.4	4.3	4.3
		1 601.2	672.2	-	557.2	-	1 486.2	16.1	16.1	3.9	3.9	12.2	12.2
		1 936.1	1 759.1	-	286.7	-	463.7	6.9	6.9	3.0	3.0	3.9	3.9

Polic		T	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs	Total relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)	Estimated amount at risk at payment (g) = Average Error		Estimated future corrections (h) - Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) =	
		2 460.1	1 378.9	-	1 418.0	-	2 499.2	30.3	37.7	6.3	7.5	24.1	30.2
		414.0	160.5	-	128.7	-	382.2	4.6	4.6	3.2	3.2	1.4	1.4
		1 697.2	1 102.1	-	739.2	-	1 334.3	33.4	33.4	5.5	5.5	27.9	27.9
		3 206.3	921.3	-	1 418.7	-	3 703.7	117.3	120.0	37.6	37.6	79.7	82.4
Other Internal Policies	CHAFEA	80.7	28.0	-	43.4	-	96.1	1.3	1.3	0.7	0.7	0.6	0.6
		27.9	8.9	-	11.4	-	30.5	-	-				
		122.7	12.0	-	9.3	-	120.0	1.3	1.3	0.1	0.1	1.1	1.1
		2 358.4	2 304.5	-	1 411.5	-	1 465.3	14.7	14.7	0.2	0.2	14.5	14.5
		635.9	512.3	-	513.9	-	637.6	10.5	10.5	2.2	2.2	8.3	8.3

								Rate applied on (f)				(g)-(h)	
Other Internal Policies	ECFIN	2 841.6	15.1	-	2.6	-	2 829.1	1.6	1.6	-	-	1.6	1.6
	ENV	220.8	153.1	-	195.8	-	263.5	2.2	2.2	0.8	0.8	1.4	1.4
		169.8	141.5	-	115.5	-	143.8	1.7	1.7	1.0	1.0	0.7	0.7
		425.3	192.8	-	144.4	-	377.0	5.0	6.2	1.8	1.8	3.2	4.4
		100.4	11.3	-	13.0	-	102.1	0.6	0.6	-	-	0.6	0.6
Other Services & Administration	BUDG	11.6	-	-			11.6	0.1	0.1	-	-	0.1	0.1
		5.4	0.3	-	0.2	-	5.3	-	-				

		17.2	-	-			17.2	0.1	0.1	0.1	0.1	-	-
		267.9	-	-			267.9	1.3	1.3	-	-	1.3	1.3
		0.2	-	-			0.2	-	-				
	EUSA	7.8	-	-			7.8	-	-				
		49.6	3.7	-	6.0	-	51.9	0.1	0.1	0.1	0.1	0.1	0.1
		49.1	39.7	-	35.3	-	44.7	0.2	0.2	0.1	0.1	0.1	0.1
		278.6	-	-	0.8	-	279.4	-	1.1	-	-		1.1
		-					-						
		210.7	4.8	-	0.9	-	206.8	1.0	1.0	0.1	0.1	0.9	0.9
		360.6	-	-			360.6	-	1.8	-	0.2	-	1.6
		96.9	-	-			96.9	-	-				

		33.3	7.5	-	7.3	-	33.2	0.3	0.3	-	-	0.3	0.3
		71.4	-	-			71.4	-	-				
		5 043.0	-	-			5 043.0	5.8	5.8	-	-	5.8	5.8

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
												lowest value	highest value
	SCIC	61.1	0.7	-	0.6	-	60.9	0.3	0.3	-		0.3	0.3
		8.8	2.3	-	2.2	-	8.7	-					
		3.2	-				3.2	-					
		36.4	24.1	-	7.4	-	19.7	0.2	0.2	-		0.1	0.2
		-					-						
Reconciliations		-39.2					-						

TOTAL	**137 798.8**	**33 032.5**	**2 310.8**	**18 635.4**	**701.1**	**125 011.4**	**2 084.6**	**2 099.7**	**1 307.6**	**1 309.0**	**777.0**	

2-B. Summary of reservations (EUR millions) reported in the 2017 Annual Activity Reports

I. Expenditure – *current* programmes

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity[172]	Amount at risk at reporting = exposure
Agriculture	EAGF market measures (5 elements of reservation in 3 MS)	AGRI	Quantified	55.2
	EAGF direct payments (15 paying agencies in 8 MS)	AGRI	Quantified	394.0
	EAFRD expenditure for rural development measures (22 paying agencies in 15 MS)	AGRI	Quantified	320.5
Cohesion, Migration and Fisheries	2014-2020 European Regional Development Fund / Cohesion Fund (17 programmes in 9 MS and one European Territorial Cooperation programme)	REGIO	Quantified	79.0
	2014-2020 European Social Fund. Youth Employment Initiative. Fund for European Aid to the most Deprived (ESF/YEI/FEAD) (15 programmes in 6 MS)	EMPL	Quantified	21.1
	2014-2020 Management and control systems for the Asylum, Migration and Integration Fund (AMIF) (Finland, Greece) and the Internal Security Fund (ISF) (Finland)	HOME	Quantified for Finland. Non-quantified for Greece	1.2
External Relations	Direct management grants – incl. cross-delegation	DEVCO	Quantified	21.2
	Programmes managed by the African Union Commission (AUC) involving a significant level of procurement	DEVCO	Quantified	5.5
	Instrument for Cooperation with Industrialised countries (ICI)	FPI	Quantified	3.5
	Direct management grants	NEAR	NEW; Quantified	13.2
	Projects in Syria and Libya. for which no assurance building is possible (no staff access to projects or auditors' access to documents)	NEAR	Non-quantified	0.0
Research, Industry, Space, Energy and Transport	Research Fund for Coal and Steel (RFCS)	RTD	Quantified	2.3
Other Internal Policies	Internal control system partially functioning	EACEA	NEW; Non-quantified	0.0
	European Asylum Support Office (EASO) - management and control systems weaknesses	HOME	NEW; Non-quantified	0.0
	Non-research grant programmes	HOME	Quantified	6.3
	Non-research grant programmes	JUST	Quantified	1.3
	EU Registry Emissions Trading System (EU ETS) - significant security weakness remaining	CLIMA	Non-quantified	0.0
Other Services & Administration	Direct management grants (limited assurance building)	SRSS	NEW; Non-quantified	0.0
			TOTAL	924.3

II. Expenditure – '*legacy*' programmes

Policy Area		Description of reservation	Dept.	Impact on Legality and Regularity	Amount at risk at reporting = exposure
Agriculture		(none)			
Cohesion, Migration and Fisheries		2007-2013 European Regional Development Fund / Cohesion Fund / Instrument for Pre-Accession (20 programmes in 7 Member States and European Territorial Cooperation programmes, plus one Cross Border Cooperation programme)	REGIO	Quantified	30.8
		2007-2013 European Social Fund (18 programmes in 9 MS)	EMPL	Quantified	0.9
		2007-2013 European Fisheries Fund (EFF) (5 programmes in 5 MS)	MARE	Non-Quantified	0.0
		2007-2013 Solidarity and Management of Migration Flows (SOLID) general programme: Germany: European Refugee Fund (ERF) and European Integration Fund (EIF); United Kingdom: European Integration Fund (EIF) and European Return Fund (RF)	HOME	Quantified for Germany. Non-quantified for the UK	1.6
External Relations		(none)			
Research, Industry, Space, Energy and Transport	FP7	Research FP7 – incl. cross-delegations	RTD	Quantified	50.0
		Research FP7 – incl. funds paid to AAL Association and ECSEL Joint Undertaking	CNECT	Quantified	22.5
		Research FP7 – incl. FP7 funds paid to GSA Agency and cross-delegation	GROW	Quantified	0.1
		Research FP7	HOME	Quantified	0.2
		Research FP7	ENER	Quantified	2.5
		Research FP7	MOVE	Quantified	0.4
		Research FP7 - Space and Security	REA	Quantified	5.8
		Research FP7 - Small and Medium Enterprises	REA	Quantified	4.3
	CIP	CIP (Competitiveness and Innovation Programme)	GROW	Quantified	0.3
		CIP ICT Policy Support Programme (PSP)	CNECT	Quantified	4.9
		CIP Intelligent Energy Europe (IEE II)	EASME	Quantified	0.8
		CIP Eco-Innovation	EASME	Quantified	0.6
Other Internal Policies	EAC	2007-2013 Lifelong Learning Programme (LLP)	EACEA	Quantified	1.7
		2007-2013 Culture Programme	EACEA	Quantified	1.1
		2007-2013 Youth Programme	EACEA	Quantified	0.0
Other Services & Administration		(none)			
				TOTAL	**128.6**

III. Revenue

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Amount at risk at reporting = exposure
Revenue	Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK	BUDG	Quantified	430.7
			TOTAL	**430.7**

Annex 3: Definitions of the amount at risk

The Commission measures the **level of error** for assessing whether financial operations have been implemented in compliance with the applicable regulatory and contractual provisions. The level of error is defined as the **best estimation** by the authorising officer, taking into account **all relevant information** available and using **professional judgement**, of the expenditure or revenue found to be in breach of applicable regulatory and contractual provisions at the time the financial operations were authorised.

The Commission uses three indicators to measure the level of error:

- **Amount at risk** is the level of error expressed as an absolute amount, in value
- **Error rate** is the level of error expressed as a percentage
- **Residual error rate** is the level of error after corrective measures have been implemented, expressed as a percentage

The level of error is measured at various moments in time:

- At the **time of payment**; when no corrective measures have been yet implemented
- At the **time of reporting**; when some corrective measures have been implemented but others will be implemented in successive years
- At the **time of closure**; when all corrective measures will have been implemented. *For multiannual programmes this refers to the end of programme implementation; for annual programmes this is calculated at the end of a multiannual period covering the implementation of corrective measures, depending on the programme.* [173]

The term **corrective measures** refers to the various (*ex-post*) controls implemented after expenditure is declared to the Commission and/or the payment is authorised[174], aimed to identify and correct errors through financial corrections and recoveries.

The **estimated future corrections** is the amount of expenditure in breach of applicable regulatory and contractual provisions that the Authorising Officer by Delegation conservatively estimates s/he will still identify and correct through (*ex-post*) controls implemented *after* the payment is authorised, i.e. not only including corrections already implemented at the time of reporting but also those that will be implemented in subsequent year(s). The estimates can be based on the average amount of financial corrections and recoveries in past years, but adjusted when necessary in particular to neutralise (i) elements which are no longer valid under the current legal framework and (ii) ex-ante and/or one-off events.[175]

These concepts have the "**relevant expenditure**"[176] potentially at risk as calculation basis, which includes the payments made, subtracts the new pre-financing paid out (still owned by the Commission), and adds the previous pre-financing cleared (ownership transferred) during the financial year [177] This is a 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general accounting.

As a result, in terms of exposure, the Commission presents **three types of amount at risk**, calculated as follows:

- The overall **Amount at Risk at Payment** in the relevant expenditure is calculated based on the Detected Error Rates (in %) or its equivalents[178] for the expenditure segments, leading up to their total weighted Average Error Rates. Consequently, these are 'gross' types of error rates – which are closest[179] but not directly comparable to the European Court of Auditors' Most Likely Error rate and its range)[180].
- The **Amount at Risk at Reporting** *from the reservations* is calculated based on the Residual Error Rate (in %). This is typically a (cumulative) weighted average of the population segments audited and already cleaned (remaining error near 0 %) versus not (yet) audited (so presumed to be still affected by the Detected Error Rate). This concept assumes that the errors found and the corrections made so far in previous years (up to the time of reporting) apply similarly to the relevant expenditure of the reporting year as well. Consequently, this is an 'intermediate' type of error rate – up to that moment in the management cycle. *However, as this concept is based on (quantified*[181]*) Annual Activity Report Reservations only, it is not an "overall" concept given that it does not cover at all any relevant expenditure in the population which is not under reservation (i.e. for which the Residual Error Rate is not higher than 2 %).*

- The overall **Amount at Risk at Closure** in the relevant expenditure is an estimated figure calculated by subtracting the Estimated Future Corrections from the Amount at Risk at Payment. Consequently, this is a 'net' type of error rate (in amount and/or in %) – forward-looking to the point when all recoveries and corrections will have been made.

Annex 4: Protection of the EU Budget

This Annex describes the functioning of the preventive and corrective mechanisms foreseen in the legislation and the actions taken by the Commission services to protect the EU budget from illegal or irregular expenditure. It also provides a best estimate of the financial effects these mechanisms have and indicates how Member States are involved and impacted. The following information focuses primarily on the results of the Commission's supervisory role, but also provides an insight into the results of Member States' controls.

Key considerations for the protection of the EU budget

One important objective of the Commission's "budget focused on results" strategy is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness.

In **2017**, financial corrections and recoveries **confirmed** amount to **EUR 2 662 million**. During **the period 2011-2017** the **average amount confirmed** was **EUR 3 306 million** which **represents 2.4 % of the average amount of payments** made from the EU budget. The figures reported confirm the positive results of the multi-annual preventive and corrective activities undertaken by the Commission and the Member States by demonstrating that these activities ensure that the EU budget is protected from expenditure in breach of law.

Under shared management the Member States are primarily responsible for identifying and recovering from beneficiaries amounts unduly paid. Controls carried out by Member States represent the first layer of control in the activities to protect the EU budget. The Commission can apply preventive measures and/or financial corrections on the basis of irregularities or serious deficiencies identified by Member State authorities, on the basis of its own verifications and audits, European Anti-Fraud Office investigations or as a result of audits by the European Court of Auditors.

For shared management, the Commission increasingly uses a number of preventive mechanisms and encourages Member States to address weaknesses in their management and control systems so as to prevent irregular expenditure. The Commission applies corrective mechanisms as a last resort where preventive mechanisms were not effective.

For **Cohesion** and the **European Agricultural Fund for Rural Development** (**EAFRD**), the vast majority of the financial corrections confirmed/implemented in 2017 relate to the 2007-2013 programmes.

The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2017 or in previous years. Overall, 92 % of the total financial corrections decided have been implemented by the end of 2017.

Agriculture and Rural Development

For the **European Agricultural Guarantee Fund (EAGF)**, the average correction rate for Commission financial corrections under conformity clearance of accounts for the **period 1999 to end 2017** was **1.8 % of expenditure** (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development. In 2017, the main corrections related notably to specific deficiencies in the Integrated Administration and Control System (IACS) in some Member States and insufficient checks of the reasonableness of costs for investments measures and application of the public procurement rules under rural development or negligence in the management of recoveries and other debts.

The Commission now applies a number of preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. In 2017, the Commission has issued decisions - related to Common Agriculture Policy - related for interruptions of EUR 23 million, for the reduction of payments of EUR 291 million, and for suspensions of EUR 3 million.

For both **European Agricultural Guarantee Fund** and **European Agricultural Fund for Rural Development**, where deficiencies are identified in management and control systems, the Member States concerned are required to put in place appropriate remedial action plans in the paying agencies concerned. If the deficiencies are not remedied in line with an action plan in a timely manner, the Commission may suspend or reduce payments.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 546 million at the end of the financial year 2017.

Cohesion

For the **European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF)** 2007-2013 funds, at the end of 2017 the combined rate of financial corrections, based on Commission supervision work only, was 1.9 % of the allocations made.

For Cohesion Policy (2007-2013), net corrections are rather exceptional, due to the different legal framework and budget management type (reinforced preventive mechanism). Where the Commission identifies individual irregularities (including ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the European Regional Development Fund, Cohesion Fund or European Social Fund and reimbursed by the Commission is in line with the applicable rules.

During the 2000-2006 and 2007-2013 programme periods, Member States were able to replace irregular expenditure with new expenditure if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period).

The European Court of Auditors recently assessed the effectiveness of preventive and corrective measures taken by the Commission in cohesion policy for the 2007-2013 period[182] and concluded that overall the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure and that the Commission’s corrective measures put pressure on Member States to address weaknesses in their management and control systems.

The regulatory provisions for the 2014-2020 period significantly strenthen the Commission's position on protecting the EU budget from irregular expenditure.

This is mainly due to the set-up of the new assurance model for the 2014-2020 programming period, which reduces the risk of having a material level of error in the accounts on a yearly basis. In fact, the new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. During the accounting year the Commission retains 10 % of each interim payment until the finalisation of all national control cycles. Timely identification of deficiencies in the functionning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting their annual accounts to the Commission.

For the period 2014-2020, the Member States have applied in 2017 financial corrections totalling EUR 97 million for **European Regional Development Fund/Cohesion Fund**, while the financial corrections imposed for **European Social Fund (ESF), Youth Employment Initiative (YEI) and the Fund for European Aid to the most Deprived (FEAD)** amounted to EUR 190 million.

Direct and Indirect Management

The Commission has established a control framework in direct and indirect management which focuses on ex-ante checks on payments, in-depth ex-post checks carried out at the beneficiaries' premises after costs have been incurred and declared, and verification missions to international organisations. Net corrections leading to a reimbursement to the EU budget are characteristic for direct and indirect management.

Specific control frameworks are put in place for spending under direct and indirect management covering primarily the grant management process, because this addresses existing risks.

1. Financial corrections and recoveries at end 2017

1.1. Financial corrections and recoveries 2017

MFF Heading		Total financial corrections confirmed in 2017	Total recoveries confirmed in 2017	Total financial corrections and recoveries confirmed in 2017	% of payments of the EU budget	Total financial corrections implemented in 2017	Total recoveries implemented in 2017	Total financial corrections and recoveries implemented in 2017	% of payments of the EU budget
Smart & inclusive growth	**57 030**	**5**		**8**		**4**		**7**	
ER						1		1	
Coh									
						2		2	
ESF						2		2	
Inte									

Sus		**1**		**1**		**1**		**1**	
EA Rur FIF						1		1	

EA Inte		I				N			
Sec								**2**	
Migr Inte							1	1	

Glo							**2**	**2**	
Ext								2	
Ad								**3**	
Ad							3	3	
Tot		**1**		**2**		**2**	**8**	**2**	

Table 1.1: Financial corrections and recoveries overview for 2017[185] in EUR millions.

** Excludes EUR 1 291 million paid out under the Special Instruments heading.*

1.1.1. Agriculture and Rural Development

The **financial corrections**[186] confirmed by the Commission in 2017 reflect the significant efforts made by the Directorate General for Agriculture and Rural Development (DG AGRI) in accelerating the conformity clearance processes, including processing outstanding procedures which are now finalised. As regards correcting irregularities committed by the beneficiary, Member States must record and report on the **recovery** of the amounts unduly spent within the annual financial clearance exercise. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

1.1.2. Cohesion

2007-2013 programming period

Financial corrections under **European Regional Development Fund/Cohesion Fund** in 2017 remained high, thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict application of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that in 2017 the closure packages were sent to the Commission, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

The Member States with the highest corrections in 2017 were Poland (EUR 391 million), Hungary (EUR 99 million) and Greece (EUR 78 million). As a result, at end 2017 the cumulative amount of financial corrections for 2007-2013 confirmed by Member States as consequence of the Commission supervisory role is EUR 3 498 million[187].

For European Social Fund the total amount of financial corrections confirmed in 2017 stands at EUR 65 million and in cumulative figures at EUR 1 519 million. There were no financial corrections decided by a Commission decision. The total amount of financial corrections implemented in 2017 stands at EUR 23 million out of which EUR 5 million have been confirmed in 2017 and EUR 18 million in the previous years. The total amount of financial corrections implemented for **European Social Fund** stands at EUR 1 263 million in cumulative figures. 83 % of financial corrections confirmed during the year 2017 and previous years for the programming period 2007-2013 have been implemented, leaving an amount of EUR 256 million to be implemented at closure. Member States with the highest level of financial corrections implemented in 2017 are Portugal (EUR 15 million), Spain (EUR 5 million) and Poland (EUR 3 million).

The total amount of financial corrections confirmed in cumulative figures for the **European Maritime and Fisheries Fund (EMFF)** stands at EUR 26 million in 2017, with EUR 2 million to be implemented at closure.

2014-2020 programming period

For **European Regional Development Fund/Cohesion Fund** programmes for which expenditure was declared for the accounting year 1 July 2016 to 30 June 2017, there were no net financial corrections imposed by Commission Decision. However, the Member States themselves applied financial corrections in the accounts following their audits of operations.

This shows that the new system excludes from the annual accounts expenditure found to be irregular (0.7 % of the expenditure declared during the accounting year corrected as a result of audit of operations).

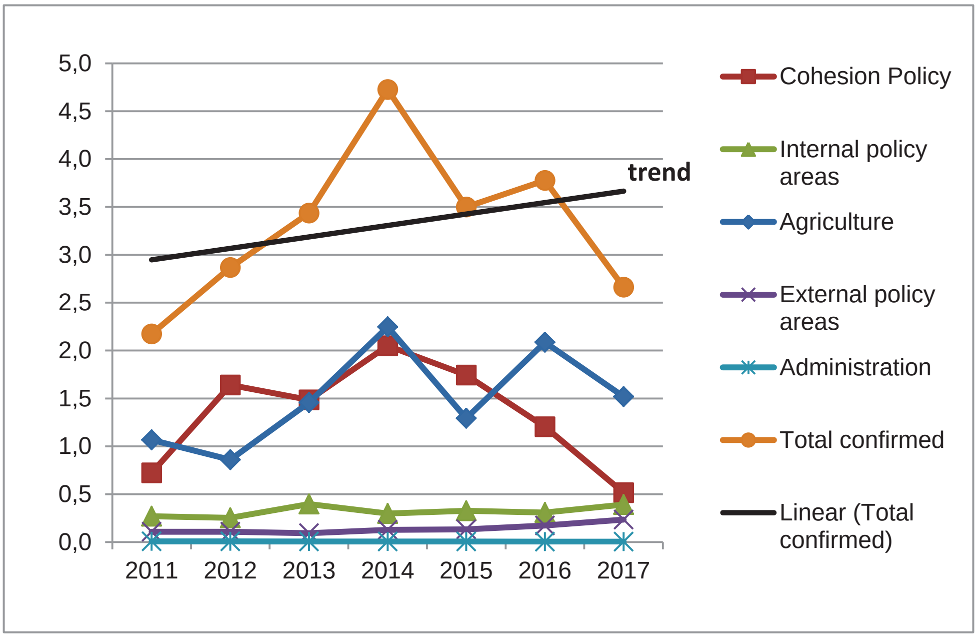
For **European Social Fund**, Youth Employment Initiative **and** the Fund for European Aid to the most Deprived programmes for which expenditure was declared during the accounting year 1 July 2016 to 30 June 2017, there were no financial corrections imposed by Commission Decision, however there were EUR 190 million of financial corrections implemented by Member States in their annual accounts.

1.2. Cumulative financial corrections and recoveries to end 2017

Cumulative figures provide useful information on the significance of the corrective mechanisms used by the Commission, in particular as they take into account the multi-annual character of programmes and projects and neutralise the impact of one-off events.

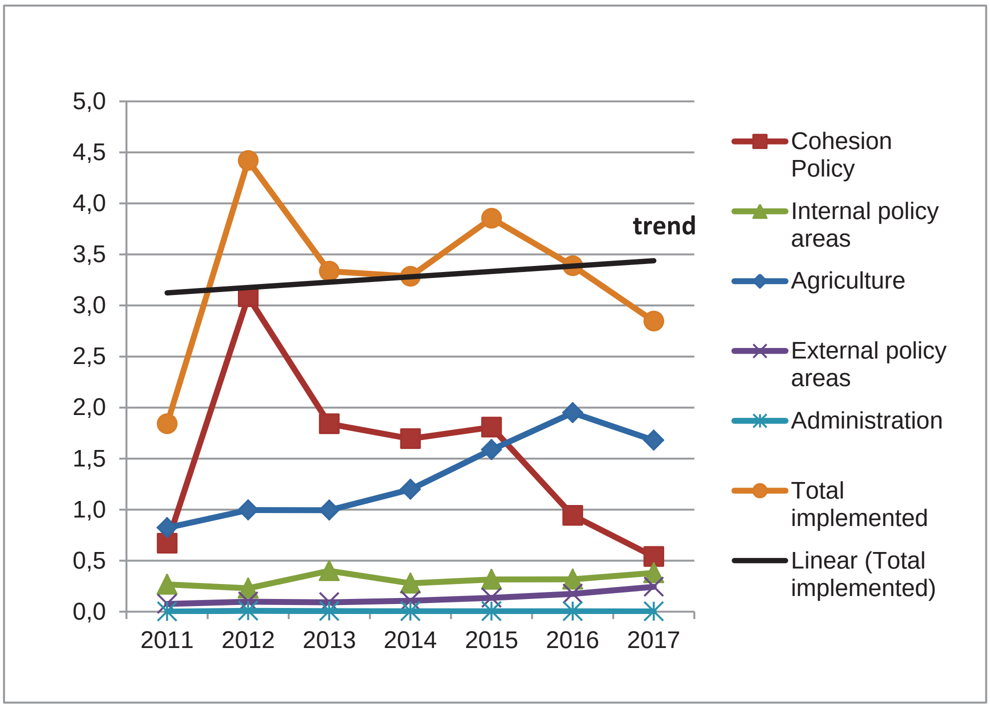
1.2.1. Period 2011-2017

The graphs below show the evolution of financial corrections and recoveries confirmed and implemented during the last 7 years.



Graph 1.2.1.1: Financial corrections and recoveries ***confirmed*** *2011-2017 (EUR billions)*

The average financial corrections and recoveries **confirmed** (2011-2017) amount to EUR 3.3 billion which represents 2.4 % of average budget payments.



Graph 1.2.1.2: Financial corrections and recoveries ***implemented*** *2011-2017 (EUR billions)*

The average amount of financial corrections and recoveries **implemented** for 2011-2017 was EUR 3.3 billion, which represents 2.4 % of the average amount of payments from the EU budget in that period.

1.2.2. Cumulative financial corrections confirmed and implementation percentage at end 2017

	Programming Period				Cumulated EAGF decisions	Financial corrections confirmed at end 2017	Implemen-tation % end 2017	Financial corrections confirmed at end 2016	Implemen-tation % end 2016
	1994-1999 Period	2000-2006 Period	2007-2013 Period	2014-2020 Period					
Agriculture	**-**	**143**	**1 278**	**14**	**14 081**	**15 517**	***91.1 %***	**14 291**	***88.5 %***
EAGF	-	-	-	-	14 081	14 081	*91.6 %*	13 081*	*89.1 %*
Rural Development	-	143	1 278	14	N/A	1 436	*86.6 %*	1 211	*82.2 %*
Cohesion Policy	**2 083**	**9 080**	**6 486**	**0**	**N/A**	**17 649**	***92.7 %***	**17 136**	***92.4 %***
ERDF	1 143	5 815	3 793	-	N/A	10 751	*91.3 %*	10 505	*91.8 %*
Cohesion fund	268	843	1 147	-	N/A	2 259	*95.8 %*	2 060	*92.9 %*
ESF	569	2 111	1 519	-	N/A	4 199	*93.9 %*	4 134	*94.8 %*
FIFG/EFF	100	140	28	-	N/A	267	*99.3 %*	264	*64.8 %*
EAGGF Guidance	3	171	-	-	N/A	174	*100.0 %*	174	*100.0 %*
Other	**-**	**-**	**-**	**-**	N/A	**44**	***99.6 %***	**38**	***99.5 %***
Total	**2 083**	**9 223**	**7 764**	**14**	**14 081**	**33 211**	***92.0 %***	**31 466**	***90.6 %***

Table 1.2.2: Cumulative financial corrections confirmed & implementation percentage to end 2017 in EUR millions

** The closing balance of 2016 does not include an amount of EUR 15.7 million concerning decision C(2014)8997.*

1.2.3. Cumulative recoveries 2011-2017

The tables below provide the amounts of recoveries confirmed and implemented for the period 2011-2017. See also section 1.3.1 below concerning the impact on the EU budget.

Recoveries	Years						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Agriculture:							
EAGF	174	162	227	213	117	100	195
Rural Development	161	145	139	165	206	242	113
Cohesion	50	22	83	35	5	10	2
Internal policy areas*	270	252	393	293	302	303	386
External policy areas*	107	107	93	127	132	173	234
Administration	8	7	6	5	5	4	3
Total	**770**	**695**	**941**	**838**	**767**	**833**	**933**

*Table 1.2.3: Recoveries **confirmed** 2011-2017 in EUR millions*

Recoveries	Years						
	2011	2012	2013	2014	2015	2016	2017
Agriculture:							
EAGF	178	161	155	150	155	118	131
Rural Development	161	166	129	167	152	43	84
Cohesion	48	14	81	32	7	12	2
Internal policy areas*	268	229	398	274	293	313	374
External policy areas*	77	99	93	108	136	175	244
Administration	2	9	6	5	5	4	3
Total*	**734**	**678**	**862**	**736**	**749**	**665**	**837**

*Table 1.2.4: Recoveries **implemented** 2011-2017 in EUR millions*

* *It should be noted that the amounts disclosed for the periods 2011-2014 are based on a different methodology which has been subsequently refined to better identify and track recoveries.*

1.3. Impact of financial corrections and recoveries

1.3.1 Impact on the EU budget

Financial corrections and recoveries may or may not have an impact on the EU budget:

Replacement of expenditure refers to the possibility under cohesion legislation for Member States to replace ineligible expenditure with new eligible expenditure, thus not losing EU funding (i.e. not a net correction as there is no return of money to the EU Budget).

A **net financial correction** is a correction that has a net impact on the EU budget, (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

Agriculture and Rural Development corrections (European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Agricultural Guidance and Guarantee Fund) lead almost always to a reimbursement to the EU budget whereas, due to the legal framework, for Cohesion Policy, the return of previously paid amounts to the EU budget were generally the exception during the implementation of the programmes.

Under the legal framework applicable for Cohesion Policy up to the 2007-2013 programming period, a real cash-flow back to the EU budget occurs only:

- If Member States are unable to present sufficient eligible expenditure;
- After the closure of programmes where replacement of ineligible by eligible expenditure is no longer possible;
- In case of disagreement with the Commission.

However, a significant change was introduced for the 2014-2020 period: the Commission has the obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported nor corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, the possibility of previous programming periods for the Member State to accept the correction and to re-use the EU funds in question is removed.

Graph 1.3.1: Impact on the EU Budget 2017

* *The main expenditure chapters concerned are 0502, 0503, 0504, 1303, 1304, 0402, 1106 and 1803.*

** *Excluding "At source" recoveries. The main expenditure chapters concerned are 0502, 0503, 1303, 1304, 0402 and 1106. For more information on recoveries see 1.2.3.*

Revenues arising from net financial corrections and recoveries are treated as assigned revenue[188]. It should be also noted that the Commission deducts detected ineligible expenditure (identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget line or fund from which the expenditure was originally paid and may be spent again but it is not earmarked for specific Member States.

1.3.2. Impact on national budgets

Under shared management, all financial corrections and recoveries have an impact on national budgets regardless of their method of implementation. It has to be underlined that even if no reimbursement to the EU budget is made, the impact of financial corrections is always negative at Member States level. This is because in order not to lose EU funding, the Member State must replace ineligible expenditure by eligible operations. This means that the Member State bears, with its own resources (from the national budget), the financial consequences of the loss of EU co-financing of expenditure considered ineligible under the EU programme rules (in the form of opportunity cost) unless the ineligible expenditure can be recovered from individual beneficiaries. This is not always possible, for example in the case of flat-rate corrections at programme level (due to deficiencies in the national administration managing the programme) which are not directly linked to individual irregularities at project level.

2. Agriculture and rural development

2.1. Preventive actions

Preventive actions by the Member States

A compulsory administrative structure has been set up at the level of Member States. The management, control and payment of the expenditure is entrusted to accredited paying agencies (PAs). Compliance with strict accreditation criteria is subject to constant supervision by the competent national authority (at ministerial level). The directors of paying agencies are required to provide an annual management declaration on the completeness, accuracy and veracity of the accounts, as well as a declaration that the system in place provides reasonable assurance on the legality and regularity of the underlying transactions. The annual accounts, the functioning of the internal control procedures and the legality and regularity of the expenditure of paying agencies are verified and certified by the Certification Bodies (an independent external audit body), which also reviews the compliance with the accreditation criteria. The management declarations are also verified by the above-mentioned certification bodies, which are required to provide an annual opinion. For each support scheme financed by the European Agricultural Guarantee Fund or European Agricultural Fund for Rural Development, the paying agencies apply a system of exhaustive ex-ante administrative controls and on-the-spot checks prior to any payment. These controls are made in accordance with precise rules set out in the sector specific legislation. For the majority of these aid schemes Member States are required to send statistical information on the checks carried out and their results on a yearly basis to the Commission.

Preventive actions by the Commission

With a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments, the Commission applies a number of available preventive instruments such as:

- the interruption of payments for the second pillar (European Agricultural Fund for Rural Development);
- sreduction and suspension of EU financing for both pillars (European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development).

First, where the declarations of expenditure or information received from the Member State enable the Commission to establish that it has been effected by paying agencies not accredited, that payment periods or financial ceilings have not been respected or that expenditure has not been effected in accordance with Union rules, the Commission may reduce or suspend the payments to the Member State under both pillars.

Secondly, the Commission may reduce or suspend monthly (European Agricultural Guarantee Fund) or interim (European Agricultural Fund for Rural Development) payments where "*one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found*"[189] (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

– either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,

<u>*or*</u>

– the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

For **European Agricultural Fund for Rural Development**, the Common Provisions Regulation (CPR)[190] also provides for the interruption of interim payments by the Authorising Officer by Delegation (i.e. the Director-General) as an additional, quick and reactive tool in case of concerns about the legality and regularity of payments. The Commission can also interrupt the payment deadline in case the Authorising Officer by Subdelegation requires further verifications after the submission of a declaration of expenditure. In 2017, payments were interrupted for Greece and Romania and also suspended for Romania.

For **European Agricultural Guarantee Fund**, the legislator has not provided for using the interruption procedure due to the monthly rhythm of the payments. For European Agricultural Guarantee Fund suspensions of monthly payments due to deficiencies in the control system were made for a total amount of EUR 3 million (Poland). There were no reductions in the monthly payments due to deficiencies in the control system in 2017. The other reductions concern overruns of ceilings, deadlines and other eligibility issues.

The interruptions and reductions/suspensions are provisional. Where relevant these could be accompanied by an audit. If the deficiency is confirmed, the relevant expenditure is definitely excluded from EU funding by application of a financial correction under the conformity clearance procedure.

For the CAP in 2017 the Commission has decided to reduce payments by EUR 291 million, to interrupt EUR 23 million and to suspend EUR 3 million.

2.2. Corrective actions

For **European Agricultural Guarantee Fund**, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned.

For **European Agricultural Fund for Rural Development**, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget mostly executed by offsetting it in the reimbursement in the following quarter. It therefore happens that decisions adopted in the end of year N are only executed at the beginning of year N+1.

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions. Of the three ad hoc decisions adopted in 2017 a total of EUR 287 million was scheduled for recovery in 3 annual instalments. One deferral decision was due to expire on 22 June 2017 but was prolonged for a year until 22 June 2018. Of the three ad hoc decisions adopted in 2017 another EUR 24 million became subject to deferral (and subsequent recovery in 5 annual instalments) under this prolonged deferral decision.

2.3. Deficiencies in Member States' management and control identified and measures undertaken

The main root causes of errors leading to corrections have been:

- Errors in non-compliance;
- Eligibility conditions not met; and
- Breach of procurement rules.

These were addressed by putting in place action plans which identify the deficiencies for the Paying agencies concerned and define remedial actions to be implemented by the Paying agencies.

As from 2015, DG AGRI has further improved the system of action plans reporting by Member States concerned, including a reinforced focus on audit findings as well as improved indicators and milestones for monitoring purposes. The action plans are expected to address the identified deficiencies by describing, for each of them, the corrective actions to be taken and the established benchmarks and timetable for implementing their actions. The action plans are normally triggered by serious deficiencies identified in the framework of conformity procedures.

The regulatory quality assessment which Member States must carry out of their Land Parcel Identification System is actively followed-up by DG AGRI to ensure that Member States take the remedial actions required to meet the quality standards that are considered appropriate, in view of the fundamental role played by the Land Parcel Identification System in ensuring correct claims and payments.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contributes to bringing the risk of error further down. During 2016 and 2017 several legal simplification initiatives were proposed by DG AGRI, affecting a number of implementing and delegated acts. Thanks to these amendments, the management and control system was simplified and new possibilities were introduced, such as the "yellow card" system for penalties or simplification of controls for financial instruments.

But the major simplification initiative was proposed though the Omnibus Regulation, including the 4 Common Agricultural Policy Regulations, the Common Provisions Regulation together for the European Structural and Investment Funds and the Financial Regulation. The agricultural part of the Omnibus Regulation was published in 2017 introducing some simplification and technical improvements to the four basic regulations of the Common Agricultural Policy.

In 2017, DG AGRI participated in 3 conferences with the Heads of the Paying Agencies in Gozo (Malta), Tartu (Estonia) and Brussels (Belgium) (the latter organised by DG AGRI). These Conferences allow for the sharing of good practices in the implementation of the Common Agricultural Policy and inform about strategic issues as regards assurance and audit. Meetings are also regularly organised with representatives of the Leaning Network of the Paying Agencies, in which strategic issues and implementation challenges are discussed.

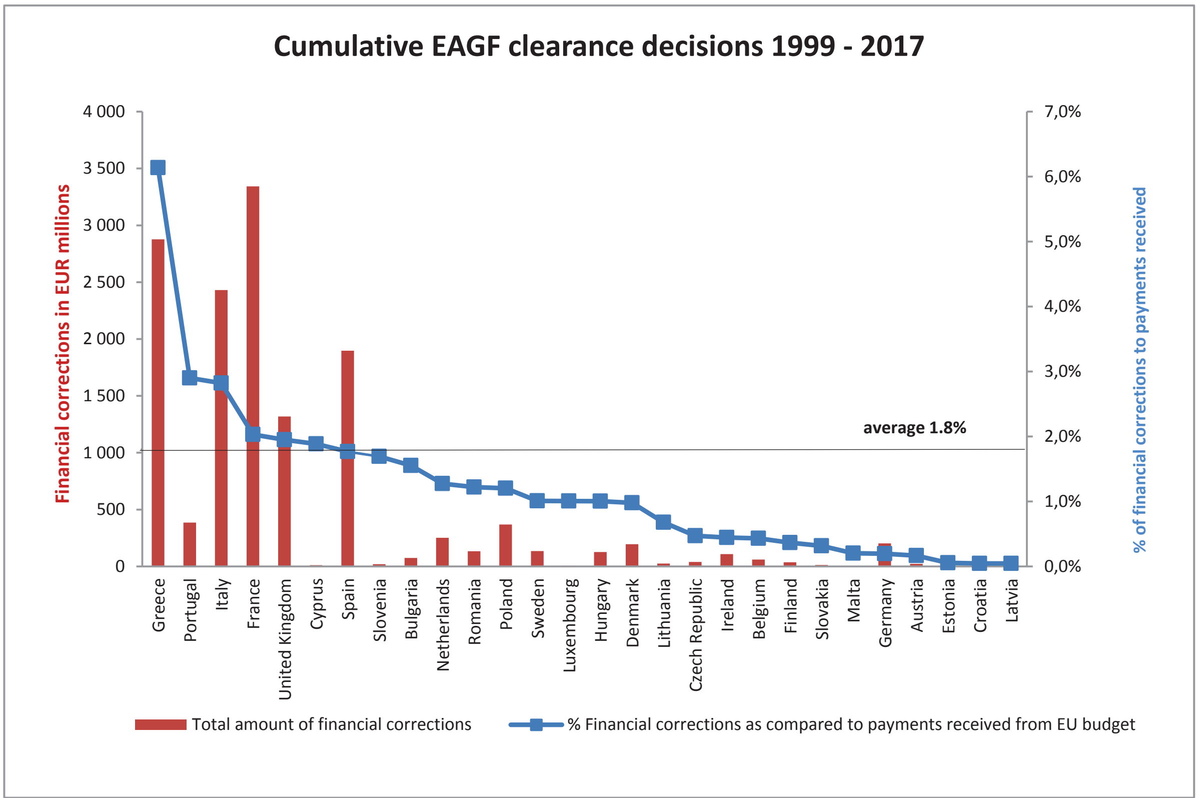
Furthermore, since 2013 seven seminars on error rate in rural development have been organised, of which the latest took place in June 2017. The seminars aim at presenting the lessons learnt from the audit work, sharing good practices in Member States' experience with the implementation of the programmes and provide guidance. These seminars are organised jointly in the framework of the Rural Development Committee and the Agricultural Funds Committee in order to ensure the involvement of both Managing Authorities and Paying Agencies.

2.4. Cumulative figures

Concerning **European Agricultural Guarantee Fund**, the average correction rate per financial year for the period 1999-2017 has been **1.8 %** of expenditure. Once decided by the Commission, the corrections are automatically implemented unless a Member State has been granted the possibility of paying in three annual instalments.

Member State	EAGF payments received from EU budget	% of payments received as compared to total payments	Cumulated EAGF financial corrections at end 2017	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	13 980	*1.8 %*	60	*0.4 %*	*0.4 %*
Bulgaria	4 813	*0.6 %*	75	*1.6 %*	*0.5 %*
Czech Republic	8 261	*1.1 %*	39	*0.5 %*	*0.3 %*
Denmark	19 951	*2.5 %*	195	*1.0 %*	*1.4 %*
Germany	102 974	*13.1 %*	202	*0.2 %*	*1.4 %*
Estonia	990	*0.1 %*	1	*0.1 %*	*0.0 %*
Ireland	24 396	*3.1 %*	108	*0.4 %*	*0.8 %*
Greece	46 891	*6.0 %*	2 877	*6.1 %*	*20.4 %*
Spain	107 436	*13.7 %*	1 897	*1.8 %*	*13.5 %*
France	164 566	*21.0 %*	3 343	*2.0 %*	*23.7 %*
Croatia	652	*0.1 %*	0	*0.0 %*	*0.0 %*
Italy	86 167	*11.0 %*	2 431	*2.8 %*	*17.3 %*
Cyprus	568	*0.1 %*	11	*1.9 %*	*0.1 %*
Latvia	1 474	*0.2 %*	1	*0.0 %*	*0.0 %*
Lithuania	3 779	*0.5 %*	26	*0.7 %*	*0.2 %*
Luxembourg	585	*0.1 %*	6	*1.0 %*	*0.0 %*
Hungary	12 582	*1.6 %*	126	*1.0 %*	*0.9 %*
Malta	49	*0.0 %*	0	*0.2 %*	*0.0 %*
Netherlands	19 704	*2.5 %*	251	*1.3 %*	*1.8 %*
Austria	13 329	*1.7 %*	22	*0.2 %*	*0.2 %*
Poland	30 596	*3.9 %*	368	*1.2 %*	*2.6 %*
Portugal	13 281	*1.7 %*	385	*2.9 %*	*2.7 %*
Romania	10 977	*1.4 %*	134	*1.2 %*	*1.0 %*
Slovenia	1 196	*0.2 %*	20	*1.7 %*	*0.1 %*
Slovakia	3 778	*0.5 %*	12	*0.3 %*	*0.1 %*
Finland	10 048	*1.3 %*	37	*0.4 %*	*0.3 %*
Sweden	13 331	*1.7 %*	134	*1.0 %*	*1.0 %*
United Kingdom	67 674	*8.6 %*	1 319	*1.9 %*	*9.4 %*
Total	**784 029**	***100.0 %***	**14 081**	***1.8 %***	***100.0 %***

Table 2.4: European Agricultural Guarantee Fund Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2017; Breakdown by Member State in EUR millions



Graph 2.4: European Agricultural Guarantee Fund Member States' cumulative financial corrections under conformity clearance of accounts from 1999 to end 2017 as compared to payments received from the EU Budget

2.5. Member States corrections

Member States are required to put in place systems for ex ante controls and reductions or exclusions of financing:

– For each aid support scheme financed by European Agricultural Guarantee Fund or European Agricultural Fund for Rural Development, ex ante administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.

  – In this context, by far the most important system is the Integrated Administration and Control System (IACS). The IACS covered in the financial year 2017 86.8 % of European Agricultural Guarantee Fund and Rural Development expenditure.

– Detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is provided for by the legislation and enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries.

These reports from the Member States disclose the preventive effect of the ex ante, administrative and on-the-spot controls carried out, which led to corrections amounting to EUR 546 million. The most significant total corrections related to Spain (EUR 109 million), Italy (EUR 78 million) and France (EUR 67 million).

Member State	EAGF Market Measures	EAGF Direct Payments	EAFRD	Total 2017
Belgium	1.6	2.6	0.6	**4.8**
Bulgaria	3.2	8.9	11.5	**23.7**
Czech Republic	0.4	1.3	3.2	**5.0**
Denmark	0.4	1.0	1.3	**2.7**
Germany	3.9	10.4	7.9	**22.2**
Estonia	0.0	0.9	2.1	**3.0**
Ireland	0.0	0.9	0.8	**1.7**
Greece	1.7	6.5	4.6	**12.8**
Spain	26.6	72.8	9.7	**109.2**
France	41.7	20.4	4.5	**66.6**
Croatia	6.3	6.5	6.9	**19.8**
Italy	10.2	44.7	23.2	**78.0**
Cyprus	0.0	1.3	0.4	**1.7**
Latvia	0.0	0.9	0.8	**1.7**
Lithuania	0.0	4.4	2.1	**6.5**
Luxembourg	0.0	0.1	0.1	**0.2**
Hungary	10.2	20.9	7.9	**38.9**
Malta	0.0	0.1	0.0	**0.1**
Netherlands	0.4	13.9	0.5	**14.8**
Austria	4.2	0.3	2.4	**6.9**
Poland	0.6	28.5	3.9	**32.9**
Portugal	3.3	3.4	4.2	**10.9**
Romania	1.8	40.4	17.3	**59.5**
Slovenia	0.6	0.3	0.5	**1.4**
Slovakia	0.0	2.8	3.9	**6.7**
Finland	0.7	0.8	1.1	**2.6**
Sweden	0.6	1.7	0.3	**2.6**
United Kingdom	0.3	6.8	1.8	**8.9**
Total	**118.9**	**303.6**	**123.5**	**545.9**

Table 2.5: Member States own corrections in 2017 applied before payments to beneficiaries are executed (in addition to Commission reporting[191]) in EUR millions

3. Cohesion policy

3.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions[192] and suspensions, and, in case the preventive mechanisms were not effective, also **corrective measures** i.e. financial corrections. The Commission policy on interruption and suspension of payments operates on a preventive basis, triggering the interruption of interim payments as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the reimbursement by the EU budget of amounts which might be affected by serious irregularities. As regards **European Regional Development Fund/Cohesion Fund** and **European Social Fund** programmes, it is worth underlining that the remedial action plans agreed by the Member States as a result of the Commission's supervisory role also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure. Expenditure declared to the Commission is thus already net of irregular amounts.

Similarly, warning letters sent out by the Commission when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no amount is reported by the Commission/Member States in this case as this effect is more difficult to quantify.

Interruptions and suspensions are only lifted on the basis of reasonable assurance on the implementation of corrective measures and/or after financial corrections have been implemented. For 2007-2013 programming period under closure process the suspension of payments has been merged with the closure process.

In view of the regulatory changes for 2014-2020, in particular, the articulation between Article 83 Common Provision Regulation (CPR) on interruptions, Article 142 CPR on suspensions and two new elements of the CPR, the annual closure of accounts and the 10 % retention on reimbursement of interim payments (Articles 130 and 139 of the CPR), Regional and Urban Policy Directorate General (DG REGIO) and Employment, Social Affairs and Inclusion Directorate General (DG EMPL) agreed to follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system. This ensures a residual error rate below 2 % and the possibility for the Commission to apply net financial corrections should serious deficiencies be identified by the Commission's Audit Directorates (or the European Court of Auditors) subsequent to the submission of the accounts, not identified, reported or corrected by the Member State.

Under the agreed approach, an interruption is necessary only where the serious deficiency in the management and control system would require a correction higher than 10 % or where the irregularity would have serious financial consequences (impact above 10 % of the programme's financial allocation or above the threshold of EUR 50 million) – in application of Article 83 (1)(a) of Regulation 1303/2013. If no payment claim is submitted, a warning letter of possible interruption of payment deadline is to be sent. A warning letter is also sent for cases with estimated risk to the EU budget below 10 %. In case of system deficiencies, the Member State is requested to take necessary measures to improve the system, and in case of irregularities the Member State is required to not include related expenditure in the interim claims and in the accounts until the legality and regularity of the expenditure is confirmed.

Interruptions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2016		New cases 2017		Closed cases during 2017		Total open cases at 31.12.2017	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
ERDF & CF	49	1 688	0	0	7	125	42	1 563
ESF	13	381	0	0	13	381	0	0
EFF	15	90	3	1	0	0	18	91
Total	**77**	**2 159**	**3**	**1**	**20**	**506**	**60**	**1 653**

Table 3.1: Interruptions in EUR millions. The table above presents for the European Regional Development Fund and Cohesion Fund*, the* European Social Fund *and the* European Maritime and Fisheries Fund*, a view on the evolution of the interruption cases both in number and in amount. The opening balance includes all the cases still open at end 2016, irrespective of the year when the interruption was notified to the Member State. The new cases only refer to the interruptions notified in the year 2017. The closed cases represent the cases for which the payment of cost claims resumed in 2017, irrespective of the year when the interruption started. The cases still open at end 2017 represent the interruptions that remain active at 31 December 2017, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.*

For **European Regional Development Fund/Cohesion Fund**, and European Social Fund 2007-2013 programmes under closure process, no new interruption letters were sent in 2017. As from 31 March 2017 all ongoing procedures (interruption or suspension decision in relation to applications for interim payment) are no longer necessary since the underlying deficiencies or irregularities which led the Commission to interrupt or suspend the interim payment will be dealt with during the closure procedure.

For **European Regional Development Fund /Cohesion Fund** 2014-2020 programmes, multiple payments related to Greece were interrupted due to a cartel case detected in large infrastructure projects. The national authorities applied the necessary financial corrections and the interruption was lifted before the end of 2017. In addition only few warnings have been issued, as the implementation of the new programming period has not yet advanced significantly. These cases are based either on the findings of the EPSA (the early preventive system audit) or following the serious allegations in the press (e.g. non-transparent selection procedure). In line with the new methodology for 2014-2020 programming period described above, DG REGIO issued 3 warning letters concerning Slovakia, Poland and Hungary.

For European Social Fund/Youth Employment Initiative **and** the Fund for European Aid to the most Deprived 1 interruption concerning the Youth Employment Initiative France, for which the payment was interrupted at the end of 2016 was lifted in 2017 and 4 warning letters have been sent to Greece, Croatia, France and Bulgaria.

Suspensions

For Cohesion at this stage of the programming period 2007-2013 and after the submission of the closure packages for the 2007-2013 programmes by 31 March 2017, all suspensions of interim payments became void (as the interim claims have been replaced by final payment claims), so no new suspension decisions have been adopted by the Commission and no suspension decision have been repealed. The interruptions and suspension cases will be followed during the closure of the respective programme and the suspension decisions will be formally repealed after the closure of programmes.

The Member State is nevertheless required to take necessary actions to solve all identified deficiencies. The Commission will end the suspension of all or part of the interim payments where the Member State has taken the necessary measures to enable the suspension to be lifted.

For **European Regional Development Fund /Cohesion Fund**, 3 2007-2013 operational programmes were suspended at the time of closure. The concerned Member States were informed that the suspension decision has become redundant at closure and that the underlying deficiencies or irregularities will be dealt within the course of the closure procedure. Final payments could only be processed once all outstanding issues have been dealt with.

For European Social Fund **(ESF)**, 7 operational programmes were suspended at the end of 2016, related to 2007-2013 programmes, of which 2 were lifted in the beginning of 2017 concerning Spain (Baleares and Andalucia, following the confirmation of the Member State of the deduction of financial corrections from an interim or the final payment). In addition a pre-suspension letter and a pre-correction letter have been sent before the closure process started to Germany and Slovakia.

3.2. Corrective actions

For Cohesion policy where the Commission identifies individual irregularities (including the ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the **European Regional Development Fund, Cohesion Fund** or **European Social Fund** and reimbursed by the Commission is brought back in line with the applicable rules.

During the 2000-2006 and 2007-2013 programming periods, **Member States were able to replace irregular expenditure with new expenditure** if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period).

Net corrections are rather the exception under the 2007-2013 framework, due to the legal framework and budget management type (reinforced preventive mechanism). The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure. This is mainly due to the set-up of the new yearly based assurance model, which reduces the risk of having a material level of error. In fact, the new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. The Commission retains 10 % of each interim payment until the finalisation of all national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

3.3. Deficiencies in Member States' management and control identified and measures undertaken

As mentioned above, under shared management Member States are primarily responsible for the effective and efficient functioning of the management and control systems at national level. Nevertheless, the Commission seeks to ensure that the national systems better prevent errors before certification and takes a number of actions such as capacity building actions in Member States, pursuing further the single audit approach, carrying out complementary risk-based audits and exercising a strict supervision over programme management, using the available legal tools such as **interruptions, suspensions** and, where necessary, **financial corrections**.

During the 2007-2013 period, the Commission put in place targeted actions to improve the administrative capacity in the Member States, which continue under the 2014-2020 period. Cross-cutting initiatives to mitigate the main risks and weaknesses identified include notably:

A general administrative capacity initiative with the following measures already implemented or on-going:

– **TAIEX REGIO PEER2PEER,** an exchange tool for regional policy practitioners/experts in Member States, which experienced great success throughout the year. In this framework, 130 exchanges were implemented by December 2017, involving 1 920 participants from 26 Member States (mainly from Lithuania, Czech Republic, Romania, Bulgaria and Croatia). These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of Funds. A peer-to-peer exchange of expertise between authorities managing and implementing **European Regional Development Fund and Cohesion Fund** programmes[193].

– A **strategic training programme** for Managing, Certifying and Audit Authorities and Intermediate Bodies on the implementation of the 2014 – 2020 Regulations: 756 participants from all Member States have attended the 5 different training modules organised so far. In total 26 two-day training sessions have been organised in the premises of DG REGIO

– **A Competency Framework** for efficient management and implementation of European Regional Development Fund and the Cohesion Fund, aimed at supporting further professionalization of the fund management. The framework is accompanied by a Self-Assessment Tool which is a flexible instrument enabling employees to self-assess the proficiency level for each competency required for their job. The assessment results can be aggregated at institution level thereby providing evidence for the preparation of Learning and Development Plans Translations of the user guidelines and other support documents are now available in 21 EU languages

– **Prevention of fraud and corruption:** Organisation of 13 anti-fraud and anti-corruption conferences/workshops in different Member States, together with European Anti-Fraud Office, Migration and Home Affairs Directorate General (DG HOME), Internal Market, Industry, Entrepreneurship and SMEs Directorate General, (DG GROW), European Structural and Investment Funds (ESIF) DGs (DG AGRI, DG EMPL, DG MARE and DG REGIO) and in co-operation with Transparency International, focusing on awareness raising and practical tools and instruments to fight fraud and corruption like data mining tools, open data and intensified cooperation with civil society; **launch of a study on appropriate anti-fraud and anti-corruption practices** in the management of the Funds applied in the Member States which will be summarized in a handbook.

– **Pilot Integrity Pacts:** An Integrity Pact is an innovative tool developed by Transparency International to help governments, businesses and civil society fighting corruption in public contracting. It is based on an agreement between a contracting authority and economic operators bidding for public contracts that they will abstain from corrupt practices and will conduct a transparent procurement process. To ensure accountability and legitimacy, a civil society organisation will monitor that all parties comply with their commitments throughout the entire project lifecycle, i.e. as from the drafting of the terms of reference to the closure of the project. 17 pilot Integrity Pacts will be set up in 11 Member States (Bulgaria, Czech Republic, Greece, Hungary, Lithuania, Latvia, Slovenia, Portugal, Romania, Italy and Poland) as from 2016 and run for a period of four years. Integrity Pacts have been signed for all but one project in Portugal.

– **A dedicated action plan on public procurement** for strengthening capacity in that field in close cooperation with DG GROW, other European Structural and Investment Funds DGs and European Investment Bank (EIB). The action plan includes 26 actions (13 closed; 13 on going). Some of them are:

– Public Procurement Guidance for Practitioners on the avoidance of errors in ESI funded projects. An updated guide taking into account the new Public Procurement directives is now available in English; all other language versions follow by end May.

– Monitoring of the ex-ante conditionality action plans on public procurement with a focus on those Member States which are still implementing their action plans.

– A public procurement stock-taking study including more than 50 good practice examples in public procurement across the EU, has been widely disseminated. A large follow up study on in-depth analysis of some good practice examples and their transferability to other Member States,

– Promotion of transparency and open data on public procurement.

– Two pilot projects in cooperation with the Organisation for Economic Co-operation and Development (OECD) where support was given to Bulgaria and Slovakia for their implementation of their ex ante conditionality action plan on public procurement (especially training) and (in Slovakia) on preparation for an e-procurement strategy.

– Promotion of strategic procurement (smart, green, inclusive, small and medium-sized enterprises) in cohesion policy in cooperation with the Organisation for Economic Co-operation and Development.

– **A State aid action plan** designed in close cooperation with DG Competition. It aims at increasing awareness and understanding of the impact of state aid on cohesion policy, improving the co-operation between the various actors involved in the monitoring of State aid in the Member States, and providing pro-active support to the EU Member States and regions in the correct application of State aid rules. It includes measures for:

– Reviewing existing good practices and their dissemination.

– Strategic training programmes, including expert and country specific seminars.

– Exchanges between the Commission and Audit Authorities, for further dissemination of audit checklists adapted to the 2014 General Block Exemption Regulation (GBER) revisions.

– Tailor made assistance to Member States offering them expert support.

As regards **European Social Fund**, ineligible costs continues to be the main source of error, together with ineligible projects / beneficiaries and then public procurement issues. The Commission has initiated targeted measures to address root causes of errors in these areas.

3.4. Cumulative figures

3.4.1. Cohesion Policy: European Regional Development Fund & European Social Fund 2000-2006

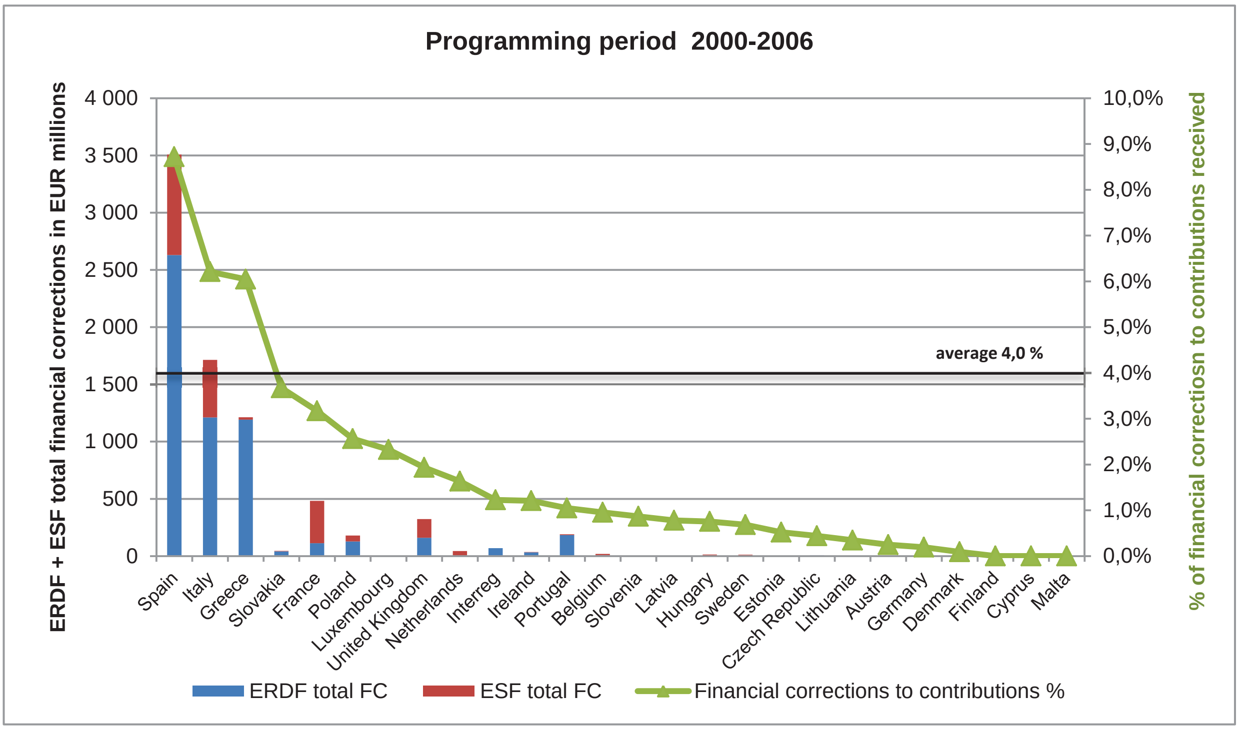
Member State	ERDF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	1 979	*1.0 %*	19	*1.0 %*	*0.2 %*
Czech Republic	1 443	*0.7 %*	6	*0.4 %*	*0.1 %*
Denmark	608	*0.3 %*	1	*0.1 %*	*0.0 %*
Germany	27 387	*13.8 %*	53	*0.2 %*	*0.7 %*
Estonia	306	*0.2 %*	2	*0.5 %*	*0.0 %*
Ireland	3 003	*1.5 %*	36	*1.2 %*	*0.5 %*
Greece	20 054	*10.1 %*	1 212	*6.0 %*	*15.3 %*
Spain	40 229	*20.3 %*	3 508	*8.7 %*	*44.3 %*
France	15 224	*7.7 %*	483	*3.2 %*	*6.1 %*
Italy	27 612	*14.0 %*	1 715	*6.2 %*	*21.6 %*
Cyprus	52	*0.0 %*	0	*0.0 %*	*0.0 %*
Latvia	517	*0.3 %*	4	*0.8 %*	*0.1 %*
Lithuania	772	*0.4 %*	3	*0.3 %*	*0.0 %*
Luxembourg	80	*0.0 %*	2	*2.3 %*	*0.0 %*
Hungary	1 709	*0.9 %*	13	*0.8 %*	*0.2 %*
Malta	57	*0.0 %*	0	*0.0 %*	*0.0 %*
Netherlands	2 695	*1.4 %*	44	*1.6 %*	*0.6 %*
Austria	1 654	*0.8 %*	4	*0.2 %*	*0.1 %*
Poland	7 015	*3.5 %*	180	*2.6 %*	*2.3 %*
Portugal	18 149	*9.2 %*	190	*1.0 %*	*2.4 %*
Slovenia	218	*0.1 %*	2	*0.9 %*	*0.0 %*
Slovakia	1 225	*0.6 %*	45	*3.7 %*	*0.6 %*
Finland	1 824	*0.9 %*	0	*0.0 %*	*0.0 %*
Sweden	1 696	*0.9 %*	12	*0.7 %*	*0.1 %*
United Kingdom	16 739	*8.5 %*	324	*1.9 %*	*4.1 %*
Interreg	5 645	*2.9 %*	69	*1.2 %*	*0.9 %*
Total	**197 893**	***100.0 %***	**7 925**	***4.0 %***	***100.0 %***

Table 3.4.1: Programming period 2000-2006 - European Regional Development Fund & European Social Fund Financial corrections confirmed at 31 December 2017; Breakdown by Member State in EUR millions

For **European Regional Development Fund** the Commission has closed all the 379 programmes (compared to 378 at end of 2016). The last programme (OP Sicily) was closed in May 2017 after the official acceptance of the closure declaration by the Member State.

Financial corrections imposed by the Commission to all Member States cumulatively up to the end of 2017 are EUR 5.8 billion[194], representing around 4.5 % of the total allocations for all 2000-2006 programmes. This process can be broken down into EUR 4.1 billion of financial corrections during the life cycle of the programmes and another EUR 1.7 billion of financial corrections applied at closure of the programmes. The main Member States concerned are Spain (EUR 2.6 billion), Italy (EUR 1.2 billion) and Greece (EUR 1.2 billion).

For European Social Fund, the Commission has closed all 239 programmes proceeding to 29 partial and 210 full closures leaving remaining EUR 338 million which corresponds to EUR 100 million of suspended operations following judicial proceedings, and EUR 238 million of not released commitments related to ongoing financial correction procedures for Italy (Sicily). At the end of 2017, the total amount of financial corrections confirmed for 2000-2006 programming period - taking into account financial corrections in progress - amounted to EUR 2.4 billion, representing 3.5 % of the **European Social Fund** allocation. This process can be broken down into EUR 1.2 billion of financial corrections during the life cycle of the programmes and another EUR 1.2 billion applied at closure. Comparing to 2016, no new substantial financial corrections have been reported.



Graph 3.4.1: Member States' cumulative financial corrections confirmed at 31 December 2017 for European Regional Development Fund & European Social Fund programming period 2000-2006 as compared to contributions received

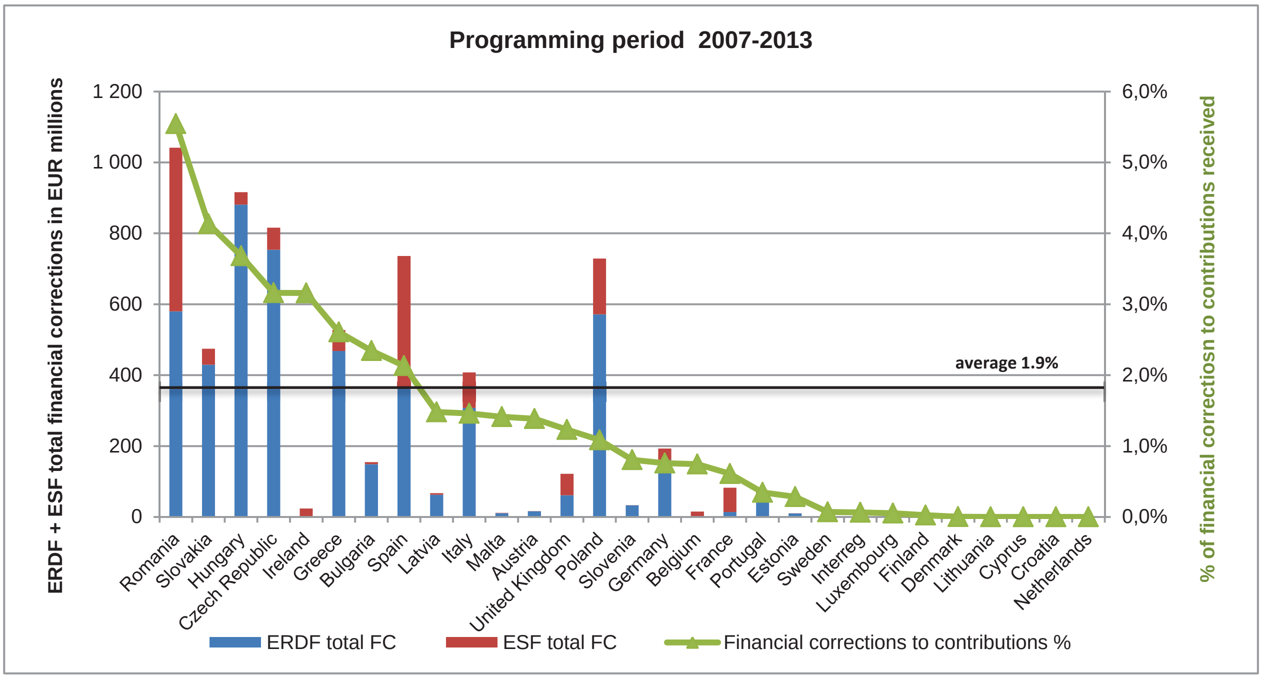
3.4.2. Cohesion Policy: European Regional Development Fund/Cohesion Fund & European Social Fund 2007-2013

The lower volume of financial corrections reflects the improved capacity of the management and control systems to detect problems and to correct errors before expenditure is declared to the Commission, as reflected in the lower error rates for cohesion policy in the period 2007-2013 compared to the period 2000-2006. Reference is also made to the corrections made by Member States in this period.

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	2 059	*0.6 %*	15	*0.7 %*	*0.2 %*
Bulgaria	6 595	*1.9 %*	155	*2.3 %*	*2.4 %*
Czech Republic	25 819	*7.5 %*	816	*3.2 %*	*12.6 %*
Denmark	510	*0.1 %*	0	*0.0 %*	*0.0 %*
Germany	25 458	*7.4 %*	193	*0.8 %*	*3.0 %*
Estonia	3 403	*1.0 %*	10	*0.3 %*	*0.2 %*
Ireland	751	*0.2 %*	24	*3.2 %*	*0.4 %*
Greece	20 210	*5.8 %*	527	*2.6 %*	*8.2 %*
Spain	34 521	*10.0 %*	736	*2.1 %*	*11.4 %*
France	13 546	*3.9 %*	83	*0.6 %*	*1.3 %*
Croatia	858	*0.2 %*	0	*0.0 %*	*0.0 %*
Italy	27 940	*8.1 %*	408	*1.5 %*	*6.3 %*
Cyprus	612	*0.2 %*	0	*0.0 %*	*0.0 %*
Latvia	4 530	*1.3 %*	67	*1.5 %*	*1.0 %*
Lithuania	6 775	*2.0 %*	0	*0.0 %*	*0.0 %*
Luxembourg	50	*0.0 %*	0	*0.1 %*	*0.0 %*
Hungary	24 893	*7.2 %*	916	*3.7 %*	*14.2 %*
Malta	840	*0.2 %*	12	*1.4 %*	*0.2 %*
Netherlands	1 660	*0.5 %*	0	*0.0 %*	*0.0 %*
Austria	1 170	*0.3 %*	16	*1.4 %*	*0.3 %*
Poland	67 186	*19.4 %*	729	*1.1 %*	*11.3 %*
Portugal	21 412	*6.2 %*	74	*0.3 %*	*1.2 %*
Romania	18 782	*5.4 %*	1 041	*5.5 %*	*16.1 %*
Slovenia	4 101	*1.2 %*	33	*0.8 %*	*0.5 %*
Slovakia	11 483	*3.3 %*	474	*4.1 %*	*7.3 %*
Finland	1 596	*0.5 %*	0	*0.0 %*	*0.0 %*
Sweden	1 626	*0.5 %*	1	*0.1 %*	*0.0 %*
United Kingdom	9 878	*2.9 %*	122	*1.2 %*	*1.9 %*
Interreg	7 956	*2.3 %*	5	*0.1 %*	*0.1 %*
Total	**346 220**	***100.0 %***	**6 459**	***1.9 %***	***100.0 %***

Table 3.4.2: Programming period 2007-2013 – European Regional Development Fund/Cohesion Fund & European Social Fund *Financial corrections confirmed at 31 December 2017; Breakdown by Member State in EUR millions*

As 2007-2013 programmes are multi-funds, no split is given between European Regional Development Fund and Cohesion Fund *in the above table.*



Graph 3.4.2: Member States' cumulative financial corrections confirmed at 31 December 2017 for European Regional Development Fund/Cohesion Fund & European Social Fund programming period 2007-2013 as compared to contributions received

For **European Regional Development Fund/Cohesion Fund** programmes, the Commission has imposed around EUR 4.9 billion of financial corrections[195] cumulatively since the beginning of the 2007-2013 programming period (which includes EUR 1.4 billion of financial corrections applied by the Member States before or at the same time of declaring the expenditure to the Commission as a result of requested remedial actions). The main Member States concerned are Hungary (EUR 880 million), Czech Republic (EUR 754 million), Romania (EUR 580 million), Poland (EUR 570 million), Greece (EUR 468 million), Slovakia (EUR 429 million), Spain (EUR 362 million) and Italy (EUR 307 million).

For European Social Fund, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 374 million) and Poland (EUR 158 million). At this stage of the implementation and at closure of the programmes the cumulative amount of financial corrections stands at EUR 1.5 billion representing 2 % of the **European Social Fund** allocation.

3.5. Member States corrections

Under the regulations for the 2007-2013 programming period, Member States have to report annually to the Commission the corrections[196] stemming from all controls performed. The Commission has performed risk-based audits and desk reviews to test the reliability of these figures as part of its assurance process and the Member States' audit authorities have assessed the reliability of these financial corrections in the context of their audit opinion provided at closure.

Member State	ERDF/CF	ESF	EFF	Total
Belgium	4.8	31.9	0.0	**36.7**
Bulgaria	106.6	10.0	-	**116.6**
Czech Republic	387.6	14.8	0.3	**402.7**
Denmark	0.8	0.2	1.1	**2.0**
Germany	466.2	258.5	1.9	**726.6**
Estonia	25.5	1.1	2.8	**29.4**
Ireland	5.5	30.1	0.2	**35.8**
Greece	677.4	74.3	77.2	**828.9**
Spain	1 273.6	513.4	60.3	**1 847.3**
France	227.4	111.2	4.7	**343.3**
Croatia	2.1	0.4	0.0	**2.5**
Italy	546.0	143.5	11.6	**701.1**
Cyprus	9.2	1.9	0.7	**11.8**
Latvia	49.1	2.8	1.9	**53.8**
Lithuania	20.6	1.2	1.8	**23.7**
Luxembourg	0.0	0.2	-	**0.2**
Hungary	546.7	6.7	0.1	**553.5**
Malta	0.0	-	0.1	**0.1**
Netherlands	24.3	6.1	6.8	**37.2**
Austria	18.1	6.0	0.1	**24.2**
Poland	713.0	11.6	6.5	**731.1**
Portugal	262.7	63.8	14.6	**341.0**
Romania	382.7	85.7	24.3	**492.8**
Slovenia	105.1	-	0.0	**105.2**
Slovakia	127.3	16.3	0.9	**144.5**
Finland	2.8	1.0	1.0	**4.8**
Sweden	8.3	2.3	0.4	**11.0**
United Kingdom	238.0	82.2	8.1	**328.2**
Cross-border	58.7		-	**58.7**
Total implemented	**6 290.1**	**1 477.1**	**227.6**	**7 994.8**

Table 3.5.1: Cumulative corrections at end 2017 reported by Member States for Cohesion Policy period 2007-2013[197] in EUR millions

It is highlighted that the Commission has taken a prudent approach[198], due to certain weaknesses in the Member State figures, so as to ensure that the amounts are not overstated – as a result some of them may in reality be higher. This, however, has no impact on the reliability of the Commission's own figures. The cumulative amounts (above) in question are very significant and when added to the results of the Commission's work, give a very clear indication of the success of the controls put in place by both parties.

Financial corrections declared by the Member States for Cohesion Policy period 2014-2020[199]

In February 2018 the Member State authorities submitted certified accounts for the accounting year 1 July 2016 to 30 June 2017. According to the information received in the assurance packages, following the results of audit of operations, for **European Regional Development Fund /Cohesion Fund** the Member States have applied financial corrections totalling EUR 97 million. The financial corrections imposed for European Social Fund/Youth Employment Initiative and the Fund for European Aid to the most Deprived amounted to EUR 190 million. No financial corrections were reported for **European Maritime and Fisheries Fund** in 2017.

Member State	ERDF/CF	ESF-YEI/FEAD	Total
Belgium	0.1	0.2	**0.3**
Bulgaria	2.2	0.1	**2.2**
Czech Republic	15.2	0.0	**15.2**
Denmark	-	0.0	**0.0**
Germany	1.6	4.2	**5.8**
Estonia	0.6	0.2	**0.9**
Ireland	0.0	-	**0.0**
Greece	7.5	11.8	**19.3**
Spain	-	0.5	**0.5**
France	2.7	1.3	**3.9**
Croatia	-	0.0	**0.0**
Italy	0.9	1.4	**2.3**
Cyprus	0.0	-	**0.0**
Latvia	0.0	0.0	**0.0**
Lithuania	12.8	5.9	**18.7**
Hungary	8.4	2.2	**10.6**
Poland	26.0	7.8	**33.8**
Portugal	2.0	1.9	**3.8**
Romania	-	0.2	**0.2**
Slovenia	-	0.0	**0.0**
Slovakia	16.3	153.2	**169.4**
Finland	0.2	0.0	**0.2**
Sweden	-	0.0	**0.0**
United Kingdom	0.1	0.0	**0.1**
Territorial Cooperation	0.8	-	**0.8**
Total implemented	**97.3**	**190.7**	**288.0**

Table 3.5.2: Financial corrections for the accounting year 1/07/2016 to 30/06/2017 reported by Member States for Cohesion Policy period 2014-2020[200] in EUR millions

4. Direct and indirect management

For direct and indirect management expenditure, the Commission has control frameworks in place to prevent, detect, correct and thus deter irregularities at the different stages of the grant management process in order to achieve both operational and financial objectives. An overview of the controls made in two key areas of direct and indirect management expenditure, research and international aid, is given below.

For **Research expenditure**, the control framework applicable to both direct[201] and indirect[202] management modes starts with the development of a work programme, which goes through a wide-ranging consultation process to ensure that it best meets the expectations of all stakeholders and will maximise the research outcome. Following the evaluation of proposals, further controls are then carried out as the selected proposals are translated into legally binding contracts. Project implementation is monitored throughout the lifetime of the project. Payments against cost claims are all subject to ex-ante checks according to standard procedures, which include an audit certificate given by a qualified auditor. As well as standard controls, additional, targeted, controls can also be carried out according to the information received and the risk of the transaction.

A main source of assurance comes from in-depth ex-post checks carried out on a sample of claims, at the beneficiaries' premises, after costs have been incurred and declared. A large number of these in-depth checks are carried out over the lifetime of the programme. Any amounts paid in excess of what is due are recovered, and systemic errors are extended to all ongoing participations of a beneficiary.

In the field of **International Cooperation and Development**, the Commission has established a control framework to prevent, detect, correct and thus deter irregularities at the different stages of the implementation of funding, applicable to both management modes (direct and indirect[203]) used for this implementation. This strategy starts from the choice of the most appropriate tool when drafting the planning documents and the financial decisions, and translates into the actual checks carried out at all stages of the implementation. From the point of view of financial control, the system is made up of a number of instruments systematically applied to the implementation of contracts and grants for all management modes: ex-ante checks on payments, audits carried out by the Commission and foreseen in an audit plan, expenditure verifications carried out prior to payments by beneficiaries of grants, verification missions to international organisations and an overall ex-post control on the basis of the Residual Error Rate study carried out every year.

The EU financial interests are therefore safeguarded, in addition to all the other possible means offered by the Financial Regulation, by the Commission's ex-ante control of individual transactions as well as subsequent controls or audits, and by the resulting recovery of any unduly disbursed funds where the agreed procedures have not been respected, or where the activities were not eligible for EU financing.

5. Detailed financial corrections and recoveries information

5.1. Net financial corrections 2017

Confirmed

MFF Heading	Net financial corrections confirmed in 2017*	Financial corrections with replacement of expenditure and other corrections confirmed in 2017	Total financial corrections confirmed in 2017
Smart & inclusive growth	**(139)**	**649**	**510**
*ERDF***	(141)	387	**246**
Cohesion Fund	1	197	**198**
ESF	0	65	**65**
Sustainable growth: natural resources	**939**	**275**	**1 214**
*EAGF****	710	275	**985**
Rural Development	225	-	**225**
FIFG/EFF	4	0	**4**
EAGGF Guidance	-	-	**0**
Security & citizenship	**0**	**6**	**6**
Migration and home affairs	0	6	**6**
Total	**800**	**929**	**1 729**

Table: in EUR millions

** A total of EUR 314 million remain to be classified and is treated as non-net corrections in this table.*

*** The negative amount for European Regional Development Fund is due to Court of Justice ruling(s) cancelling a number of regional policy financial correction decisions for the 1994-99 period.*

**** For the purpose of calculating its corrective capacity in the Annual Activity Report, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts corrections in respect of cross-compliance as well as other corrections not relevant to current expenditure. For details on the methodology used for financial year 2017, see 2017 Annual Activity Report of DG AGRI, point 2.1.1.3.1.*

Implemented

MFF Heading	Net financial corrections implemented in 2017	Financial corrections with replacement of expenditure and other corrections implemented in 2017	Total financial corrections implemented in 2017
Smart & inclusive growth	**(100)**	**543**	**443**
*ERDF**	(141)	311	**170**
Cohesion Fund	41	209	**250**
ESF	0	23	**23**
Sustainable growth: natural resources	**1 283**	**277**	**1 560**
EAGF	943	274	**1 217**
Rural Development	248	-	**248**
FIFG/EFF	92	3	**95**
EAGGF Guidance	-	-	**-**
Security & citizenship	**0**	**6**	**6**
Migration & home affairs	0	6	**6**
Total	**1 183**	**825**	**2 008**

Table: in EUR millions

** The negative amount for European Regional Development Fund is due to Court of Justice ruling(s) cancelling a number of regional policy financial correction decisions for the 1994-99 period.*

The impact of the correction mechanism varies depending on the budget implementation type, the sectorial management and the financial rules of the policy area. In all cases, the correction mechanisms aim at protecting the EU budget from expenditure incurred in breach of law.

5.2. Breakdown of flat-rate[204] corrections 2017

Flat rate corrections are a valuable tool that is used when the related amount cannot be quantified on the basis of a representative statistical sample or when the impact on expenditure of individual errors cannot be quantified precisely. However, this means that the Member State subject to a flat correction normally bears the financial consequences as these corrections are not directly linked to individual irregularities at project level, i.e. there is no individual final beneficiary to recover monies from.

	Total financial corrections confirmed in 2017	Flat-rate financial corrections* confirmed in 2017	Total financial corrections implemented in 2017	Flat-rate financial corrections* implemented in 2017
Agriculture				
EAGF	985	278	1 217	458
EAFRD	225	89	248	191
Cohesion				
ERDF & CF**	444	(3)	420	130
ESF	65	44	23	2
EFF/FIFG	4	-	95	-
Internal policies	6	5	6	5
Total	**1 729**	**414**	**2 008**	**787**

Table: in EUR millions

* *Includes extrapolated corrections.*

** *Breakdown of flat-rate corrections available only for MFF 2007-2013.*

5.3. Breakdown of financial corrections made at source 2017

At source financial corrections are applied by the Member State authorities before or at the same time that new expenditure is declared to the Commission. In the majority of the cases they are the result of flat rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits[205].

Member State	At source financial corrections confirmed in 2017	At source financial corrections implemented in 2017
Belgium	0.2	(3.3)
Bulgaria	(0.3)	0.0
Czech Republic	0.1	0.1
Germany	0.0	0.0
Ireland	0.1	0.1
Greece	6.8	6.8
Spain	1.9	1.9
France	178.6	178.6
Croatia	0.0	0.0
Italy	60.0	60.0
Cyprus	1.1	0.0
Lithuania	0.1	0.1
Hungary	3.6	65.1
Netherlands	0.4	0.4
Austria	0.2	0.2
Poland	0.0	2.2
Portugal	0.0	0.0
Romania	12.6	13.0
Sweden	1.8	1.8
United Kingdom	25.4	25.4
Total	**292.4**	**352.3**

Table: in EUR millions

In 2017, the main financial corrections at source concern **European Agricultural Guarantee Fund.**

The most significant confirmed corrections at source concern France (EUR 178.6 million) and Italy (EUR 60 million).

5.4. Breakdown by Member State: Financial corrections in 2017 compared to EU payments received

Member State	Payments received from the EU budget in 2017 (EUR million)	Financial corrections confirmed in 2017 (EUR million)	Financial corrections confirmed in 2017 % as compared to payments received from the EU budget in 2017	Financial corrections implemented in 2017 (EUR million)	Financial corrections implemented in 2017 as % of payments received from the EU budget in 2017
Belgium	949	1	*0.1 %*	0	*0.0 %*
Bulgaria	1 702	28	*1.7 %*	46	*2.7 %*
Czech Republic	3 975	3	*0.1 %*	12	*0.3 %*
Denmark	1 074	3	*0.3 %*	5	*0.4 %*
Germany	8 569	(181)	*(2.1 %)*	(108)	*(1.3 %)*
Estonia	618	0	*0.0 %*	0	*0.0 %*
Ireland	1 580	2	*0.1 %*	0	*0.0 %*
Greece	4 595	103	*2.3 %*	7	*0.2 %*
Spain	9 348	72	*0.8 %*	314	*3.4 %*
France	11 358	495	*4.4 %*	776	*6.8 %*
Croatia	852	1	*0.1 %*	0	*0.0 %*
Italy	8 481	502	*5.9 %*	258	*3.0 %*
Cyprus	190	1	*0.7 %*	1	*0.7 %*
Latvia	709	21	*2.9 %*	0	*0.0 %*
Lithuania	1 413	16	*1.1 %*	11	*0.8 %*
Luxembourg	60	2	*2.8 %*	1	*2.4 %*
Hungary	4 190	108	*2.6 %*	125	*3.0 %*
Malta	125	0	*0.0 %*	0	*0.0 %*
Netherlands	1 130	6	*0.5 %*	3	*0.3 %*
Austria	1 347	2	*0.1 %*	10	*0.7 %*
Poland	12 815	542	*4.2 %*	315	*2.5 %*
Portugal	4 085	14	*0.3 %*	122	*3.0 %*
Romania	5 175	(79)	*(1.5 %)*	16	*0.3 %*
Slovenia	441	0	*0.0 %*	1	*0.2 %*
Slovakia	1 615	2	*0.1 %*	21	*1.3 %*
Finland	1 159	3	*0.3 %*	2	*0.1 %*
Sweden	1 121	2	*0.2 %*	3	*0.3 %*
United Kingdom	4 582	48	*1.1 %*	54	*1.2 %*
INTERREG	67	12	*18.0 %*	11	*15.8 %*
Total	**93 326**	**1 729**	***1.9 %***	**2 008**	***2.2 %***

Table: in EUR millions

Negative amounts displayed in the above table may be due to Court of Justice judgements annulling financial correction decisions.

5.5. Agricultural amounts recovered from final beneficiaries by the Member States in 2017 and used in the calculation of the corrective capacity

Member State	EAGF	EAFRD	Total 2017
Belgium	2.3	0.3	**2.6**
Bulgaria	1.4	2.1	**3.5**
Czech Republic	0.6	1.4	**2.0**
Denmark	3.7	1.0	**4.7**
Germany	16.1	5.7	**21.8**
Estonia	0.4	1.1	**1.5**
Ireland	3.8	2.1	**5.9**
Greece	7.6	8.6	**16.1**
Spain	12.6	5.3	**17.8**
France	12.8	3.1	**15.9**
Croatia	1.0	2.1	**3.1**
Italy	17.4	18.8	**36.2**
Cyprus	0.2	0.0	**0.2**
Latvia	0.3	1.3	**1.6**
Lithuania	1.4	1.7	**3.0**
Luxembourg	0.1	0.1	**0.3**
Hungary	4.1	3.3	**7.4**
Malta	0.4	1.6	**2.1**
Netherlands	5.6	0.5	**6.1**
Austria	5.8	4.6	**10.4**
Poland	4.8	9.5	**14.3**
Portugal	4.4	12.7	**17.1**
Romania	15.6	17.3	**32.9**
Slovenia	0.7	0.7	**1.5**
Slovakia	1.3	1.5	**2.7**
Finland	0.7	0.9	**1.7**
Sweden	0.4	0.6	**1.0**
United Kingdom	5.1	5.5	**10.6**
Total	**130.7**	**113.2**	**243.9**

Table: in EUR millions

The recovered amounts presented above reflect the data used in order to calculate the corrective capacity from recoveries, but include also recoveries due to cross compliance infringements.These amounts are treated as assigned revenue for European Agricultural Guarantee Fund, while the amounts recovered for European Agricultural Fund for Rural Development can be reallocated to the programme concerned.

For **European Agricultural Fund for Rural Development** (2007-2013 and 2014-2020 programming periods), the figures are taken from the debtors' ledger (recovered amount and interest). For **European Agricultural Guarantee Fund**, the amounts are taken from the EU accounts, as they are declared by the Member States with their monthly declarations.

Annex 5: Assurance provided by the Internal Audit Service

The Commission also based its assurance on the work done by the Internal Audit Service (IAS), its principal findings and recommendations, and information from the Audit Progress Committee (APC). The Committee supports the Commission in ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and receive appropriate follow-up.

The Internal Audit Service has provided in its 2017 Internal Audit Report according to Article 99 (3) of the Financial Regulation conclusions on performance audits completed in 2017, made reference to the overall opinion on financial management for the year 2017 and reported on progress in implementing its audit recommendations.

The Internal Audit Service concluded that 95 % of the recommendations followed up during 2013-2017 had been effectively implemented by the auditees. Of the 359 recommendations still in progress at the cut-off date of 31 January 2018 (representing 20% of the total number of accepted recommendations over the past five years), one was classified as critical[206] and 133 as very important. Out of these 134 recommendations rated critical or very important, 12 very important were overdue by more than six months at the end of 2017, representing 0.7 % of the total number of accepted recommendations of the past five years. The Internal Audit Service's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The Internal Audit Service continued to carry out performance audits in 2017 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money. The Internal Audit Service conclusions on these audits related to:

(i) Performance management and measurement:

- Governance-related issues: Following the administrative reform of 2000, the Commission made significant advances in strengthening its accountability, responsibility and assurance building processes. The decentralised model of financial management is well understood and embedded in the culture of the organisation and clear accountability instruments are in place together with a robust assurance building process. Furthermore, in October 2017 the Commission adopted a Communication on governance in the European Commission. Nevertheless, the Internal Audit Service identified the need for proportionate improvements at corporate level, in particular as regards risk management and more general aspects of the current governance arrangements, including IT governance.
- Production process and the quality of statistics not produced by Eurostat*:* the Internal Audit Service concluded that the framework currently in place in the Commission is not robust enough to ensure that the quality of the statistics not produced by Eurostat which are used by the DGs/Services to support their key policies and report on their performance is of a satisfactory quality overall.
- HR management: the Internal Audit Service concluded that the DGs and Executive Agencies have taken adequate measures to manage the HR challenges to which they are confronted, but also identified significant areas for improvement as regards strategic HR management (DG HOME and EACEA) and the allocation of HR (DG HOME and DG JUST).
- IT management: several IT audits concluded that there is room for improving the effectiveness of IT security in the Commission in specific areas at *corporate* level (DG DIGIT: although the preventive controls are adequately designed and effective, the level of maturity varies between the different technologies analysed; in addition, there are significant weaknesses as regards integrity controls) or *operational* level (DG ENER, European Anti-fraud office).
- Other non-financial processes: Internal Audit Service audits showed that further actions and improvements are necessary to increase the overall performance of the audited processes in specific areas (e.g. the current corporate framework on the cost effectiveness of controls; the management of agricultural markets, including market crises, by DG AGRI; the food safety crisis preparedness by DG SANTE; the cooperation of the Commission with the national courts in the enforcement of EU antitrust policy; the efficiency and effectiveness of complaints

handling as part of the enforcement of EU environmental law by DG ENV; the implementation of scientific projects management activities of JRC; staff awareness on how to deal with social media and interest representatives as part of the ethics rules and obligations in European Anti-fraud office).

(ii) Performance in implementing budget operational and administrative appropriations

- Direct management: Based on the audits of performance in implementing budget operational and administrative appropriations, the Internal Audit Service did not identify significant performance weaknesses in the area of directly managed funds.

  However, the Internal Audit Service identified specific improvements to be made in the areas of:

  - Indirect management: several audits focused on the supervision arrangements in place in the DGs and Services revealed significant performance issues (e.g. lack of clearly defined supervision strategy for Shift2Rail (S2R) by DG MOVE, DG DEVCO's monitoring of and supervision on the operational performance of the international financial institution's (IFIs) entrusted with the management of investment facilities)

  - Shared management: several audits assessed programme and project management processes and revealed several significant performance weaknesses some of which may endanger the achievement of the policy objectives (e.g. the consistency, effectiveness and timeliness of the operational programmes (OP) amendment process by DGs REGIO, EMPL and MARE, through which Member States can re-orient the delivery mechanisms for implementing OPs; the mechanisms to ensure consistency between the policy preparation and the implementation of funding for youth employment initiatives managed by DG EMPL; the performance measurement and reporting of the Fund for European Aid to the most Deprived (FEAD) managed by DG EMPL; the process for the approval and early monitoring of major projects supported by the European Regional Development Fund and the Cohesion Fund managed by DG REGIO).

In addition, the Internal Audit Service issued limited conclusions on the state of internal control to every DG and department in February 2018 based on its audit work undertaken between 2015 and 2017. These conclusions were intended to contribute to the 2017 Annual Activity Reports of the DGs and departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important' and in four cases (DG CLIMA, DG DEVCO, SRSS and EACEA) the Internal Audit Service stated that the DG, service or agency concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In three cases (DG CLIMA, DG DEVCO and EACEA) the DGs/agency issued such reservations in line with Internal Audit Service limited conclusions:

- DG CLIMA with regard to the delay observed in the implementation of one very important IT security related recommendation (on the management of the security of the EU ETS IT system), which exposes the DG to the risk of security breaches;

- DG DEVCO with regard to the delay observed in the implementation of one very important recommendation issued in the context of the audit on the management of the African Peace Facility;

- EACEA with regard to one critical and a number of very important recommendations issued in the context of the audit on Erasmus+ and Creative Europe – grant management phase 1. Following the action taken by the Agency, the rating of the critical recommendation has been downgraded to 'very important' after a follow-up engagement performed by the Internal Audit Service in March 2018.

In the case of the Structural Reform Support Service (SRSS), the Internal Audit Service drew particular attention to the SRSS to the public procurement issues identified in an audit on financial management in the SRSS and indicated that the service should duly assess if these require a reservation in the Annual Activity Report. On the basis of the existing corporate guidelines, the service concluded that there was no basis for a financial reservation and no need for a reservation in the Annual Activity Report on reputational grounds as the reputational risks identified did not materialise. The Annual Activity Report agreed with this assessment.

As required by its mission charter, the Commission's internal auditor also submitted an overall opinion, which is based on the audit work in the area of financial management in the Commission carried out by the Internal Audit Service during the previous three years (2015-2017) and also takes into account information from other sources, namely the reports from the European Court of Auditors. Based on this audit information, the internal auditor considered that, in 2017, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officer by Delegations' Declarations of Assurance and issued in their respective Annual Activity Reports.

In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as calculated by the Authorising Officers by Delegation, as these go beyond the amounts put under reservation. The overall amounts at risk are the best estimation of Authorising Officers by Delegation for the amount of the expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2017. In their 2017 Annual Activity Reports, the DGs estimate the amounts at risk at payment. Taken together, these correspond to an overall amount below materiality of 2%, as defined in the instructions for the preparation of the 2017 Annual Activity Reports, of all executed payments in the Commission budget, the European Development Fund and the EU Trust Funds in 2017. These amounts at risk at payment in 2017 do not yet include any financial corrections and recoveries related to deficiencies and errors the DGs will detect and correct in the next years due to the multi-annual corrective mechanisms built into the Commission's internal control systems.

Given these elements, the internal auditor considers that the EU budget is therefore adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added an 'emphasis of matter' highlighting issues that require particular attention as follows:

Supervision strategies regarding third parties implementing policies and programmes

Although it remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), the Commission is increasingly relying on third parties to implement its programmes. This is mostly done by delegating the implementation of the EC operational budget (under indirect management mode) or certain tasks to third countries, international organisations or international financial institutions, national authorities and agencies, Joint Undertakings, non-EU bodies and EU Decentralised Agencies. Moreover, in some policy areas, greater use is progressively made of financial instruments under the current 2014-2020 MFF. Such instruments and alternative funding mechanisms entail specific challenges and risks for the Commission, as also highlighted by the ECA.

To fulfil their overall responsibilities, the operational DGs have to oversee the implementation of the programmes and policies and provide guidance and assistance where needed. The DGs therefore have to define and implement adequate, effective and efficient supervision/monitoring/reporting activities to ensure that the delegated entities and other partners effectively implement the programmes, adequately protect the financial interests of the EU, comply with the delegation agreements, when applicable, and that any potential issue is addressed as soon as possible.

The Internal Audit Service recommended in a number of audits that certain DGs' control and supervisory strategies should set out more clearly their priorities and needs as regards obtaining assurance on sound financial management in those EU and non-EU bodies. In particular, the control strategies did not sufficiently take into account the different risks involved in entrusting tasks to the delegated entities and independent sources were not effectively used to build up the assurance. These DGs should undertake more effective and efficient supervisory activities.

Furthermore, the objectives of the supervisory/monitoring/reporting activities and how to assess their effectiveness were not sufficiently clear and controls on these activities were limited in practice.

The Internal Audit Service notes the initiatives undertaken by the central services as well as the action plans developed following the recommendations from Internal Audit Service by the partner DGs to mitigate the risks related to the relations with their decentralised agencies and implementing bodies on among other things, monitoring programming, performance and budgetary issues.

Annex 6: Compliance with payment time limits (Article 111 5 RAP)[207]

The **statutory time limits** for payments are laid down in the main body of the Financial Regulation[208]. There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 92 of the Financial Regulation foresees that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; this represents in volume a global average of: 87 % in 2015 and 2016, 89 % in 2017. For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of two months remains valid for payments under Article 87 of the Regulation of the European Parliament and the Council[209] laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the Commission departments in their Annual Activity Reports since 2007

[210] In accordance with the applicable rules, the payment times reported in this annex have been calculated as follows:

For payments related to contracts and grant agreements signed before 2013 the time limits specified in the Financial Regulation of 2007 are applied

- where the payment is contingent upon the approval of a report. the time from approval of the report until payment;
- where no report is required. the time from reception of the payment request until payment

For payments related to contracts and grant agreements signed as from 2013, the Financial Regulation of 2012 is applied:

- where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment

The **Commission's global average payment time** is monitored by the Accounting Officer. It has evolved as follows in recent years:

All time limits combined	2015	2016	2017
Global average net payment time	24.9 days	21.4 days	20.4 days
Global average gross payment time	28.6 days	24.9 days	23.3 days

The data shows that the global average net payment time of the Commission departments has been **below 30 days for the last 3 years** for all time limits combined and has steadily decreased since 2016. They are encouraged to continue their efforts in this regard and to implement follow up measures whenever payment time problems are identified. The global average gross payment time is newly provided following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension

The table below illustrates the evolution of the "***late payments***", i.e. *payments made after expiry of the statutory time limit in recent* years for all payments combined. The data used has been extracted from the corporate accounting system:

All time limits combined	**2015**	**2016**	**2017**
Late payments in number	17.9 %	12.4 %	10.4 %
Late payments in value	17.5 %	8.5 %	3.1 %
Average number of overdue days[211]	39.5 days	39.1 days	39.6 days

The number of late payments and the amounts associated with them have decreased significantly since 2016. This result is believed to be linked to the more stringent requirements associated with the 2012 Financial Regulation. Another reason is associated with the sufficient availability of payment appropriations. The average number of overdue days (delays calculated in days), for all time limits combined is stabilized since 3 years.

Concerning the ***interest paid for late payments***[212] (see figures in the table below) **the total amount paid by the Commission in 2017 increased compared to 2016.** This is mainly the consequence of interest paid by the Development department after a Court case (which had been provisioned). The abnormally high amount of interest paid in 2015 was mainly due to the lack of payment appropriations.

	2015	**2016**	**2017**
Interest paid for late payments	EUR 2 064 949.02	EUR 685 645.20	EUR 824 420.68

In general, payments delays and interest paid are a consequence of payment shortages. For that reason, the Budget department has summarised some possible measures which could be applied by the Authorising Officer to actively manage payment appropriations

Other **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature (in average 13 % of the payments in 2015 and 2016. 11 % in 2017) that sometimes have to be assessed by external experts Other causes are associated with difficulties in coordinating the financial and operational checks of payment requests, and issues with the management of payment suspensions

The 2009 Communication establishing Commission-internal payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times further When setting up action plans in this area, services' should focus on further reducing late payments from their current levels of 10 4 % of payments in terms of their number. 3 1 % of their value. ***The aim should be to meet the statutory payment time for every payment***

The table that follows gives a detailed overview of the suspensions of payment:

	2015	**2016**	**2017**
Total number of suspensions	27 254	26 595	26 173

Suspensions are a tool that allows the responsible authorising officer to withhold temporarily the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts on the eligibility of the expenditure concerned. It is a basic tool for the authorising officer in the payment process towards avoiding irregular or erroneous payments and fundamental towards ensuring sound financial management and protecting the Union's financial interest.

Annex 7: Summary of Waivers of recoveries of established amounts receivable (Article 91 5 RAP)

In accordance with Article 91 (5) of the Rules of Application, the Commission is required to report each year to the budgetary authority, in an annex to the summary of the Annual Activity Reports, on the waivers of recovery involving 100 000 EUR or more

The following tables show the total amounts and the number of waivers above 100 000 EUR, per department, for the financial year 2017

EU budget:

Department	Amount of waivers, in EUR	Number of waivers
Agriculture	659 157.56	1
Communication Networks	140 792.06	1
Development	4 719 147.50	8
Education, Audiovisual and Culture Executive Agency	245 000.00	2
Employment	403 588.74	2
Energy	605 481.50	2
Neighbourhood	136 236.00	1
Research	234 338.50	2
Total:	**7 143 741.86**	**19**

European Development Fund:

Department	Amount of waivers. in EUR	Number of waivers
European Development Fund	3 074 817.44	9

Guarantee Fund:

Department	Amount of waivers. in EUR	Number of waivers
Guarantee Fund (Research 7^{th} Framework Programme & Horizon 2020)	1 928 183.77	12

Annex 8: Report on negotiated procedures (Article 53 RAP)

1. Legal basis

Article 53 of the Rules of Application of the Financial Regulation requires Authorising Officers by Delegation to record contracts concluded under negotiated procedures. Furthermore, the Commission is required to annex a report on negotiated procedures to the summary of the Annual Activity Reports referred to in Article 66 (9) of the Financial Regulation.

2. Methodology

A distinction has been made between the 47 departments which normally do not provide external aid, and those three departments (DEVCO, NEAR and FPI) which conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title IV of Part Two of the Financial Regulation) or award contracts on their own account, but outside of the territory of the European Union.

These three departments have special characteristics as regards data collection (decentralised services, …), the total number of contracts concluded, thresholds to be applied for the recording of negotiated procedures (EUR 20 000), as well as the possibility to have recourse to negotiated procedures in the framework of the rapid reaction mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts of these three departments.

3. Overall results of negotiated procedures recorded

3.1. The 47 departments, excluding "external relations"

On the basis of the data received, the following statistics were registered: 102 negotiated procedures with a total value of EUR 519 million were processed out of a total of 746 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 2 892 million.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to **13.7 %** in number (14.2 % in 2016), which represents some **17.9 %** of all procedures in value (16.4 % in 2016).

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is "distinctly higher than the average recorded for the Institution" i.e. if it exceeds the average proportion by 50 %, or if the increase from one year to the next is over 10 % in the proportion.

Thus, the reference threshold for this year is fixed at **20.5 %** (21.3 % in 2016).

8 departments exceeded the reference threshold and, in addition, 8 increased their number of negotiated procedures by more than 10 % in the proportion of the negotiated procedures launched last year (5 departments exceeded both indicators). Among these 8 departments, it should be noted that 5 of them concluded only one to four negotiated procedures, but the low number of procedures conducted by each of them (up to 10), makes their average high. Consequently their results are to be considered as non-significant.

To be noted that, 20 departments have not used any negotiated procedure, including 6 ones that awarded no contract at all.

The assessment of negotiated procedures compared with the previous year shows a decrease in the order of 0.5 percentage points in terms of relative number and an increase of 1.5 percentage points in terms of relative value.

3.2. The three "external relations" departments

On the basis of the data received, the following statistics were registered: 124 negotiated procedures for a total value of contracts of EUR 97 million were processed out of a total of **455** procedures for contracts over EUR 20 000 with a total value of about EUR 544 million.

For the three "external relations" departments, the average proportion of negotiated procedures in relation to all procedures amounts to **27.3 %** in number (23.1 % in 2016), which represents some **17.8 %** of all procedures in value (**11.2 %** in 2016).

Thus the reference threshold for this year is fixed at **40.9 %** (**34.6 %** in 2016) which represents an increase of 50% the average proportion of 2017. One department exceeds the reference threshold of **40.9 %.**

If compared with previous year, these departments have registered an increase of **4.2** percentage points in number of negotiated procedures in relation to all procedures and an increase of **6.6** percentage points in terms of relative value.

4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2017 compared to 2016 has slightly increased (from 86 to 102), due to the increase of the overall number of procurement procedures (from 606 to 746).

The following categories of justifications to call for a negotiated procedure have been presented by those departments who exceeded the thresholds:

- **Statistical deviations** due to the high number of contracts awarded under all procedures.
- **Objective situations of the economic activity sector,** where the number of operators may be very limited or in a monopoly situation (for reasons of intellectual property, specific technical expertise, confidential information, exclusivity rights, etc.). Monopoly situations are met inter alia, in the health area, such as for the purchase of vaccines and antigens for animal diseases. Situations of technical captivity may also arise especially in the IT domain (absence of competition for technical reasons and/or because of the protection of exclusive rights related to proprietary licenses).
- **Situations of emergency or crisis** that cannot be foreseen in advance by the contracting authority, as is the need to ensure contractual continuity of critical secured and highly available network services to key applications in the context of police cooperation, asylum policy, foreign policy, civil protection, money laundering. Additionally, situations in relation to the provision of emergency assistance or crisis situation (e.g. in relation to the nature of the Instrument for Stability which intervene in crisis situation, urgent preparatory measures in Iraq in the field of the Common Foreign and Security Policy or Election Observation Missions in Kosovo).
- **Similar services/works** as provided for in the initial tender specifications. Some services in charge of large inter-institutional procurement procedures realise during the implementation of the contract (most likely in framework contract procedures) that the needs initially foreseen do not often match with the consumption trend during the execution of the contract. Therefore, the leading service must start a negotiated procedure on behalf of all Institutions to increase the ceiling of the framework contract in question.
- **Additional services** not included in the initial contract, which become necessary, due to unforeseen circumstances.
- **Unsuccessful open or restricted procedure**, leading to a negotiated procedure (e.g. “Cooperation on competition in Asia” project or “Platform for Policy Dialogue and Cooperation”, i.e. research services to the EU in the fields of conflict prevention, peace-building, mediation and crisis management)

Regular available measures are proposed or implemented by the Budget department’s Central Financial Service and other departments concerned to redress the use of negotiated procedures when other alternatives could be available:

- An **improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs**. The Commission's central services will continue their active communication and consultation policy with the other Commission departments, institutions, agencies and other bodies along the following axes:
  - permanent exchange of information via regular meetings with user services and agencies in appropriate fora;
  - ad-hoc surveys prior to the initiation of (inter-institutional) procurement procedures for the evaluation of needs;
  - better estimate of needs of inter-institutional framework contracts and better monitoring with semester consumption reports from user services or agencies;
- **Training and improved inter-service communication**. The Budget department’s Central Financial Service provides regular practical training sessions on procurement and community of practice sessions.
- Regular update of **standard model documents and guidance documents** on procurement.

Annex 9: EU Trust Funds (Article 187.10 FR)

This annex contains comprehensive and detailed report to the European Parliament and the Council on the activities supported by European Union Trust Funds, on their implementation and performance, as well as on their accounts.

For the performance and results aspects, see sub-section 1.5 on 'Global Europe'.

The Financial Regulation allowed the European Commission to create and administer EU Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions.

A Trust Fund is both a legal arrangement and distinct financial structure relying on a pool funding mechanism, in which several donors jointly finance an action on the basis of commonly agreed objectives and reporting formats. Trust funds have many advantages, such as flexibility, speed of decision-making and the possibility to pool funding from different sources and donors:

- EU Trust Funds enhance the international role of the EU, as well as strengthen the visibility and efficiency of its external action and development assistance.
- Another advantage is faster decision-making process in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation. This can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions) for which EU Trust Funds may be established.
- One more benefit is the leverage of additional resources to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor.

Donors to an EU Trust Fund may be individual Member States as well as other entities. The pooling of resources could also increase coordination between different EU donors in selected areas of intervention, for example if individual Member States decide to channel at least part of their national bilateral assistance through EU Trust Funds.

In order for an EU Trust Fund to be created, it must meet a number of conditions, including EU added value (its objectives can be better met at EU than at national level), additionally (the trust fund should not duplicate already existing and similar instruments) and managerial advantages.

The constitutive act of the EU Trust Fund signed by the European Commission and the donors details some important features of the trust fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (five years), apart from the Colombia EU Trust Fund set up in December 2016 for four years.

Financial contributions to an EU Trust Fund are lodged in a specific bank account. EU Trust Funds are not integrated in the EU budget, but their management needs to be in accordance with the Financial Regulation to the extent necessary to ensure proper use of public resources. The European Commission is empowered to adopt delegated acts laying down detailed rules on the management, governance and reporting of the EU Trust Funds.

EU Trust Funds are implemented directly by the European Commission, which is authorised to use up to 5 % of the resources pooled in a trust fund to cover its management costs. In the case of emergency or post-emergency EU Trust Funds, budget implementation may also be indirect, with the possibility to entrust relevant tasks to other entities, such as third countries and their designated bodies or international organisations and their agencies. In addition to the specific objectives of a given trust fund, implementation must comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

Each EU Trust Fund has its own governing board, which decides on the use of the pooled resources. The board ensures representation of the donors and is chaired by the European Commission, whose positive vote is required for the final decision on the use of the resources. Member States that do not contribute to the trust fund as well as the European Parliament participate as observers. An EU Trust Fund acts collectively on behalf of the EU and all the contributors to its financing.

As far as control and audit mechanisms are concerned, the provisions of the Financial Regulation and its rules of application include a series of safeguards. For example, each year EU Trust Funds are subject to an independent external audit. In addition, the powers of the European Court of

Auditors and of the Commission's internal auditor over EU Trust Funds are the same as those they exercise over the other activities of the European Commission.

With regard to reporting obligations, the European Commission is to submit an annual report on each EU Trust Fund to the European Parliament and the Council. The annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and performance as well as their accounts. The Commission also reports on a monthly basis to the European Parliament and the Council on the budgetary implementation of the EU Trust Funds.

The following EU Trust Funds have been established:

- the EU Trust Fund for the Central African Republic: 'the BÊKOU EUTF' – established 2014
- the EU Regional Trust Fund in Response to the Syrian Crisis: 'the MADAD EUTF' – established 2014
- the European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa: 'the AFRICA EUTF' - established 2015
- the European Union Trust Fund for Colombia: 'the COLOMBIA EUTF' – established 2016

The BÊKOU EUTF

The BÊKOU EUTF (which means 'hope' in Sango, the primary language spoken in the Central African Republic) was established on 15 July 2014, by the European Union (represented by the Commission's Development and Humanitarian departments and by the European External Action Service) and three of its Member States: France, Germany and the Netherlands. The Fund was established with the objective to support all aspects of the country's exit from crisis and its reconstruction efforts. It was furthermore designed taking into consideration the need to better link the reconstruction/development programmes with the humanitarian response (Linking Relief, Rehabilitation and Development - LRRD) in order to rebuild the capacity of the country.

In total 5 EU Member States and other donors have, by the 31 December 2017, contributed to this EU Trust Fund. The total amount of pledges from donors, the European Development Fund and the EU Budget reached over EUR 236 million.

The priority sectors that the Trust Fund supports include health, food security, access to water and reconciliation within Central African Republic society.

Furthermore, the Court of Auditors published a special report in which it assessed the justification of the fund's establishment, its management and the achievement of its objectives so far. Despite some limited shortcomings, it concluded that the choice to set up the fund was appropriate in the given circumstances. It should be taken into account that this was the first EU Trust Fund ever set up. The Court recommended the Commission to develop further guidance on the choice of aid vehicle, to improve donor coordination, selection procedures, performance measurement and to optimise administrative costs.

The MADAD EUTF

The EU Regional Trust Fund in Response to the Syrian Crisis, the 'Madad Fund', ('Madad' broadly means 'helping together' in Arabic), was established on 15 December 2014.

By way of a revised Commission establishment decision in December 2015, and subsequent adoption by the Trust Fund Board in March 2016, the scope of the Madad Fund has been expanded to also cover support to internally displaced persons (IDPs) in Iraq fleeing from the interlinked Syria/Iraq/Da'esh crisis, to provide flexibility to support affected countries also with hosting non-Syrian refugees, and to provide support in the Western Balkans to non-EU countries affected by the refugee crisis.

At the end of 2017, the EU and 23 donors contributed to the Trust Fund: the EU Budget, 22 Member States and 1 non-Member State, with total contributions reaching an amount of approximately EUR 1.43 billion. The contributions from the EU Budget amounted by the end of 2017 to EUR 1.278 billion while the contributions from Member States amounted to EUR 125.8 million and EUR 24.7 million from Turkey. Projects focusing on education, livelihoods and health covering a total of EUR 1.2 billion million have already been approved, out of which EUR 871 million have been contracted to the Trust Fund's implementing partners on the ground.

The Madad Fund is an important implementation channel also for the Facility for Refugees in Turkey, with some 10 % of the Facility's budget to be channelled via the Trust Fund.

These programmes support refugees and host communities in their needs for basic education and child protection, training and higher education, better access to healthcare, improved water and wastewater infrastructure, as well as support for projects promoting resilience, economic opportunities and social inclusion.

The AFRICA EUTF

The EU Trust Fund for Africa was established on 12 November 2015. It provides a rapid, flexible and effective response to root causes of irregular migration and displaced persons in Africa as well as to the crisis in the Sahel and Lake Chad, the Horn of Africa, and the North of Africa regions. It has since then been extended to Ghana, Guinea and Ivory Coast

It aims to help fostering stability and contributing to better migration management. In line with the EU development-led approach to forced displacement, it also helps addressing the root causes of destabilisation, forced displacement and irregular migration, by promoting economic and equal opportunities, security and development.

The EU provides support to the three regions to face the growing challenges of demographic pressure, environmental stress, extreme poverty, internal tensions, institutional weaknesses, weak social and economic infrastructures and insufficient resilience to food crises, which have in some places led to open conflict, displacement, criminality, radicalisation and violent extremism, as well as irregular migration, trafficking in human beings and the smuggling of migrants.

The EU Trust Fund for Africa benefits a comprehensive group of African countries crossed by the major migration routes. These countries are part of the following regional operational windows:

- Window A: Sahel and Lake Chad: Burkina Faso, Cameroon, Chad, the Gambia, Mali, Mauritania, Niger, Nigeria, Senegal, Ghana, Guinea and Cote d'Ivoire
- Window B: Horn of Africa: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda
- Window C: North of Africa: Algeria, Egypt, Libya, Morocco and Tunisia

In addition to the countries mentioned above, neighbouring African countries may also benefit, on a case by case basis, from EU Trust Fund for Africa projects with a regional dimension in order to address regional migration flows and related cross-border challenges.

Activities funded under the EU Trust Fund for Africa are implemented through a range of operating partners, including EU Member States cooperation agencies, Non-Governmental Organisations and international organisations. Several implementation modalities are envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. Priorities of the EU Trust Fund for Africa have been identified through a dialogue with African partners and relevant local, national and regional stakeholders.

As of 31 December 2017, a total of 143 projects worth EUR 2 388 million have been approved for the Sahel & Lake Chad, the Horn of Africa and the North of Africa regions. Of the total amount approved, 210 contracts have been signed with implementing partners for an amount of over EUR 1 502 million (63 % of the approved funding).

In total 26 EU Member States and two other donors (Switzerland and Norway) have, by mid-April 2018, contributed to this EU Trust Fund.

The COLOMBIA EUTF

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. The EU Trust Fund is set to have close to EUR 96 million at its disposal, from the EU budget and from contributions of 19 EU Member States (Croatia, Czech Republic, Cyprus, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Slovakia and Slovenia).

In its first year of operations, the Colombia Trust Fund approved 7 projects for a total amount of EUR 30.3 million and EUR 20 million were contracted by 31st December 2017.

The Trust Fund will help to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post conflict. The overall objective is to help Colombia to secure a stable and lasting peace, to rebuild its social and economic fabric, and to give new hope to the people of Colombia.

The **EU Trust Funds' annual reports by their Trust Fund Managers** (as Authorising Officers by Sub-Delegation), include more details on the activities of the EU Trust Funds. They can be found as annexes of the Annual Activity Reports of the Commission's Development and Neighbourhood departments:

DG DEVCO

- EUTF 'Bêkou' – the EU Trust Fund for the Central African Republic
- EUTF 'Africa' - Horn of Africa Window
- EUTF 'Africa' - Sahel and Lake Chad Window
- EUTF 'Africa' - North of Africa Window
- EUTF 'Colombia' - North of Africa Window

DG NEAR

- 'Madad' Fund – The EU Regional Trust Fund in response to the Syrian crisis

Endnotes

1 http://www.eib.org/efsi/index.htm, Ie, the figures on this page are not part of formal EIB Group reporting on EFSI. Therefore, they are provisional and unaudited. The figures are subject to change.

2 Based on the projects that received financing in 2015 and 2016.

3 Five hotspots (Moria, Vathy, Vial, Lepida and Pyli) are operational in Greece.

4 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_syria_factsheet-english.pdf

5 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/facility_table.pdf

6 https://ec.europa.eu/commission/sites/beta-political/files/solidarity-corps-factsheet_en.pdf

7 Including European Development Fund and external assigned revenue

8 http://ec.europa.eu/echo/what/humanitarian-aid/education-emergencies_en

9 OJ C 322, 28/09/2017

10 See also the Commission's annual Report to the European Parliament and the Council 'Protection of the European Union's financial interests — Fight against fraud 2016 Annual Report' (COM(2017) 383 of 20/07/2017)

11 SWD(2018) 171 final

12 http://ec.europa.eu/eurostat/web/europe-2020-indicators/

13 https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-communication_en.pdf

14 The text in this section is based on the Annual Activity Reports of DGs RTD, GROW, ECFIN, EAC, MOVE, ENER, CNECT, as well as on the relevant Programme Statements for the programmes under this budgetary heading

15 Report on the state of play of the Investment Plan for Europe, https://ec.europa.eu/commission/sites/beta-political/files/brochure-investment-plan-17x17-july17_en.pdf

16 Regulation (EU) 2017/2396, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32017R2396

17 http://www.eib.org/efsi/index.htm, Ie, the figures on this page are not part of formal EIB Group reporting on EFSI. Therefore, they are provisional and unaudited. The figures are subject to change.

18 European Investment Project Portal, https://ec.europa.eu/eipp/desktop/en/index.html

19 Based on the projects that received financing in 2015 and 2016.

20 https://ec.europa.eu/commission/commissioners/2014-2019/thyssen/announcements/speech-conference-financial-instruments-funded-european-social-fund-brussels_en

21 Data extracted from Horizon 2020 Dashboard

22 SWD(2017) 221, and extended version: https://ec.europa.eu/research/evaluations/pdf/book_interim_evaluation_horizon_2020.pdf#view=fit&pagemode=no e

23 SWD(2018) 40, https://ec.europa.eu/assets/eac/erasmus-plus/eval/swd-e-plus-mte.pdf

24 https://ec.europa.eu/commission/sites/beta-political/files/solidarity-corps-factsheet_en.pdf

25 External evaluation study report: http://ec.europa.eu/DocsRoom/documents/28084, Commission Evaluation Staff Working Document to be published in 2018

26 These are preliminary results based on a methodology developed by the consultancies M-Five, KombiConsult and HACON. To ensure the robustness of the analysis, DG MOVE has launched a more detailed study on 14 June 2017 that running until 2018.

27 SWD(2018) 44, https://ec.europa.eu/transport/sites/transport/files/legislation/swd-2018-0044-mid-term-evaluation-cef-ia-part2.pdf

28 SWD(2017) 346, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0346

29 SWD(2017) 347, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0347

30 Staff Working document SWD(2017) 346 final, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0346

31 European GNSS Agency: Summary of Achievements in 2016, https://www.gsa.europa.eu/sites/default/files/2016_gsa_summary_report.pdf

32 COM(2017) 616, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:616:FIN

33 https://ec.europa.eu/info/news/looking-back-europes-contribution-iter-over-last-ten-years-2018-apr-12_en

34 http://f4e.europa.eu/Downloads/Press/Magnets_Press_Release_190520171200.pdf

35 http://fusionforenergy.europa.eu/mediacorner/newsview.aspx?content=1212

36 The text in this section is based on the Annual Activity Reports of DGs REGIO and EMPL, as well as on the relevant Programme Statements for the programmes under this budgetary heading

37 Five Funds, forming the European Structural and Investment Funds (ESIF), work together to support economic development across all EU countries, in line with the objectives of the Europe 2020 strategy: European Regional Development Fund (ERDF); European Social Fund (ESF); Cohesion Fund (CF); European Agricultural Fund for Rural Development (EAFRD); European Maritime and Fisheries Fund (EMFF). The latter two are covered by Budget Heading 2 (Sustainable Growth).

38 COM(2017) 755 final (page 5) - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/strat_rep_2017/strat_rep_2017_en.pdf

39 Special report No 15/2017: Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments

40 Source: REGIO Annual Activity Report, page 12

41 Seventh report on economic, social and territorial cohesion - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion7/7cr.pdf

42 Strategic report 2017 on the implementation of the European Structural and Investment Funds http://ec.europa.eu/regional_policy/en/policy/how/stages-step-by-step/strategic-report/

43 One individual may participate in several European Social Fund funded operations and therefore 'participants' should be understood as participations

44 http://ec.europa.eu/regional_policy/en/policy/evaluations/ and http://ec.europa.eu/social/main.jsp?langId=en&catId=701

45 http://ec.europa.eu/regional_policy/en/policy/analysis/

46 Staff Working document SWD(2016)318

47 COM(2017) 755 final (page 12) - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/strat_rep_2017/strat_rep_2017_en.pdf

48 Special Report 23/2016 Maritime transport, Special Report 2/2017 Partnership Agreements, Special Report 18/2017 Single European Sky, Special Report 13/2017 Rail traffic

49 The text in this section is based on the Annual Activity Reports of DGs AGRI, MARE, ENV and CLIMA as well as on the relevant Programme Statements for the programmes under this budgetary heading

50 COM(2017) 713 final - http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0713

51 https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/facts-figures/direct-payments.pdf

52 Evaluation study of the payment for agricultural practices beneficial for the climate and the environment, Final Report - https://ec.europa.eu/agriculture/sites/agriculture/files/fullrep_en.pdf, Commission Evaluation Staff Working Document to be published in 2018

53 Special Report No 21/2017

54 Figures by 31/12/2016.

55 Regulation (EU) 2017/2393

56 https://enrd.ec.europa.eu/projects-practice_en

57 Special Report No 16/2017: Rural Development Programming: less complexity and more focus on results needed and Special report no 11/2018: New options for financing rural development projects: Simpler but not focused on results

58 Staff Working Document to be published in 2018

59 SWD(2017) 452 final, Strategic report 2017 on the implementation of European Structural and Investment Funds

60 COM(2018) 48 final - http://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-48-F1-EN-MAIN-PART-1.PDF

61 SWD(2017) 274 final – http://ec.europa.eu/newsroom/document.cfm?doc_id=45977

62 COM(2016) 942 final - http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:942:FIN

63 SWD(2017) 355 final - https://ec.europa.eu/info/sites/info/files/report-on-the-mid-termevaluation_swd_355_en.pdf

64 COM(2015)478 final, Mid-term review of the EU Biodiversity Strategy to 2020

65 The text in this section is based on the Annual Activity Reports of DGs HOME, JUST, ECHO, SANTE, EAC as well as on the relevant Programme Statements for the programmes under this budgetary heading

66 Publication first half of 2018

67 Publication first half of 2018

68 A 'hit' in the Schengen Information System means that the person or object has been found in another Member State and further action, specified in the alert, is provided by the system.

69 https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20171114_central_mediterranean_route_en.pdf

70 SWD(2017) 0287 final, 30.8.2017, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2017%7 %3A287%7 %3AFIN

71 Publication first half 2018

72 COM(2017) 546 final - http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0546&from=EN

73 COM(2017) 586 final - https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0586&from=EN

74 The text in this section is based on the Annual Activity Reports of DGs DEVCO, ECHO, NEAR, FPI, ECFIN, as well as on the relevant Programme Statements for the programmes under this budgetary heading

75 In 2017, the European Commission provided EUR 1.4 billion in humanitarian aid (excluding the European Development Fund and external assigned revenue). This amount also includes the allocation for the Emergency Support within the EU. If all instruments and sources are added up (European Development Fund, external assigned revenue from Member States – mostly for the Facility for Refugees in Turkey – and Emergency Support within the EU), the total amount of humanitarian aid increases to EUR 2.2 billion.

76 http://ec.europa.eu/echo/what/humanitarian-aid/education-emergencies_en

77 ICF, Comprehensive evaluation of the European Union humanitarian aid in 2012-2016, (2018), https://ec.europa.eu/echo/sites/echo-site/files/cha_final_report_01032018_master_clean.pdf , p 38

78 SWD(2017) 604, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0604

79 SWD(2017) 605, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0605

80 SWD(2017) 607, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0607

81 Regulation (EU) 2017/2306 of the European Parliament and of the Council of 12 December 2017

amending Regulation (EU) No 230/2014 establishing an instrument contributing to stability and peace, OJ L 335, 15.12.2017, p. 6–10, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2306

82 COM(2017) 720 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:720:FIN

83 SWD(2017) 608 final, https://ec.europa.eu/europeaid/sites/devco/files/swd-mid-term-review-pi_en_0.pdf

84 External Evaluation of the Partnership Instrument (2014 – mid 2017) of June 2017: https://ec.europa.eu/europeaid/mid-term-evaluation-partnership-instrument-pi-draft-report_en

85 http://europa.eu/rapid/press-release_IP-17-2007_en.htm

86 SWD(2017) 463, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2017:463:FIN

87 However, in the case of Turkey the European Court of Auditors concluded that only limited results have been achieved so far, see Special Report 07/2018, 'EU pre-accession assistance to Turkey, only limited results so far.'

88 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/facility_table.pdf

89 SWD(2017) 600, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0600

90 The EU suspended all its bilateral cooperation with the Government of Syria in May 2011. However the EU continues to deliver assistance to the Syrian population, both inside and outside Syria.

91 This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

92 SWD(2017) 602, https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017SC0602

93 JOIN(2017) 18, https://eeas.europa.eu/sites/eeas/files/2_en_act_part1_v9_3.pdf

94 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_syria_factsheet-english.pdf

95 SWD(2016) 295 final, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016SC0295

96 http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm

97 OJ C 322, 28/09/2017

98 The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is a joint initiative of five private sector organisations, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organisational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organisations may assess their control systems.

99 Communication to the Commission from Commissioner Oettinger – Revision of the Internal Control Framework (C(2017) 2373 of 19 April 2017)

100 Agriculture, Climate, Communication, Informatics, Education and Culture and its agency, Small and Medium Enterprises agency, Employment, Energy, Environment, Human Resources, Mobility, Regional, Interpretation, and Legal departments.

101 The methodology has been developed in close co-operation with all the Commission departments.

102 During 2017, the Budget department developed and implemented a new (risk-focused) strategy for the validation of local systems. It aims to simplify and speed up the process, reducing the administrative burden on authorising departments and disseminating best practices beyond the departments examined.

103 The main open recommendations involve the Regional and Paymaster departments.

104 Mainly the Mobility/Energy, Research and Agriculture departments

105 Mainly the completeness of the registration of reflows from financial instruments, the documentation and reporting on recovery context, and the timely establishment of recovery orders.

106 Plus the European Development Fund and the EU Trust Funds in the case of the External Relations departments

107 The financial importance of the 50 Commission departments varies significantly. The management of funds is highly concentrated among a few big spending departments (with more than 40% of payments made by the Agriculture department only and 80% by seven Commission departments), with a long tail of other much

smaller spending departments (the 'last' 5% of payments is made by 34 (i.e. two thirds) of the Commission departments).

108 Shares in the 2017 expenses by the European Commission (with less for ‘Cohesion’ compared to the 2016 ‘closure year’).

109 Mainly in shared management: financial corrections before declaring, accepting and reimbursing the expenditure to the Commission.

110 Before accepting the expenditure, clearing the pre-financing (i.e. transferring its ownership) and/or making the interim/final payment.

111 e.g. recovering unused pre-financing, rejection of (part of) costs claimed, etc.

112 After having accepted the expenditure, cleared the pre-financing (i.e. ownership transferred) and/or made the interim/final payment.

113 As required by the Financial Regulation Article 66(5).

114 For the definitions of the terminology in this subsection, see Annex 3.

115 i.e. financial operations not in conformity with the applicable contractual and regulatory provisions.

116 Or equivalent: see Annex 3.

117 More detailed tables in Annex 2-A.

118 European Court of Auditors’ 2016 Annual Report, Paragraph 1.25 with Box 1.8

119 These may include errors of a formal nature that, although important to address, do not always result in undue payments and therefore do not always give rise to financial corrections or recovery orders.

120 Data from AUDEX (AUDIT and EXtrapolation system for H2020), including ‘direct’ coverage (fully audited transactions) and ‘indirect’ coverage (non-audited participations which, nevertheless, after the full treatment of audit results, are clean from systematic errors)

121 More detailed tables in Annex 2-A.

122 More detailed tables in Annex 2-A.

123 Article 66(9) of the Financial Regulation requires the Authorising Officers by Delegation to include in their Annual Activity Reports an overall assessment of the costs and benefits of controls.

124 For shared management, the Agricultural and Home Affairs departments reported separately on the costs of controls at Member States’ level in 2017 whereas the Maritime, Employment and Regional departments will report on it in 2018 once the results of their on-going studies will be available. For indirect management, 13 out of 17 departments reported on the cost at entrusted entities level separately from the Commission’s cost of control in 2017. However, the cost of controls by the entrusted entities is only a portion of the broader administration (management) fees paid.

125 Simplified Cost Options mean lump sums, flat rates and scales of unit costs.

126 Article 325(1) of the Treaty on the Functioning of the European Union

127 Article 317 of the Treaty on the Functioning of the European Union

128 Article 32 of the Financial Regulation

129 https://ec.europa.eu/info/publications/annual-activity-reports_en

130 Including since 2017 the ‘Task Force for the Preparation and Conduct of the Negotiations with the United Kingdom under Article 50 of the Treaty on European Union’

131 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

132 The first results from the implementation of the related action plan were reviewed by the Internal Audit Service in March 2018. Consequently, the Internal Audit Service downgraded the previously critical recommendation to very important.

133 More detailed tables in Annex 2-B.

134 Six departments; i.e. the Development, Neighbourhood and Humanitarian departments, plus also (albeit to a limited extent) the Home Affairs, Regional and Employment departments

135 Four EU Trust Funds: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic; the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis; the EU Emergency Trust Fund for Africa; the EU Trust Fund for Colombia

136 In their Annual Activity Reports Annex 4, the materiality criteria state that 'the control system established for Horizon 2020 is designed to achieve a control result in a range of 2 % - 5 % detected error rate, which should be as close as possible to 2 % after corrections. Consequently, this range has been considered in the legislation as the control objective set for the framework programme.' This is an alternative to the general materiality criteria usually applied by Commission departments (by which the residual error rate must be lower than 2 % by the end of the implementation of the programme).

137 The legislative financial statement accompanying the Commission's proposal for the Horizon 2020 regulation states: 'The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5 % is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research projects. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, corrections and recovery measures will have been taken into account is to achieve a level as close as possible to 2 %.'

138 The Legislative Authority adopted certain provisions that increase the risk of error, such as a limit on additional remuneration, reimbursement for large scale research infrastructure and a higher target for SME participation.

139 https://www.eca.europa.eu/en/Pages/Strategy.aspx

140 https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=44524

141 In Cohesion this is not always a 'net' reimbursement to the EU budget, as Member States have the option to replace the ineligible expenditure with new eligible expenditure.

142 Including financial corrections at source and corrections from financial clearance in Agriculture. The methodology used by DG AGRI to calculate the corrective capacity for the purpose of its annual activity report is explained under point 2.1.1.3.1 of DG AGRI's 2017 Annual Activity Report.

143 The Internal Audit Service audit on Erasmus+ and Creative Europe – grant management phase 1 (from the call to the signature of contracts).

144 Internal Audit Service Audit on the Governance, Planning, Monitoring and Implementation of the budget line of the OLAF Supervisory Committee.

145 INEA only partially accepted the observation as it considered that part of this recommendation was beyond its remit and should be addressed at Commission level. However, the action plan provided by INEA addressed all parts of the recommendation (including the part rejected).

146 Following discussion in the Audit Progress Committee DG NEAR confirmed that the management will pursue the principles recommended by the Internal Audit Service .

147 E.g. internal control standards are based on the 2013 framework for internal control principles established by the Sponsoring Organizations of the Treadway Commission.

148 European Court of Auditors' Special Report No 27/2016 on 'Governance at the European Commission – best practice?',

149 Communication to the Commission from President Juncker and First Vice-President Timmermans: Governance in the European Commission, C(2017) 6915 final of 11 October 2017, URL: https://ec.europa.eu/info/sites/info/files/c_2017_6915_final_en.pdf.

150 European Court of Auditors, Rapid case review on the implementation of the 5 % reduction of staff posts, 21/12/2017.

151 Eurostat periodically revises its published data to reflect new or improved information, also for previous years. The latest published data is available by clicking on "bookmark". The "latest known value" column reflects

the data that was available at the time of the preparation of the Annual Activity Reports on 2017 and it is the reference point for the Annual Activity Reports of Commission services.

152 The share of 18 to 24 year old persons who have at most lower secondary education and are not in further education and training.

153 Gross domestic product at 2010 reference levels per hour worked (purchasing power parity adjusted).

154 The indicator focuses on the sustainability of growth and jobs.

155 DESI is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness. The closer the value is to 1, the better. The DESI index is calculated as the weighted average of the five main DESI dimensions: 1 Connectivity (25 %), 2 Human Capital (25 %), 3 Use of Internet (15 %), 4 Integration of Digital Technology (20 %) and 5 Digital Public Services (15 %). The DESI index is updated once a year.

156 The FINTEC indicator is a scale-free measure normalized to always lie between 0 and 1; 0 means no cross-border integration, 1 means full integration; for the price-based part 1 would mean total absence of any price differentials for comparable money market instruments; for the volume-based part, full integration would mean lack of any home bias on the side of investors.

157 Variation coefficient of GDP volume indices of expenditure per capita.

158 CISS measures the state of instability in the euro area financial system. It comprises 15 mostly market-based financial stress measures split into five categories: financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets. It is unit-free and constrained to lie within the interval (0, 1).

159 The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile).

160 The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

161 The indicator measures the % of effected returns compared to return decisions issued by the Member States.

162 Eurostat collects both the nominator and the denominator annually from the Ministries of Interior / Border Guards / Police of the Member States. The data depend very much on national circumstances and policies. In addition, the time lag between the return decision and its execution means that the reference population of the nominator and denominator are not the same.

163 Host-country nationals and other EU nationals counted together.

164 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

165 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

166 The 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.

167 For the calculation of the baseline, beneficiary countries under the Development Cooperation Instrument and European Development Fund have been taken into account. Beneficiaries under the European Neighbourhood Instrument and EU-Greenland Partnership Instrument have been excluded.

168 The number of opinions to a certain degree depends on the number of legislative proposals and policy communications put forward by the Commission.

169 Six departments; i.e. the Development, Neighbourhood and Humanitarian departments, plus also (albeit to a limited extend) the Home Affairs, Regional and Employment departments;
Four EU Trust Funds: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic; the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis; the EU Emergency Trust Fund for Africa; the EU Trust Fund for Colombia. See also Annex 9.

170 e.g. the "adjusted error rates" (Agriculture department, for Rural Development), the "reportable error

rates" (Regional department, for the 2007-2013 programmes), or the “residual total error rates” (Maritime department, for the current programme). In other cases (e.g. Development and Neighbourhood departments), they are derived by a backwards calculation based on results from advanced residual error studies; i.e. by adding the estimated future corrections (if not assumed being zero) to the amount at risk at closure.

171 As disclosed in the Annual Activity Reports, this includes considering fewer more recent years than the 7-years-period (e.g. Agriculture, Development, Neighbourhood departments), using an alternative estimation basis (e.g. Agriculture, Research, Communication Networks, Regional, Employment departments and the Research Executive Agency), or even estimating that future corrections will be zero (e.g. Regional, Employment, Maritime departments for their current programmes, as the relevant corrections have been implemented by the Member States in the relevant annual accounts to have a residual error rate below the materiality threshold of 2 % following the change of the management and control system put in place for the 2014-2020 period).

172 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

173 For some programmes with no set closure point (e.g. European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible afterwards (e.g. European Agricultural Fund for Rural Development and European Structural and Investment Funds), all corrections that remain possible are considered for this estimate.

174 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.

175 As disclosed in the Annual Activity Reports, this includes considering fewer more recent years than the 7-years-period (e.g. Agriculture, Development, Neighbourhood departments), using an alternative estimation basis (e.g. Agriculture, Research, Communication Networks, Regional, Employment departments and the Research Executive Agency), or even estimating that future corrections will be zero (e.g. Regional, Employment, Maritime departments for their current programmes, as the relevant corrections have been implemented by the Member States in the relevant annual accounts to have a residual error rate below the materiality threshold of 2 % following the change of the management and control system put in place for the 2014-2020 period).

176 Equivalent to the European Court of Auditors' methodology (European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 10)

177 In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated departments (since 2017 also for Type 3). In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating departments (the reporting on the latter is being reconsidered for 2018).

"Pre-financings paid/cleared" are always covered by the Delegated departments, even in the case of Cross-SubDelegations.
PS: Co-Delegations Type 1 are actually 'divided' between departments, with each department duly covering its own 'share' of (both) payments and pre-financings.

178 e.g. the "adjusted error rates" (Agriculture department; for Rural Development), the "reportable error rates" (Regional department; for the 2007-2013 programmes), or the “residual total error rates” (Maritime department; for the current programme). In other cases (e.g. Development and Neighbourhood departments), they are derived by a backwards calculation based on results from advanced residual error studies; i.e. by adding the estimated future corrections (if not assumed being zero) to the amount at risk at closure.

179 See the European Court of Auditors' 2016 Annual Report, paragraph 1.25 with box 1.8

180 See the European Court of Auditors' methodology (European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 17)

181 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

182 Special Report No 4/2017 “Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period”.

183 The methodology used by DG AGRI in order to calculate the corrective capacity for the purpose of its

annual activity report is explained under point 2.1.1.3.1 of DG AGRI Annual Activity Report 2017.

184 The methodology used by DG AGRI in order to calculate the corrective capacity for the purpose of its annual activity report is explained under point 2.1.1.3.1 of DG AGRI Annual Activity Report 2017.

185 It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables above may appear not to add-up.

186 For the purpose of calculating its corrective capacity in the Annual Activity Report, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts the corrections in respect of cross-compliance infringements. For details on the methodology used for FY 2017, see DG AGRI Annual Activity Report 2017, point 2.1.1.3.1.

187 The amount does not include the financial corrections “at source”.

188 Article 21(3)(c) of the Financial Regulation.

189 Art. 41 of Reg. 1306/2013.

190 Regulation (EU) Nº 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Funds, the European Social Fund and the Cohesion Fund repealing Regulation (EC) Nº 1083/2006 – OJ L 347, 20.12.2013, p. 320.

191 Stemming from Member States' control statistics reported to the Commission

192 Not for the 2000-2006 period.

193 'Technical Assistance and Information Exchange instrument TAIEX-REGIO PEER 2 PEER'

194 This amount does not include the at source financial corrections applied by the Member States before declaring the expenditure to the Commission, since there was no legal requirement to report such amounts. Consequently, the Commission does not have such information.

195 Including financial corrections at source.

196 At source corrections are excluded from this annual reporting, in line with the legal framework applicable for 2007-2013.

197 In addition to Commission reporting.

198 In order to eliminate the risk of double counting, the amounts reported in this section are calculated as the difference between the cumulative amounts reported by the Member States (Art. 20 reports on withdrawals and recoveries) and the financial corrections reported by the Commission (table 1.2.2 above).

199 This information has been transmitted in the assurance packages received in February 2018 for the third accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending the Commission verifications).

200 In addition to Commission reporting

201 Research budget implemented by the Commission and Executive Agencies.

202 Implementation of Research budget entrusted to joint undertakings.

203 Budget implementation by international organisations.

204 Flat rate corrections should be seen as an estimation of the financial corrections (flat-rate and/or extrapolated) which are not directly linked to individual operations/projects. It needs also to be underlined that for European Regional Development Fund/Cohesion Fund in some cases the amounts of corrections communicated by the Member States cover both individual and flat rate/extrapolated corrections; for reporting purposes these amounts are included under the typology (individual or flat rate) which is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.

205 As a result, the eligible expenditure declared to the Commission is capped to the amount after the deduction of the flat rate correction.

206 The Internal Audit Service performed in 2017 (final report issued in January 2018) an audit in EACEA on

Erasmus+ and Creative Europe – Grant Management phase 1 (from the call to the signature of contracts). Overall, the Internal Audit Service identified serious shortcomings in the design and implementation of EACEA's controls that require urgent and determined action to ensure that the highest quality projects are selected for EU funding in compliance with the applicable rules. The Internal Audit Service notably issued one critical recommendation (accepted by the Agency) as regards the role of the evaluation committee (no evidence that the evaluation committees' final conclusions on the projects to be financed or rejected were based on a review of and deliberations on the merits of all the submitted grant proposals and that they did not simply endorse the work done by external experts whose role is to assist the committees but not to take the final decisions). Following the action taken by the Agency, the rating of this critical recommendation has been downgraded to 'very important' after an Internal Audit Service follow-up engagement performed in March 2018.

207 From 2017 onwards, the scope of statistics has been extended to include the European Development Fund and the EU Trust Funds in the total of the Commission.

208 Commission Delegated Regulation (EU) N° 1268/2012 of 29 October 2012 (OJ L 362, 312.12.2012, p.1)

209 Regulation (EC) No 1083/2006 of the European Parliament and of the Council laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25)

210 Based on available data in the corporate accounting system (ABAC) as of end of the financial year 2007

211 i.e. above the statutory time limit

212 i.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200)