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

2016 Annual Management and Performance Report for the EU Budget

1.3. Sustainable Growth: Natural Resources (Budget Heading 2)[95]

EUR 62.5 billion has been allocated to Heading 2 in 2016, which represents 40.2 % of the total 2016 EU budget. Heading 2 covers the two pillars of the Common Agricultural Policy (CAP): Pillar I consists of the market support measures and the direct payments financed by the European Agricultural Guarantee Fund (EAGF); and Pillar II comprises the rural development support financed by the European Agricultural Fund for Rural Development (EAFRD). The heading also covers the European Maritime and Fisheries Fund (EMFF), the international dimension of the Common Fisheries Policy (CFP) [i.e. the Regional Fisheries Management Organisations (RFMOs) and the Sustainable Fisheries Agreements (SFAs)], as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).

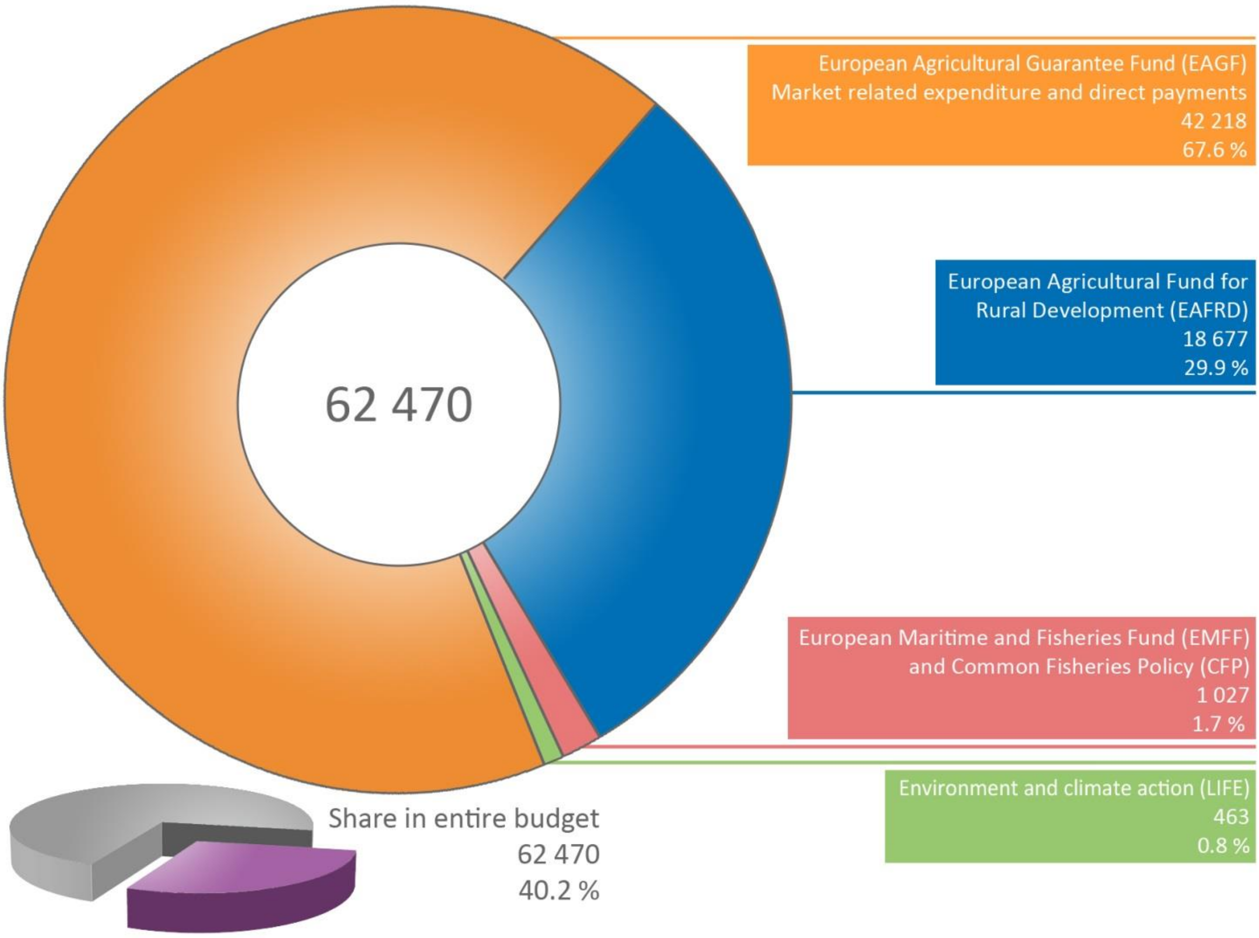


Chart: Top: Main programmes financed in 2016 under Heading 2 / Bottom: Share for Heading 2 in the entire 2016 budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

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.' They also contribute to the Europe 2020 objectives in the area of sustainable growth with links also to smart and inclusive growth with regard to investments contributing to job creation and innovation.

Food security and promotion of smart, sustainable and inclusive growth for EU agriculture and rural areas 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' ability to compete on overseas as well as domestic markets and supporting farm income through direct payments which are now largely decoupled from production. Under the second pillar of the Common Agriculture 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 is meant to address needs relating to environmental and climate action and 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. LIFE is an important instrument contributing to fulfilling the EU commitments related to the achievement of the Sustainable Development Goals and the implementation of Agenda 2030.

For the European Agricultural Guarantee Fund (EAGF) the implementation during the initial years of the 2014-2020 Multiannual Financial Framework has been largely as expected with the measures bringing positive results in terms of stabilizing the agricultural markets, farmers’ income and ensuring the provision of public goods which all form part of the 2016 political priorities. The financial year 2016 has been the first year for the implementation of the new system of direct payments under the reformed Common Agricultural Policy 2014-2020. Despite delays observed during 2016, Member States managed to deliver direct payments to farmers reaching an execution level of 97.8 % of their financial allocations, covering about 7 million farmers and some 90 % of the EU Utilised Agriculture Area (155.5 million hectares).

As far as the second pillar of the Common Agricultural Policy is concerned, rural development programmes financed by the European Agricultural Fund for Rural Development (EAFRD) are more advanced in implementation compared to the other European Structural and Investment Funds (ESIF) under Headings 1B and 2 thanks to some specific provisions for a smooth transition from the previous programming period 2007-2013, which were of particular relevance for so-called 'annual measures' (agri-environmental and forestry measures, organic farming, animal welfare, etc.) representing almost half of all European Agricultural Fund for Rural Development eligible expenditure. The European Agricultural Fund for Rural Development is also much more advanced as regards the closure of rural development programmes under the 2007-2013 period. More than two thirds of these programmes were already closed in 2016 while the remaining ones are expected to be closed in 2017.

1.3.1. Progress of 2014-2020 programmes

European Agricultural Guarantee Fund (EAGF)

For the **European Agricultural Guarantee Fund,** financing direct payments to farmers and market related expenditure, the implementation during the initial years of the 2014-2020 Multiannual Financial Framework remains on track despite the need to apply some exceptional market support measures that were adopted in years 2014-2016 (notably two packages of exceptional measures to support EU farmers mainly in the dairy sector for an overall budgeted amount of EUR 1 680 million in the budgets for 2015, 2016 and 2017).

Market related expenditure

Within the Common Market Organisation (CMO) sector-specific support programmes are operating at various points in their respective life cycles: for example, for the wine national support programmes 2014–2018 it is the second programming period since the reform in 2009; the apiculture programmes follow a three year programming period, with 2017 being the first year of the new three-year programme. In general, implementation is on track with a positive evolution of the execution over the years. School year 2016/2017 is the last year of implementation of the school fruit and vegetables scheme and of the school milk scheme. They are brought together under a single legal framework for greater efficiency, more focused support and an enhanced educational dimension applicable as of 1 August 2017.

Additional market support measures such as private storage aid and public intervention for certain dairy products were kept in place. In addition, exceptional market measures covering targeted aid, exceptional adjustment aid and aid for milk production reduction for dairy farmers were implemented due to the particularly unfavourable market developments of 2015 and 2016. Exceptional support measures for certain producers of fruit and vegetables have been implemented since the second half of 2014 in view of the continued Russian import embargo on certain EU agricultural products. The above measures have helped rebalance the sectors concerned. They effectively helped to increase prices for farmers, proving much-needed support to affected producers in the Member States. European agriculture showed its resilience, finding alternative markets at home and abroad (in particular in Asia and the USA), as evidenced by the trade statistics: the annual value of EU agri-food exports in 2016 reached a new record level of EUR 130.7 billion, which is about 1.5 % higher than in 2015 – yielding an export surplus of almost EUR 19 billion, despite the continued loss of the Russian market.

Nevertheless the downward price evolution in some vulnerable sectors persisted. This justifies continued intervention to keep the market in balance and support the producers in finding alternative outlets or production.

Special aid for milk producers

In the light of the declining farm gate milk prices in the EU in the first half of 2016 and the persisting supply-demand imbalance, the Commission announced an exceptional milk production reduction measure in September 2016. EUR 150 million was made available[96] for the aid for milk production reduction. The final amount of expenditure depends on the confirmed uptake of the measure.

The latest official available data (up to May 2017) show a cumulated increase of milk deliveries in 2016 in the EU of 2.8 million tons, e.g. +4.4 % compared to the same period in 2015. By June 2016, the EU average milk price had decreased by 16 % down to 25.7 cent/kg.

Under the measure, adopted in September 2016, 52 000 participant farmers reduced their milk deliveries by 852 000 tons in the 4th quarter 2016 (64 % of the total decrease in EU milk production in that period).

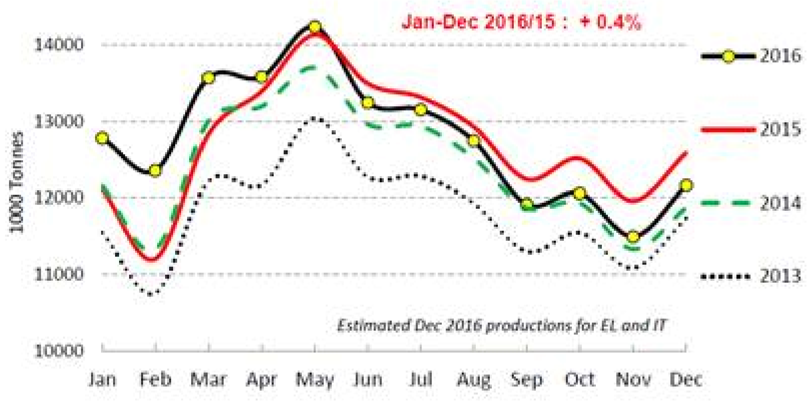


Chart: EU-Cows' milk collected. Source Estat – newcronos. Last update January 2017

In parallel, rebalancing of the market allowed the EU farmgate milk prices to rapidly pick up as of August 2016, reaching an EU average of 33.05 EUR cent/kg in December (e.g. 29 % increase since July).

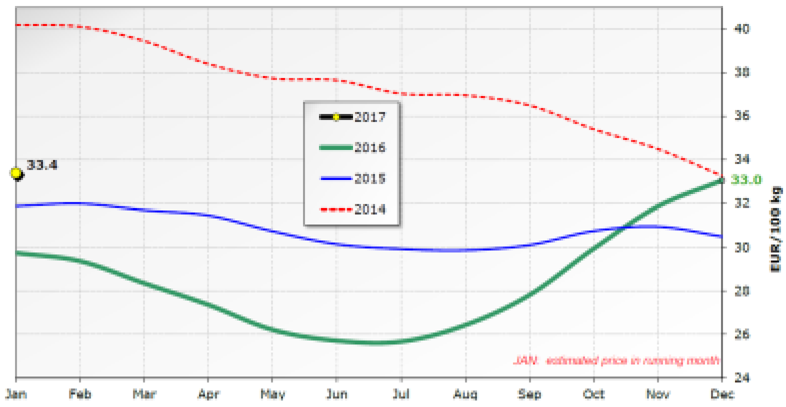


Chart: EU-Cows' milk prices paid to Produces (weighted average for entire EU)

In summary, the added value of the EU action can be corroborated as the aid for milk production reduction:

provided financial support to farmers in difficulties by rewarding those who adjusted supply to demand;

contributed to the effective rebalancing of the EU dairy market;

as an indirect consequence of the latter, influenced (together with other factors[97]) the milk price recovery in the second half of 2016.

Direct payments

For direct payments, 2015 European Agricultural Guarantee Fund covered already some elements of the 2014-2020 Common Agriculture Policy, including the convergence of the direct payments' aid levels between Member States ("external convergence"). As of financial year 2016 the new structure of direct payments has been fully operational. The new elements foster that direct payments are distributed more fairly, are "greener" to promote sustainability and combat climate change, and are better targeted for example towards young farmers, small farmers or farmers in areas with natural constraints. Beyond the compulsory elements of the new direct payments scheme, Member States benefit from a significant level of flexibility in the implementation, following their main implementation choices decided in 2014[98]. These choices allow Member States to target support depending on their specific context.

In 2015 (financial year 2016), first year of implementation of the reformed system, about 7 million farmers benefited from direct payments. The total determined area paid covers some 90 % of the EU Utilised Agriculture Area (155.5 million ha).

Nevertheless, the on-going implementation of the reform of direct payments affected the timing of payments by Member States to farmers in financial year 2016 which in certain cases were delayed.

The new "greening" layer of the direct payments system[99], first implemented as of claim year 2015 (financial year 2016), is intended to ensure that a majority of EU agricultural area is farmed according to basic environment and climate-friendly practices. In 2015, 75 % of utilised agricultural area was subject to at least one of the greening obligations. The estimated total for claim year 2016 is 77 %[100]. In 2016 the Commission carried out a review of how the system had been applied in its first year[101]. This review identified weaknesses that held the greening system back from achieving its full potential, and considered possible remedies. The Commission subsequently proposed various improvements to the relevant regulation[102] which are intended to apply as of direct payments claim year 2018 (2017 for those Member States which so wish).

European Agricultural Fund for Rural Development (EAFRD)

For the ***European Agricultural Fund for Rural Development*** *all 118 rural development programmes are up and running and are currently being implemented.*

Calls for application by beneficiaries have been published at the level of Member States and regions. At the end of 2016, around EUR 31.9 billion has been committed to projects and beneficiaries. This represents 21.3 % of the total public allocation planned for 2014-2020. As regards payments from EU budget to Member States, Member States' requests received by end 2016 amounted to a total of EUR 10.1 billion, which is 10 % of the total allocation for the European Agricultural Fund for Rural Development for 2014-2020.

In 2016, the Member States submitted their Annual Implementation Reports on the implementation in the first two years of the programming cycle i.e. 2014 and 2015. Despite the belated adoption of many programmes, mainly due to the late adoption of the legislative framework, the implementation is on the right track. In fact, in the case of the European Agricultural Fund for Rural Development, a smooth transition to the new programming period was ensured through the establishment of transitional rules, the presence of already established paying agencies (i.e. no need for new designation of authorities) and the wide use of multiannual commitments, including area-based payments.

In terms of results achievement to date, after a relatively slow start necessary for setting up the policy, a significant acceleration is expected in the coming years. Most of the programmes were approved in 2015 (just 9 rural development programmes were approved in 2014). Some results can already be pointed out, such as more than 33 % of the 2020 targets achieved in terms of percentage of agricultural land under management contracts contributing to biodiversity or 39 % achieved of the final target for percentage of rural population covered by local development strategies. 1.6 million hectares were under support to convert to or maintain organic farming (15.7 % of the farmed area to be supported)[103].

Some 300 operational groups have already been set up under the European Innovation Partnership for Agriculture Productivity and Sustainability (EIP-AGRI). These projects funded by the European Agricultural Fund for Rural Development aim to foster innovative solutions and opportunities for a competitive and sustainable farming and forestry sector. An independent study of the implementation of the European Innovation Partnership was completed in November 2016[104]. The study could not provide full-fledged conclusions due to the early implementation stage of the European Innovation Partnership but it did qualify the uptake of the voluntary scheme (in 96 out of a possible 111 rural development plans in 26 Member States) as “impressive”, with the farmer-led approach “truly distinctive” and “highly appreciated by stakeholders”. Furthermore, the pan-European approach of EIP and the ability to share lessons and form partnerships across countries and regions were seen as potentially powerful aspects of the initiative. The study reckons that there is a solid basis for external coherence with other policies (Horizon 2020, environmental and regional policies), but that at this stage there is a widespread lack of awareness of these joint opportunities and synergies. This is in part related to the fact that stakeholders are currently prioritising the rural development funding. It is expected that with the consolidation of the process across the different countries and regions in Europe, opportunities for links with related EU initiatives will be more visible through the European Innovation Partnership network.

Rural development policy and its programmes have been under the scope of the study on "Mapping and analysis of the implementation of the Common Agriculture Policy" of which the final report was published in November 2016[105] The study provides a comprehensive analysis about the choices that the Member States have taken in view of implementing the Common Agriculture Policy in the current programming period in the two pillars of the Common Agriculture Policy as well as a qualitative analysis of the potential impact of these choices. It confirms that the new flexibilities in the Common Agriculture Policy resulted in a more diversified implementation, with measures being used in many different ways and in wide array of combinations. Key findings of the study refer to the limited coordination between pillar 1 (direct payments) and pillar 2 (rural development support) implementation choices by Member States, and the fact that implementation choices are considered especially relevant for the general Common Agriculture Policy objective of viable food production where they were assessed as being in general more tailored to local needs than in the previous Common Agriculture Policy. In addition, Member States’ choices are generally coherent, but opportunities for synergies could be better exploited, and the lack of appropriate tailoring and targeting of pillar 1 instruments and pillar 2 measures raises concern about the impact of Member States’ choices.

A strong focus on simplification

In early 2015 the Commission embarked on a large-scale simplification exercise covering the entire agricultural acquis. In 2016 this exercise was followed by several changes in Delegated and Implementing Acts, in particular:

The rules related to the Integrated Administration and Control System were simplified, including the introduction of preventive preliminary cross-checks. Certain rules on direct payments were made more flexible, notably on voluntary coupled support.

In the area of the Common Market Organisation, several sector-specific rules have been simplified (e.g. in relation to public intervention, private storage and trade mechanisms – licences). These simplifications have been carried out in the framework of the alignment of the Commission-level regulations to the Lisbon Treaty. The alignment exercise will help to cut the number of regulations from more than 200 to 40. At this stage 19 new legal acts have been published in the Official Journal, 30 regulations have been repealed as a consequence of the above activity and 57 regulations have been declared obsolete.

Changes to the four basic acts of the Common Agriculture Policy for the purpose of simplification (including flexibility and subsidiarity) were proposed in the framework of the so called "Omnibus Regulation". These proposals directly follow from the comprehensive screening of the legislation of the Common Agriculture Policy in 2015 and concentrate on support for rural development (e.g. to boost the use of financial instruments), and on direct payments (with simplifications of the rules on active farmers and young farmers).

A review of certain "greening" rules after the first year of their application was carried out during 2016, in order to identify inter alia needs for simplification. Resulting from the review, the Commission is pursuing amendments of certain greening rules set in Delegated Regulation (EU) No 639/2014 to better specify what is required from farmers, eliminate certain technical requirements, provide more flexibility for farmers or alternative solutions where this would increase the environmental and climate benefit of greening and harmonise selected requirements and conditions.

European Maritime and Fisheries Fund (EMFF)

For the **European Maritime and Fisheries Fund,** the late adoption of the European Maritime and Fisheries Fund regulation (May 2014) extended the negotiation process with Member States, which was completed in December 2015. The years 2015 and 2016 were therefore dedicated to the completion of the negotiation process of these programmes and to preparatory work for implementation such as the setting up of the European Maritime and Fisheries Fund Monitoring Committees. By May 2017, 17 Member States have notified to the Commission the designation of authorities for the management of the fund, which is a prerequisite for the submission of interim payments.

Since European Maritime and Fisheries Fund implementation was still at an early stage in the Member States, little information on achievements was provided in their first Annual Implementation Reports which were due by 31 May 2016. As provided for in the Common Provision Regulation for the European Structural and Investment Funds, in the end of 2016 the Commission prepared the first common Annual Summary Report to the other institutions covering information on all European Structural and Investment Funds[106]. This report provides valuable information on the level of project selection, which is a key step towards a successful implementation of investments later on. For example, around 80 % of the European Maritime and Fisheries Fund projects foreseen over the period aim to strengthen **small and medium-sized enterprises** and increase the competitiveness of the fleet and of aquaculture enterprises. The start of implementation has been relatively slow as only 10 % of the projects selected until end-2015 focus on small and medium-sized enterprises development. Around 90 % of all projects selected for European Maritime and Fisheries Fund support by end-2015 promote **resource efficiency and the protection of the environment**. Most of those projects aim at protecting and restoring marine biodiversity by substantially increasing physical control of landings and lowering the volume of unwanted catches thereby supporting the implementation of the Common Fisheries Policy.

Sustainable Fisheries Partnership Agreements (SFPAs)

The Sustainable Fisheries Partnership Agreements constitute a benchmark for organising and regulating the activity of external fishing fleets. They contribute significantly to the improvement of fisheries governance in developing countries through projects in the field of fisheries management, surveillance and control, scientific capacity and research, and support to artisanal fisheries.

At the end of 2016, a total number of 14 **Sustainable Fisheries Partnership Agreements'** protocols were in force. Negotiations have been successfully completed for the renewal of the protocols with Mauritius and Comoros (the signature of the latter being dependent on improvements to be made by this country regarding conformity with Illegal, Unreported and Unregulated fishing legislation) while negotiations are still on-going with Guinea-Bissau and Gabon. Finally, the Council has adopted negotiation directives in view of new Sustainable Fisheries Partnership Agreements with Tanzania, Kenya and Ghana. For these three countries, external evaluations have been completed as a preliminary step to the negotiation process.

The commitment appropriations in 2016 amounted to EUR 132 million and were consumed up to 98%. The payment appropriations amounted to EUR 130.3 million and were consumed up to 91 only. This is mostly due to some delays in the implementation of sectoral support programmes, contributing to the sustainable development of the fisheries sector in some of the EU partner countries.

Life programme for Environment and Climate Action (LIFE)

*In 2016 the **LIFE** programme provided EUR 315 million to co-finance 157 new projects across 23 Member States which spur additional EUR 236 million[107] investments.*

These projects will demonstrate best environmental and climate action practice across a range of themes (e.g. environment and resource efficiency, adaptation to climate change, nature and biodiversity, climate mitigation and governance and information) and boost the dissemination of this know-how throughout the EU. Following the introduction of a specific sub-programme for Climate Action, more than 300 applications for traditional projects focused on climate action objectives have been received, and 65 financed, based on the results of the first two calls for proposals (2014 and 2015).

Also in 2016, 52 projects from sixteen different EU Member States completed by the end of 2015 were selected for the LIFE Best awards[108]. The projects cover a wide range of topics and subjects and were selected according to a number of criteria such as their contribution to immediate and long-term environmental, economic and social improvement, degree of innovation and transferability, relevance to EU policy and cost-effectiveness.

In addition to the six ongoing integrated projects[109] seven new ones were launched in the area of Nature, Water and Air in 2016. Final results from integrated projects are not yet available in this early stage of implementation but some of them are having an important catalytic effect on the ground, i.e. one of the strictest regulations for solid fuels boilers in the EU was adopted unanimously in the Malopolska region (Poland) in January 2017 as a result of a LIFE integrated project (see example below).

Małopolska Region - air quality plan

LIFE Integrated projects use a broad, ambitious perspective. By combining funds from various sources, they bring groups of stakeholders together, empowering citizens to overcome structural barriers with long-term, sustainable solutions.

The Małopolska project is a typical example. From an initial budget of EUR 15 million, the involvement of regional authorities, 50 municipalities, and civil society has brought additional leverage of EUR 800 million. The project is bringing know-how, adding organisational capacity, and helping the Region implement an air quality plan. Early results include new legislation for domestic boiler emissions adopted unanimously in the Regional Parliament in January 2017, with the surrounding regions (Silesia, Lower Silesia, Mazovia, Lodzie and Opolskie) keen to follow suit.

In addition to grants for projects and organisations, the LIFE programme supports climate action through financial instruments. The financial instrument for energy efficiency (PF4EE) was initially expected to support total investment up to EUR 540 million. However, following the operations signed in 2015 and 2016 and in view of the projects in the pipeline, the European Investment Bank now expects to achieve EUR 1 billion of new investments in energy efficiency during the 2014–2017 pilot phase (EUR 430 million from European Investment Bank and EUR 570 million from financial intermediaries), covering 10 Member

States. Six deals were signed with intermediary banks by the end of 2016.

In 2016, in response to comments from the European Court of Auditors (2014 Statement of Assurance report), an action plan was put in place to ensure improvements on payments delays under the LIFE programme. Envisaged measures turned out to be successful; the payment delay statistics for 2016 demonstrate a rate of 3.9 % of delayed payments.

The external analytical study supporting the mid-term evaluation of the 2014-2020 LIFE programme was completed in March 2017.[110]The evaluation was carried out at an early stage of the implementation of the programme. The majority of projects are yet to be started and there are no substantial results to be assessed at this stage. Therefore, the evaluation focused mainly on the processes put in place and the expected results based on the programme design and the project selection so far.

According to the preliminary results presented in the external study, although the projects awarded are only expected to materialise in 4-5 years, the LIFE programme is on track to meet its targets. Preliminary evidence of the aggregated overall performance for the first two years of operation of the LIFE Programme suggests that 70 % of the milestones indicated as targets in the Multiannual Work Programme 2014-2017 will be achieved for example, by targeting better conservation of 114 species, 59 habitats and 85 Natura 2000 sites. LIFE projects that have already started are expected, according to the external study, to achieve the following results:

– Reduce energy consumption (about 600 000 MWh/year) by best practice solutions;
– Increase the production of energy from renewable sources (about 500 000 MWh/year from different sources);
– Contribute to the improvement of the conservation status of 59 habitats and 114 species of European interest and 85 Natura 2000 sites;
– Reduce adverse effects of chemicals on health and environment for about 1.6 million people over 5 years;
– Equip 35 million hectares with climate adaptation measures as well as develop best practice solutions for adaptation in various areas.

The preliminary results of the mid-term evaluation also estimated that the benefit to society of some of the projects from the 2014 LIFE call for proposals will amount to EUR 1.7 billion. This figure alone represents four times the cost of the overall LIFE budget for 2014. The study also confirmed that the programme is playing well its role of catalyst given it has been calculated that, in the case of the integrated projects, for each euro the LIFE programme finances, it is expected that a further EUR 23 will be financed from other sources for environment and climate objectives.

The EU added value of the LIFE Programme is recognised by almost all stakeholders and the general public. This stems from its support to the consistent development and application of EU environmental and climate legislation and policies across the EU. LIFE also responds to cross-border challenges which a Member State is unlikely to address alone. It allows a better sharing of responsibility and promotes solidarity for the management/conservation of EU environmental assets, and it represents an EU-level platform for sharing best practice and demonstration activities LIFE funding supports activities that, given their nature, would not be financed at national level. It focusses on relatively small scale projects which in turn catalyse broader actions and mainstreaming of environmental policy into the major EU spending instruments. LIFE gives priority to projects that can be replicated and have the capacity to lead to marketable solutions to environmental problems (see the example below).

Innovative Technology for Low Cost Production of Energy Efficient Dye-Sensitized Solar Cells

This Swedish project proved the production potential and scalability of screen printing as a production method for manufacturing Dye-Sensitised Solar Cells (DSCs). This solar technology in combination with the chosen production method is sustainable and environmentally friendly, with no toxic emissions. The costs of producing Dye-Sensitised Solar Cells using the project technology were calculated to be no higher than 80 EUR/m2 (the foreseen cost target).

The study supporting the mid-term evaluation also highlights some aspects that could be improved or further explored, such as the simplification of grant management procedures, the need for increasing the strategic focus of the programme, and the improvement of the communication strategy to better target audiences. The Commission is planning to address these aspects in the elaboration of the second LIFE multiannual work programme 2018-2020.

Implementation aspects

The **European Agricultural Guarantee Fund's** direct payments under the former regime prior to the 2013 reform of the Common Agriculture Policy were smoothly implemented with the calculation and allocations of support carried out by Member State administrations in a timely fashion. Direct payments cover annual payment schemes to farmers which are not under the "programme" approach. Hence the challenges involved are different from those arising from implementation of instruments which work on the basis of multiannual "programmes". The previous reforms of direct payments and various agricultural sectors, such as the "Common Agriculture Policy Health Check" of 2008, implied a continued process of decoupling of support from production. The calculation and allocation of support to farmers following the reforms were challenging implementation tasks, in particular for Member States' administrations but they were carried out effectively as is evidenced partly by sound budgetary execution.

For **rural development (European Agricultrual Fund for Rural Development),** a number of corrective modifications on individual Member State programmes were made throughout the 2007-2013 period taking into account the recommendations from the mid-term evaluations and incorporating additional funds addressing new challenges (Health Check) and the economic crisis (European Economy Recovery Package). Most of the changes observed have been shifts of financial allocations between measures of the same of different axis, adaptation of targeted beneficiaries and eligibility criteria. The main reasons for budget changes were changes in strategic priorities, low absorption rate as well as the need to overcome unforeseen problems or issues arising due to changed economic or wider policy/legislative contexts. The final absorption rate for 64 closed out of a total of 92 programmes for the 2007-2013 period is at the level of 99.1 %.

Until 2015 the European Court of Auditors carried out five special reports directly related to rural development[111]. The key recommendations of the Court have been addressed by the Commission. In particular, the recommendations related to improving guidance and reducing obstacles to the uptake of financial instruments, were addressed in the context of the simplification modification of the European Agricultural Fund for Rural Development Implementing Act (Regulation (EU) No 808/2014) in April 2016 and the Commission proposal for the regulation modifying the sectorial basic acts (COM(2016) 605 final).

In 2016 the European Court of Auditors issued Special report N°36/2016: An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes. The Court examined whether the rules and procedures for the closure provide a basis for the Commission and the Member States to close programmes in an efficient and timely manner. It concluded that Commission's closure guidelines concerning rural development were timely and comprehensive and provided an adequate basis for Member States to prepare effectively for closure. In addition, the Commission delivered efficiently additional support addressing Member States' needs.

As regards the **European Fisheries Fund** (EFF, predecessor of the European Maritime and Fisheries Fund), the EU fisheries sector has undergone substantial restructuring, in part also due to the global economic crisis which lead to a peak in oil process. Recent low fuel prices as well as the gradual reduction in the size of the EU fleet and further substantial restructuring have led to major changes in the sector. Over the past few years, the EU fleet registered record high-net profits (in 2014 an increase of 50 % over the level of profits in 2013) and progress has been made to bring more balance between fishing capacity and fishing opportunities across the entire EU fleet.

The external analytical study supporting the **ex-post evaluation of the European Fisheries Fund 2007-2013,** which was completed at the end of 2016[112] showed that the total EU payments for European Fisheries Fund by May 2015 were 71 % of the total EU funds originally programmed for the European Fisheries Fund (EUR 2 812 million paid). Despite several management issues, sometimes leading to significant de-certification[113] and automatic de-commitment through the application of the N+2 rule, the documents submitted by the Member States for the closure of the European Fisheries Fund show that payments reached over 90 % of the amounts programmed. However, the administrative burden is still considered too high by several Member State managing authorities although the definition and distribution of management tasks was considered to be good overall in most Member States. In the majority of Member States, the European Fisheries Fund was implemented centrally, reflecting the relatively small scale of the sector and the programme compared to other European structural funds. In some decentralised Member States certain measures were delegated to regional intermediate bodies. The average number of administrative jobs per million euro of programmed European Fisheries

Fund is estimated at 0.3 Full Time Equivalent (estimate based on interviews with the European Fisheries Fund Management Authorities).

The external study also confirmed that the monitoring system in place did not provide robust information and that there were many data gaps. This led the Commission to develop a new Common Monitoring and Evaluation System in the framework of the European Maritime and Fisheries Fund. This system, developed with the Member States is now being implemented and starts delivering better quality data.

Contribution to policy achievements

Given that ex-post evaluations on the performance of the 2007-2013 Rural Development programmes were only submitted by Member States to the Commission at the end of 2016[114], the Commission is planning a high level synthesis report for 2017. Consequently the achievements reported below for these programmes are based mainly on available monitoring information on programme implementation.

Smart Growth

In the 2007-2013 period the Common Agriculture Policy exerted a strong positive influence on the farm sector's viability by offering the sector targeted funding to improve its performance. The EU's farm sector raised its total factor productivity by 0.9 % per year between 2007 and 2013 (and by 1.8 % per year in the EU-13 countries[115]), showing clear evidence of using the factors of production more efficiently.

Rural development funding provided support for knowledge-building, investments, various forms of cooperation, and innovation. Innovation support was channelled to 156 600 farms that have introduced new products or technologies in their farm businesses. Around 3 million farmers were successfully trained and over EUR 44.8 billion invested in modernisation support to 430 000 farms. Nearly 70 000 micro-enterprises were supported or created. On the developmental side, around 2 000 cooperation projects focussing on developing new products or new techniques received support in the 2007-2013 period.

For the **European Fisheries Fund**, the external analytical study supporting the 2007-2013 ex-post evaluation concluded that an overall improvement of the fleet competitiveness was aided by the European Fisheries Fund's support by accelerating the exit of part of the unprofitable fleet, facilitating the modernisation of the remaining fleet, fishing ports and landing sites, and increasing the added-value of fish products by supporting investments in marketing and processing. In the aquaculture sector, despite an increase of production capacity, the results were below the expected objectives as the EU aquaculture production stagnated over the European Fisheries Fund period due mainly to unfavourable market conditions. The case study and analyses by spending category indicated a general consensus from beneficiaries and managing authorities that the European Fisheries Fund contributed to the economic resilience of the beneficiaries, especially in the shellfish sector. Other measures such as investments in processing by fish farmers, quality scheme certifications etc. contributed to the competitiveness of the project holders as well. However, the impact of the European Fisheries Fund on the competitiveness of the EU aquaculture as a whole seems at best marginal[116]. Regarding innovation, overall innovation for fisheries mainly focused on gear selectivity, due to regulatory requirements and landing obligation, and on fuel efficiency, due to high fuel costs. Innovations in the fisheries sector were primarily environment-oriented but they also benefitted to the competitiveness of the fleet, in particular as regards fuel-efficiency progresses[117].

The European Fisheries Fund also introduced Community-Led Local Development (CLLD), as an innovative way of addressing the decline of the fisheries sector. Recent analysis undertaken by the Fisheries Areas Network demonstrated that Community-Led Local Development had been the main mechanism delivering support to the Small Scale Coastal Fleet. EUR 170 million were channelled towards these beneficiaries, helping them diversify their sources of income through tourism, for example, or by adding more value to their catches by short circuit forms of marketing.

Sustainable Growth

In the period 2007-2013, more than 80 % of the total Common Agriculture Policy payments were linked to the so called "cross compliance" - compliance by farmers with basic standards concerning the environment (as well as food safety, animal and plant health and animal welfare)[118]. Part of the **European Agricultural Guarantee Fund's** contribution to sustainable management of natural resources and climate action came through these measures. Furthermore, by supporting farmers, the European Agricultural Guarantee Fund enabled a retreat from potentially harmful intensive practices. Greenhouse gas emissions from the agricultural sector (including soils) continued to decline – falling by 10.1 % in the EU-28 between 2000 and 2014, i.e. by an average of 0.8 % per year.

Under **rural development** programmes various types of area-related payments were made to encourage management practices that have a proven positive impact on biodiversity, soil, water, and air in both the farm and forest sectors. During the 2007-2013 programming period, the surface under agri-environmental schemes expanded to 47 million ha, representing more than 25 % of the EU-27 countries'[119] Utilised Agricultural Area in 2013. In particular, the support received by farmers to convert to or maintain organic farming covered 7.7 million hectares. All this played an important role in the improvement of the environmental performance of EU farming.

For the **European Fisheries Fund,** the external analytical study supporting the 2007-2013 ex-post evaluation found that at the end of the European Fisheries Fund period, the objective of adapting the EU fishing fleet capacity with the European Fisheries Fund support in terms of reduction of fleet power and gross tonnage was met. However, progress on the sustainable exploitation of fisheries is largely the result of fisheries management with an estimated net contribution of the European Fisheries Fund of around 66 % of total fleet capacity reductions. While most managing authorities recognised that the European Fisheries Fund contributed to reducing harmful environmental impacts of fishing, the uptake of projects to specifically protect and conserve biodiversity was comparatively small under the European Fisheries Fund. This is to be expected as the programme focused on fishery and aquaculture development (that either reduced harmful environmental impact or at least ensured these impacts were not at unacceptable levels) rather than biodiversity objectives. There were also other funding sources such as LIFE+, with a more specific remit on biodiversity protection and conservation[120].

Inclusive Growth

The combination of **direct payments and market measures** helped limit job and output losses.[121] In 2015 the employment rate in rural areas recovered to 65 %. This was important for the EU's 11 million farms, their 22 million regular workers and for those linked to farming — e.g. 22 million in food processing, food retail and food services, plus others in upstream or other downstream sectors (making up a sector of nearly 44 million jobs altogether). At the same time, direct payments were largely decoupled from production and farmers were free to respond to market signals.

The Common Agriculture Policy also promoted a balanced territorial development in the EU through its **rural development** measures, which supported almost 53 000 operations improving basic services in rural areas (e.g. transport; electricity; household maintenance) in the period 2007-2013. The payments resulting from application of various rural development measures benefited the vast majority of agricultural holdings and associated workers. They are a crucial element for maintaining employment.

> *53 000*
>
> *operations improving basic services in rural areas (e.g. transport; electricity; household maintenance)*

For the **European Fisheries Fund,** the external analytical study supporting the 2007-2013 ex-post evaluation concluded that processing and marketing investments contributed to maintain and create jobs and accelerated the modernisation of the industry. Sustainable development of local fisheries areas (Axis 4) enabled to maintain and create jobs and has been the main policy instrument to improve quality of life in fisheries dependent areas. In total, it is estimated that the European Fisheries Fund contributed to the creation of about 20 000 jobs. Figures on jobs maintained are not available except for Axis 4, which is estimated to have contributed to maintaining about 9 000 jobs[122].

> *It is estimated that the European Fisheries Fund contributed to the creation of about*
>
> *20 000 jobs.*

1.4. Security and Citizenship (Budget Heading 3)[123]

Under Heading 3, the EU budget brings together a range of programmes (EUR 4 billion representing 2.6 % of the total 2016 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.

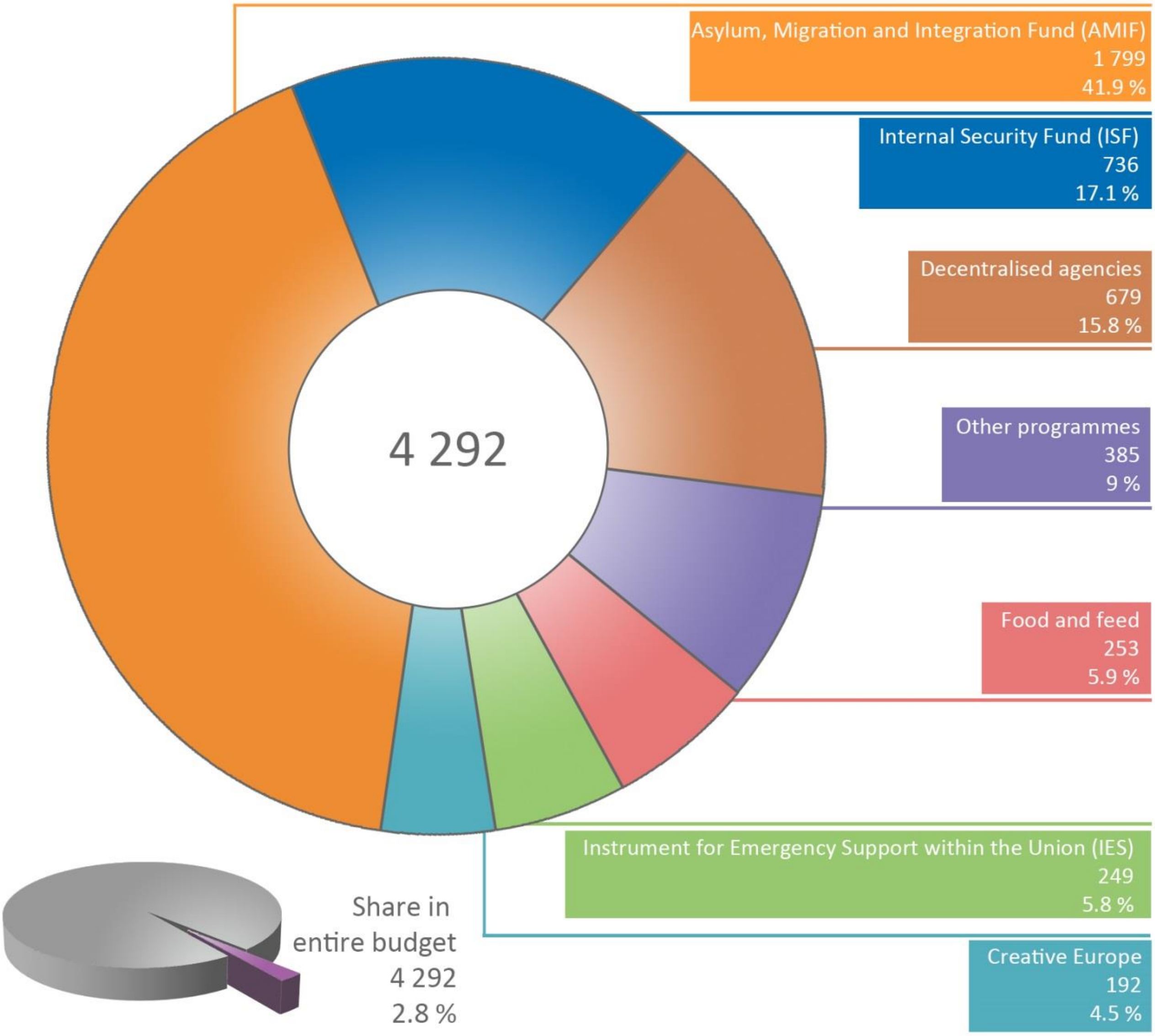


Chart: Top: Main programmes financed in 2016 under Heading 3 / Bottom: Share for Heading 3 in the entire 2016 budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

The programmes under Heading 3 contribute mainly to the Juncker Commission priorities of 'Justice and Fundamental Rights' and 'Migration.' Despite the small budget involved, these programmes contribute to Europe 2020 achievements. For example, the Health Programme stands on the crossroad 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[124] contributes to inclusive growth through financing of projects for integrating non-EU nationals.

1.4.1. Progress of 2014-2020 programmes

2016 was another critical year where Europe had to demonstrate its capacity to address the migration challenges and to tackle security threats. Early data shows that the number of irregular migrants apprehended at the EU's external borders has decreased (from 1.8 million in 2015 to 0.5 million in 2016). The numbers of illegal arrivals in Greece fell dramatically owing to the implementation of the EU-Turkey Statement; however the number of illegal arrivals from Libya remains very high.

Two dedicated funds – with a combined budget of 11 billion and mainly implemented (70 %) under shared management through national programmes as well as under direct management through emergency financing - contribute to these challenges: the **Asylum, Migration and Integration Fund (AMIF)** and the **Internal Security Fund (ISF)** with its strands ISF Borders and ISF Police. In 2016, both programmes gathered pace.

AMIF – supporting Member States on migration management through actions in the field of asylum, legal migration and integration of third country nationals, return, resettlement and relocation

The Asylum, Migration and Integration Fund supports different types of projects:

- **Asylum projects**: In 2016, Member States spent EUR 49.4 million under Asylum, Migration and Integration Fund's national programmes. This provided 366 426 asylum seekers with 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).
- **Legal migration and integration projects**: In 2016 Member States spent 43.8 million under Asylum, Migration and Integration Fund's national programmes to assist 1 602 041 third-country nationals through integration measures such as education and training, including language training and preparatory actions to facilitate access to the labour market, advice and assistance in the area of housing, means of subsistence and administrative and legal guidance, medical and psychological care in the framework of national, local and regional strategies.
- **Return projects**: Member States substantially stepped up their efforts in voluntary return and forced removals with support from the Fund. Member States spent EUR 105.9 million in 2016 allowing 26 187 persons to be returned through voluntary return programmes and 11 561 persons to be returned through removal operations, in accordance with the standards laid down in Union law. The Asylum, Migration and Integration Fund also funded the Integrated Return Management Application (IRMA). This is a secure platform to facilitate the joint planning of return operations and to assist the Member States and the European Border and Coast Guard in gathering and sharing information.
- **Resettlement:** On 20 July 2015, Member States agreed to resettle 22 504 persons in clear need of international protection, from third countries. The EU-Turkey Statement of 18 March 2016 provides that for every Syrian returned from the Greek islands to Turkey, another Syrian will be resettled from Turkey to the EU. In total, Member States resettled 14 205 persons in 2016, which represents a substantial increase in comparison to previous years. In accordance with Asylum, Migration and Integration Fund Regulation, a lump sum of EUR 10 000[125] or EUR 6 000 per resettled person was provided to the resettling Member State.
- **Relocation**: An additional envelope of EUR 1 040 million was allocated in 2016 to support the relocation of 160 000 persons between September 2015 and September 2017. In accordance with the Council Decisions on relocation, a lump sum of EUR 6 000 per person relocated was provided to the Member State of relocation and a lump sum of EUR 500 for Italy and Greece per relocated person. This helped to accelerate the pace of relocation transfers. By the end of 2016, relocations from Greece averaged 1 000 per month while relocations

from Italy averaged 700 per month. In total by the end of 2016, 9 923 people (2 649 from Italy and 7 274 from Greece) had been relocated; still way ahead of the target for September 2017.

The CITIES-GROW ("Integration of migrants through economic activity in cities") project is coordinated by EUROCITIES (the network of major cities in Europe). 16 European cities participate: Athens, Barcelona, Birmingham, Brighton & Hove, Dresden, Gdansk, Ghent, Helsinki, Lisbon, Munich, Nantes, Nicosia, Riga, Rotterdam, Tampere, and Utrecht.

Under the project cities faced with common integration challenges are paired up. One is a mentoring city; sharing experience and offering independent support to the implementing city that wants to raise standards and carry out changes. Both parties benefit through sharing know-how, expertise and good practices on how to best implement concrete local actions to successfully integrate third country nationals and beneficiaries of international protection. Joint-ownership and collaboration between policy-makers as well as beneficiaries and relevant stakeholders through the establishment of support networks ensures the continuity of lessons learned beyond the project's lifespan.

Four mentoring schemes have already been organised:

– *Matching buyers and suppliers: access to public and private contracts for immigrant entrepreneurs;*

– *Engaging with businesses local job agencies and local educational institutions to promote job-skills match for employment of youth with migrant background;*

– *Services to promote and support migrant entrepreneurs;*

– *Anti-discrimination strategies on the local job market.*

Internal Security Fund

The Commission, together with the European Border and Coast Guard (EBCG) Agency (commonly referred to as Frontex) and the Member States continued to work towards an effective presence at sea. The agency deployed on average over 600 officers each day in the Central Mediterranean, while 15 vessels, four aircraft and two helicopters were permanently deployed in the Triton joint operation throughout 2016. In the Central Mediterranean 174 500 people were rescued in 2016. In the Eastern Mediterranean, on average 760 officers each day assisted Greece in the framework of the Poseidon joint operation and 10-12 maritime assets (off-shore and coastal patrol vessels, coastal patrol boats) and other equipment (i.e. helicopters, patrol cars buses and thermos-vision vans) were deployed all along the year.

To support border management policies, Member States spent EUR 133.6 million under Internal Security Fund national programmes in 2016. This allowed Member States to increase significantly their investments in national border protection capacity, e.g. through the acquisition of high-value assets essential in the effective management of the external borders in the current context of high migratory pressure (e.g. purchases of helicopters or boats, necessary upgrades or maintenance of IT systems).

As part of the effort to manage the migration crisis, the implementation of the 'hotspot' approach continued in Greece and Italy.

To support policies aiming at disrupting organised crime, in 2016 EUR 35 million was spent by the Member States under the Internal Security Fund national programmes for projects in the area of preventing and combating crime. These funds were essential in improving the capacity in Member States to deal with cross-border issues: for example, in 2016, 2 382 law enforcement officials were trained on cross-border-related topics (terrorism, organised crime, corruption).

In 2016, an amount of EUR 10.88 million was spent by the Member States under Internal Security Fund national programmes for projects in the area of risks and crisis. These projects focused on preventing and combating crisis situations, including terrorism, as well early warning mechanisms.

Effective border management: Hotspots receiving operational and financial support from the Commission and relevant agencies[126].

*In 2016, **Greece** established five fully functional hotspots (Lesvos, Leros, Kos, Chios and Samos). The hotspots have a combined capacity of 7 450 places and were used for the registration of migrants. As of 20 March 2016, the hotspots have been adapted to the requirements of the EU-Turkey Statement, in order to enhance the asylum process and facilitate swift returns to Turkey from the islands.*

*Four hotspots (Lampedusa, Trapani, Taranto and Pozzallo) with a combined capacity of 1 600 places were operational in **Italy** by 31 December 2016. In addition, Italy announced on 7 December 2016 that it would apply the hotspot procedure in 15 ports of disembarkation. Despite the unprecedented number of migrant arrivals in 2016, Italy made significant progress in registering and identifying migrants, increasing the overall fingerprinting rate to around 97 % for all of 2016.*

At the end of 2016, all migrants arriving in hotspot areas were screened, fingerprinted, registered and informed on follow-up procedures, in particular through the many information campaigns, the setting up of information booths, etc. In addition to security checks, the hotspot workflow and the relocation process also included integrated and systematic health checks and reception conditions were improved, with specific attention to vulnerable groups including children.

Instrument for emergency support within the EU

In 2016, the arrival of a significant number of refugees into the EU, led the EU, to establish the Instrument for the provision of emergency support within the Union (ESI)[127] in order to support national authorities' in their humanitarian response of the refugee and migration crises. Up to EUR 700 million have been allocated to ESI for the period of 2016 to 2018. In 2016, Greece was the only Member State that met the two eligibility conditions set out in the Regulation[128]; all the actions funded under this Regulation to date are aimed at tackling the humanitarian situation in Greece. By the end of 2016 more than EUR 190 million had been contracted to 14 UN agencies, international organisations and Non-Governmental Organisations to provide emergency assistance in the sectors of water, sanitation and hygiene, shelter, health, protection and education. Shelter was provided for over 35 000 refugees and 417 emergency spaces for unaccompanied minors were created.

EU Civil Protection Mechanism

In 2016 the Union Civil Protection Mechanism was activated 26 times in order to respond to disasters inside and outside the Union. The Emergency Response Coordination Centre (ERCC) – i.e. the Mechanism's operational hub – facilitated and coordinated the deployment[129] of experts and relief items from participating states[130] in a broad range of crisis settings. In February 2016, as part of the Mechanism, and together with EU Member States, the Commission launched the European Medical Corps – a direct response to lessons learned from the international response to the Ebola crisis.

Supporting the dialogue with citizens – Europe for Citizens

The Europe for Citizens programme contributes to citizens' understanding of the EU, its history and diversity through two strands. A mid-term evaluation of the Europe for Citizens programme is ongoing and expected to be finalised in the coming months. The fund is implemented under direct management. In 2016, out of 2 496 applications received 396 proposals were selected:

The 38 supported initiatives under "European remembrance" encouraged reflecting upon the causes of totalitarian regimes in Europe's modern history and commemorating the victims of their crimes.

The 237 town-twinning projects, 30 networks of towns and 25 civil society projects under the strand "Democratic engagement and civic participation", focused on awareness of remembrance, common history and values and on civic participation and democratic engagement in a context affected by the refugee and migration crisis, and the sustained impact of the financial crisis.

Justice Programme

In 2016, the Justice Programme (budget EUR 47.7 million) contributed to the further development of a European area of Justice. Operating grants have been awarded to 13 framework partners which are EU networks active in the fields of judicial cooperation in civil and criminal matters or access to justice. They include for example "Council of the Notariats of the EU, European Organisation of Prison and Correctional Services, Fair Trials Europe, Victims Support Europe, and European Network of Councils for the Judiciary". The operating grants contributed to further develop the capacity of these bodies and activities funded, such as networking and awareness-raising activities, support and complement the EU policy and legislative work.

Rights, Equality and Citizenship Programme

In 2016, the Rights, Equality and Citizenship Programme operated with a budget of EUR 59.9 million. Operating grants have been awarded to seven EU networks, such as Women Against Violence, Child Helpline International and the European Network of Ombudspersons for Children. These networks are active to prevent and combat all forms of violence against children and women and to protect victims of such violence and the rights of the child. In the field of non-discrimination the funding has been awarded to five framework partners, for instance, Transgender Europe, and Age Platform Europe. In the field of the fight against racism and xenophobia the funding has been awarded to the European Network Against Racism and in the field of gender equality to the European Women's Lobby. The networking and awareness raising activities contributed to further development of capacity of these bodies but also supported and complemented the policy and legislative work in these important areas.

Consumer Programme

The operational budget allocated to the Consumer Programme in 2016 EUR 23.7 million was used mainly to support the development of evidence-based consumer legislation; enforcement and promotion of consumer rights across the internal market through awareness raising and capacity building of consumer organisations. Annual grants to European Consumer Centres Network (ECC-Net) account for about one third of the annual operational budget, as it is an important network for providing information and assistance to consumers to help them exercise their rights in cross-border purchases and obtain access to appropriate dispute resolution.

Food and Feed

In 2016, the implementation of the 130 national veterinary programmes, co-financed with EUR 160 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.

Also in 2016, 22 national survey programmes for organisms harmful to plants were co-financed (+ 5 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 co-financing of the national programmes, EU financial support to emergency measures is on-going in order to early contain animal diseases and pest outbreaks. 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 released out of control. For example, the foot and mouth disease outbreak of 2001 which started in the UK but spread to other countries, is estimated to have cost up to EUR 12 billion.

The emergency measures against Lumpy skin disease (LSD) marked a major achievement in 2016. These were put in action immediately and managed to contain the outbreaks in Greece and Bulgaria. The EU took additional action within the emergency measures framework to fund the prompt purchase of Lumpy skin disease vaccines in a number of Balkan third countries (Serbia, Kosovo, Montenegro, and Albania) where rapid mass vaccination prevented the spread of the disease deep onto Union territory. EU-funded emergency measures blocked the spread of the disease. The EU also established an Lumpy skin disease vaccine bank to assist Member States with a quick supply of vaccines for current and future outbreaks in anticipation of future risks

Over the last couple of years EU co-financing of emergency measures made it possible to successfully contain African swine fever (ASF) introduced in the east part of the EU by wild boar movement from Belarus and Ukraine in the four Member States affected. There has been no further spread to other parts of the infected Member States or to other countries. The EU immediate, well targeted and multifaceted response to the African swine fever and Lumpy skin disease outbreaks kept the negative effects limited while the epidemics could have had devastating effects on animal health and on the sustainability of the sector.

Health programme

In 2016 the Health programme focused mainly on the Health Technology Assessment and the establishment of European Reference networks which help millions of Europeans suffering from rare diseases. Health Programme's funds were also used to support interventions for limiting the spread of Ebola and Zika by strengthening Member Sates preparedness and response in particular through the actions of the Health Security Committee (entry screening, medical evacuations, prevention of transmission in transport and hospital settings). Some readjustments were introduced, notably the possibility to fund actions that address refugees' health as an immediate response to the high influx of refugees into EU Member States. Eleven actions were financed for EUR 14 million to increase awareness and commitment towards improving maternal health and healthcare for refugees and migrant women, actions to improve the healthcare access of vulnerable immigrants and refugees in Europe, and actions and trainings to health professionals and law enforcement officers working with migrants and refugees.

Taking the recommendations from the ex-post evaluation of the previous Health Programme under the Multiannual Financial Framework 2007-2013 into account, Commission services are carrying out an action plan to improve programme monitoring and to better report on progress and results.

The results from the mid-term evaluation of the third Health programme indicate increased ability to target important health needs where it can add value (such as anti-microbial resistance, the “e-Health” in the context of the digital single market and innovation in health and health care). It found that the third Health Programme is responsive to shifting circumstances and trends for instance in relation to a need for crisis management. The migrant crisis of 2015 presented an early and unpreceded test of the programme’s adaptability, given the pan-European nature of the crisis and the strain it put on existing public health infrastructure. On the negative side, the evaluation found that it is suffering from low visibility and that its result dissemination leaves room for improvement.

Creative Europe Programme

The Creative Europe Programme supports the European cultural and creative sectors, in particular the audiovisual sector, in order to promote cultural and linguistic diversity and stimulate competitiveness. 56 % of the budget is dedicated to the 'MEDIA sub-programme', 31 % to the 'Culture sub-programme' and 13 % to the cross-sectoral strand. Its European added value rests on its complementarity with national public funds and in the support to transnational activities and cooperation, the fostering of economies of scale and the taking into account of low capacity countries. Moreover, with the growing number of participating enlargement and European Neighbourhood Policy countries, the programme is proving itself as a useful tool for the EU strategy on international cultural relations.

In the period 2014-2016, the programme was implemented as foreseen. In 2016, 5,408 applications for support were submitted (771 under Culture, 4 363 under MEDIA, and 274 under the Cross-Sectoral strand), of which 2 097 were selected for funding (102 for Culture, 1 983 for MEDIA and 12 under the Cross-Sectorial strand).

MEDIA

MEDIA provides the main financial support for the adaptation of the audiovisual industry to the Digital Single Market. 2016 was the 25th anniversary of MEDIA. Over this time, the MEDIA sub-programme has become recognized in the audiovisual industry at European and international level as a brand representing artistic quality and creativity. For the 4th consecutive year, the Oscar to Best Foreign Language Film went to a MEDIA supported film, Son of Saul. Another EU co-funded film, Amy, won the Oscar for Best Documentary.

Oscar to Best Foreign Language Film went to a MEDIA supported film for the 4th consecutive year.

In 2016 MEDIA provided a financial support to various initiatives and audiovisual fields:

- The Distribution automatic scheme made available EUR 20 million to facilitate the circulation of non-national films, reached an audience of 52 million people. New audiences have been targeted, for example through film festivals. An example is the Cinekid's Festival organised every year during the autumn holidays in the Netherlands, which reaches an audience of 50 000 children through over 500 audiovisual productions selected by the Festival.
- MEDIA has successfully helped develop new films that are capable of reaching international audiences and acclaim. A small development grant of EUR 33 000 in 2011 led to the production of the film *Toni Erdmann*, which was released in 2016 and made 300 000 admissions in Germany in 3 weeks, 105 000 admissions in France in the first week, it was sold to 100 territories worldwide and it has been nominated for the best Foreign Language Film to the 2017 Oscars.
- MEDIA supports Europa Cinemas, a network of roughly 1 000 European cinemas in 33 European countries, screening a significant proportion of non-national European films, providing education and marketing activities. It is estimated that each euro invested in the network generates EUR 13 through additional audiences.
- In the light of a changing business and regulatory environment, MEDIA has financed a number of "accompanying measures" to support to audiovisual industry's efforts to adapt. For example, as changes to copyright regulations are proposed to increase online access, MEDIA supports the creation of ready-to-offer catalogues of European content. Overall 108 European films were made available in an average of 10 territories, for a total amount of about 950 online releases.

Culture

Transnational cooperation projects receive the majority of the budget under the Culture programme. These projects give organisations of all sizes and nature the possibility to co-produce and contribute to capacity building by investing in skills & training, by reflecting on and testing of new business models and by tackling digitization challenges. They allow large numbers of artists and culture professionals to operate and cooperate across borders (in 2016: 31.5 % of projects). The programme also supports 23 pan-European member-based structures gathering 4 000 professional organisations for peer learning, exchanging good practices and capacity building through the programme strand 'European Networks. Furthermore, the new action 'European Platforms' has created new and more flexible ways of boosting the international careers of emerging artists. For instance, one platform of 13 music venues has showcased the work of 837 bands from 36 different countries and helped them reach new audiences across Europe.

In 2016 alone, 520 cultural organisations expected to create 1 952 jobs were supported through projects funded by the Culture programme, which generated a total funding of EUR 93.5 million for cultural cooperation activities across Europe, combining EU co-financing and other sources of funding. This can be added up to the 147 cooperation projects selected in 2014 and 2015, which involved a total of 847 cultural organisations and helped create more than 3 288 jobs, of which 705 of a permanent nature.

As an example, a project called "Boosting careers of animation young artists with video mapping", thanks to a grant of less than EUR 300 000, will have created throughout its duration 11 temporary and 5 permanent jobs, and job opportunities for around 400 young animation artists, through a cooperation of creative industries, public institutions and European Universities of Art and Design.

1.4.2. Results of 2007-2013 programmes

In 2016 the Commission started ex-post evaluations covering 2011-2013 for three funds; the European Integration Fund (EUR 773.09 million), the European Refugee Fund (EUR 654.10 million) and the Return Fund (EUR 647.97 million), which were the predecessors of what is now the Asylum, Migration and Integration Fund (AMIF). A fourth fund, the External Borders Fund (EUR 1 654.21 million), whose types of actions are now implemented under the Internal Security Fund is being evaluated as well. Together these funds were referred to as SOLID funds and ran from 2007 to 2013 with a financial allocation of EUR 3 729.37 million with implementation continuing until 2016.

Although the Commission's evaluation report concluding on the criteria of efficiency, effectiveness, relevance, coherence and EU-added value of the funds is not yet available, preliminary findings from studies of external contractor's on absorption rates (which may still be subject to updates) and on achievements for each of the funds indicate that:

The absorption of the budget allocated to the Member States and participating countries during the period 2007-2013, until December 2016 varied from a fund to another and overtime, but all in all the absorption rates of the four funds can be considered satisfactory, also in view of the migratory pressure that imposed a constant adaptation of policies and actions to rapidly changing circumstances. The average absorption rates per fund over the period 2007-2013 were the following:

– European Integration Fund: 69.80 %
– European Refugee Fund: 76.10 %
– Return Fund: 69.31 %
– External Borders Fund: 74.66 %

The performance of the SOLID funds improved over time: the absorption rates during the period 2011-2013 increased significantly: the European Integration Fund reached 77 %, the European Refugee Fund 81 %, the Return Fund 81 % and the External Borders Fund 87 %.

European Integration Fund

The contractor's study found that achievements were particularly strong in putting the common basic principles for immigrant policy in the EU into action and in the development and implementation of the integration process of newly arrived third country nationals in Member States. The Fund supported many projects aimed at providing direct services to immigrants, such as language courses and advisory services. In total, projects implemented in 2011-2013 reached at least two million third country nationals, equivalent to approximately 10 % of all the third country nationals in the EU at the time. In terms of impact, out of the 26 Member States, 18 identified a strong impact of the European Integration Fund on the development and improvement of the quality of introductory programmes, and observed an impact of the European Integration Fund in relation to enhancing language knowledge, supporting civic orientation and increasing knowledge of the receiving society. The European Integration Fund made an important contribution to the integration process of the third country nationals in the majority of Member States, as 22 out of 26 assessed that the European Integration Fund enabled the implementation of actions that could not otherwise have been funded from national resources, suggesting high EU added value.

Return Fund

Preliminary findings indicate that the Fund has been mostly effective in contributing to the development of an integrated return management system, and in particular in achieving a better balance between voluntary and forced return. A number of innovative tools were developed with Return Fund support to improve return management in the EU and in Member States, such as the active support of voluntary return and the implementation of multi-stakeholder approaches empowering civil society stakeholders. The Return Fund provided an additional funding stream which led to funding of new actions or scaling up of existing actions, including those concerning the number of voluntary return activities over forced return operations. However, the effectiveness of actions aiming to foster cooperation with third countries was undermined by external factors such as the willingness of the authorities in partner countries to cooperate in the field of return and reintegration.

European Refugee Fund

During 2011-2013, the European Refugee Fund helped Member States develop and provide concrete support for asylum seekers addressing urgent and day-to-day issues. In addition, Member States organised operations of resettlement and a total of 9 058 persons were resettled with European Refugee Fund support. According to preliminary findings from the contractor reports the objectives of the Fund were adequately formulated to cover most of the existing needs in Member States concerning the improvement of national asylum systems (reception conditions of asylum seekers, integration of beneficiaries of international protection, fairer and more effective asylum procedures). The European Refugee Fund was able to adapt to increasing needs in the Member States over the period, especially the need to maintain satisfactory reception conditions despite higher asylum flows and to accelerate the asylum procedures in EU reception countries which have become more urgent over time. In this context emergency measures were particularly relevant to address emergency situations. The European Refugee Fund provided added value to Member States and non-State actors by bringing additional funding that allowed the implementation of projects that would probably not have been implemented otherwise. It appeared to add most value in Member States that had relatively less national funding and less developed asylum systems, where it contributed to a partial (re)structuring of the asylum system. In other Member States, the added-value of the European Refugee Fund relied on an ability to finance innovative projects, providing previously non-existing services or extending the scopes of activities and addressing the needs of new and more vulnerable target groups.

External Borders Fund

Preliminary findings from the contractor's report indicate that the financial support provided by the External Borders Fund was essential for carrying out the investments needed to improve the EU external border management systems, at a time of budget austerity and increase of migratory pressure. It contributed crucially to the application of the Schengen acquis, in supporting the development and upgrading at the national level of large information system systems such as VIS[131] and SIS II[132], the capacity of Member States to undertake border surveillance and the development of consular cooperation with third countries. The Fund was particularly important in ensuring the coherence of the systems which can only become operational and effective once all the building blocks have been finalised (such as SIS II and VIS), in a context where national funding was scarce. The actions co-financed by the External Borders Fund supported effectively the Union’s overall borders policy architecture. Regular border crossings have become faster thanks to automated gates funded by the External Borders Fund. The national components of the integrated borders management system for the protection of the EU's external borders have been significantly strengthened, especially with regard to the development and implementation of the national components of the European Surveillance System; training of consulate and border officials; cooperation between different national stakeholders and EU agencies involved in border protection and a significant upgrade of the main information systems. The added value of the fund is related to the financial solidarity established through Member States facing drastically different situations at their external borders. In doing so, the fund has created a tangible solidarity between the countries most exposed to migratory pressure at the borders and the ones less exposed. Thanks to the allocation mechanism, the bulk of resources were directed to the most exposed countries (mostly south Mediterranean ones).

Food and Feed

On 26 April 2016, the European Court of Auditors published its Special Report on a performance audit on animal disease eradication programmes covering the period 2009-2014. The Court examined whether the national veterinary programmes adequately contained animal diseases by assessing the approach taken by the Commission and the Member States’ programmes' design and implementation. The Court's Special Report concluded that the approach taken by the Commission was sound and was supported by good technical advice, risk analysis, and a mechanism for prioritising resources. The Court acknowledged that there have been some notable successes, for example, decrease in the cases of bovine spongiform encephalopathy (BSE) in cattle, salmonella in poultry, and rabies in wildlife.

Health programme

The ex-post evaluation of the second Health Programme has been finalised in July 2016 and a Commission Report has been transmitted to the European Parliament and the Council[133]

The evaluation found that the Programme delivered a range of valuable outputs with a clear link to EU health policy priorities and national priorities. The main EU added value of the funded projects and joint actions was linked to the exchange of best practices between Member States and improved cooperation through networking, for example, the pan-European cooperation between health technology assessment agencies and methodological guidance for assessing innovative health technologies which enabled decision-makers to identify innovations that really make a difference; the sharing of best practice in the area of rare diseases on development and implementation of national plans and the standardisation of nomenclatures which have helped Member States in developing their rare diseases policies and improved health professionals' access to relevant information on rare diseases; increased and extended laboratories preparedness to detect highly infectious pathogens; improving tools to support the choice of most cost-effective prevention policies against cardiovascular diseases through scientific data and innovative tools; support to organ vigilance through the development of important principles of good practice and standard evaluation tools.

The dissemination of action outputs varies, thus it is not systematically ensured that key stakeholders are reached, or that outputs can be taken up and transformed into results and tangible impacts. While synergies with the EU research programme have been shown, there is still room for improvement in particular in relation to other EU funding instruments such as the structural funds.

1.5. Global Europe (Budget Heading 4)[134]

EUR 9.1 billion of budget commitment appropriations have been allocated to the programmes under Heading 4, which represents 5.9 % of the total 2016 EU budget. To be noted that the EU development assistance is reinforced by the European Development Fund (EDF), 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 cover broad spectrum of actions such as development assistance, pre-accession assistance and humanitarian aid or actions contributing to stability and peace promotion of Human Rights, election observation missions and many others.

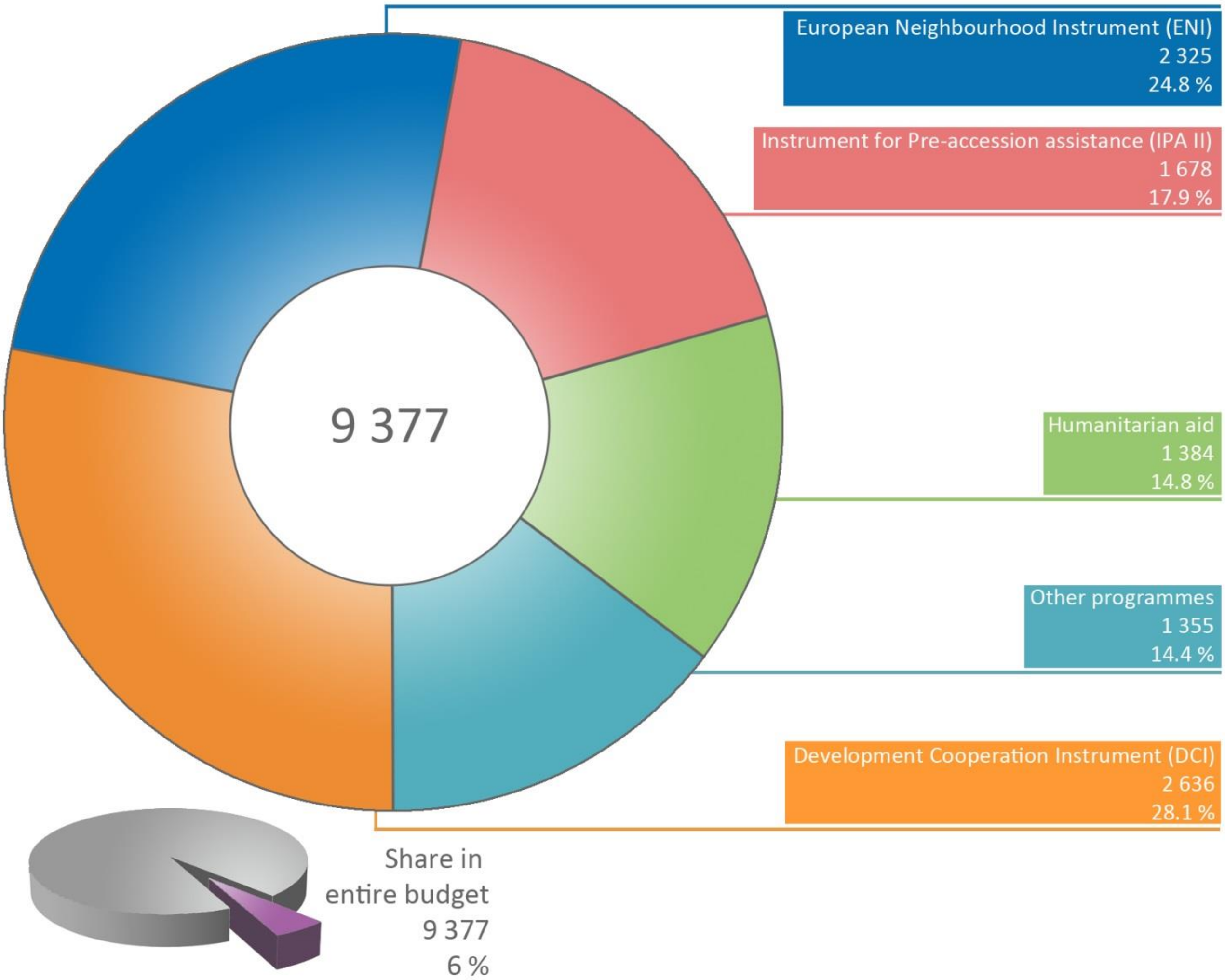


Chart: Top: Main programmes financed in 2016 under Heading 4. Bottom: Share for Heading 4 in the entire budget. All amounts in EUR million.

Programmes' support to the Commission priorities:

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 Trusts' which includes a strong focus on security.

Many of the main actions under Heading 4 in 2016 were linked to the unprecedented scale of humanitarian crises. Not least the ongoing migration challenges in Europe's immediate neighbourhood. The Union is also addressing the root causes of migration through development cooperation and assistance with a longer-term focus.

Many of the programmes are characterised with the ability to respond rapidly and flexibly to changing political priorities and are therefore essential for the successful implementation of the EU Global Strategy of June 2016.

Management and implementation of a large part of the funding under Heading 4 is taken over by international organisations, such as United Nations agencies, while the remaining part is either directly managed by the Commission centrally, indirectly by beneficiary countries or through shared management.

1.5.1. Progress of 2014-2020 programmes

In 2016 the Commission continued to be a leading actor in the international response to major humanitarian crises, both natural and man-made. It **managed an unprecedented humanitarian aid budget of about EUR 2 025 million** for food, shelter, protection and healthcare for **120 million people in over 80 countries**[135]. The allocated amount of EUR 1 384 million under Heading 4 was reinforced through the mobilisations of the Emergency Aid Reserve and other sources, reaching EUR 1 603 million. Additional amounts from European Development Fund (EDF) and for emergency support in the EU were also mobilised. A significant proportion of this, including additional funding released on an ad-hoc basis, went to support refugees in the countries and regions most directly affected by the **Syrian refugee crisis**; but the EU has also contributed to alleviating acute crises in other parts of the world, with substantial contributions going to South Sudan, Yemen, Iraq, the Lake Chad Basin and countries affected by El Niño.

Another example of swift EU action and flexibility managed by the Commission is the **Facility for Refugees in Turkey**. Established in January 2016 for a two-year period, the Facility for Refugees in Turkey is a joint coordination mechanism of existing instruments (i.e. humanitarian and non-humanitarian assistance) designed to ensure that needs of refugees and host communities in Turkey are addressed in a comprehensive and coordinated manner. An efficient 2016 roll-out, drawing on a total budget of EUR 3 billion (EUR 1 billion from EU budget, EUR 2 billion from Member States), meant that EUR 2.2 billion had been programmed at the end of 2016, almost half contracted and close to EUR 750 million paid out.

The Facility for Refugees in Turkey also enabled the EU to launch the **Emergency Social Safety Net (ESSN)** in 2016. The Emergency Social Safety Net is a large, innovative humanitarian programme dealing with eminent needs, with an initial EU grant of EUR 348 million, implemented by the World Food Programme. It is set up to efficiently assist up to **one million of the most vulnerable refugees in Turkey** with regular cash allocations by means of electronic debit card. The first cash distributions have taken place in December 2016.

Furthermore, aside from its humanitarian assistance, the Commission also supports the longer-term livelihoods, socio-economic and educational perspectives of refugees and their host communities in Turkey. For instance, in March 2016, the contract for a EUR 37 million project ('Generation Found') on education was signed[136], implemented through UNICEF. Some of the indicative results of the project from early action-level reporting[137] suggest that under the programme, 60 000 children benefit from educational material and 10 392 children benefit from psychosocial and social cohesion programmes. 2 081 education personnel were trained and 7 950 Syrian educational personal received incentives. Three children protection units and six spaces for adolescents and young people were established.

In addition to Turkey, the Commission continued supporting other countries in Syria's immediate neighbourhood, such as Jordan, Lebanon and Iraq, where also an increasing share of the EU's **non-humanitarian aid** has been provided. The **EU Regional Trust Fund in Response to the Syrian crisis ("Madad Fund**") pools contributions from the

EU budget and Member States to finance projects focusing on longer-term economic, educational and social needs of refugees, as well as host communities and administrations. In 2016, EUR 377.8 million was adopted for new actions, contracts for EUR 321 million were signed, and EUR 129 million were disbursed to projects. By the end of 2016, the Fund has reached a total of EUR 932 million in signed contributions and EUR 767 million in actions adopted by its Board, all achieved within a period of little over 18 months, and closely approaching its target of EUR 1 billion.

Migration management and mobility remained a priority in 2016 also for the EU's **development cooperation.**

Looking at the future, the Commission also adopted in 2016 a proposal for a new **European Consensus on Development**, providing a common vision and framework of action for development policy which will apply to the EU and its Member States.

The EUR 1.8 billion **EU Trust Fund for Africa**, set up in 2016, aims at increasing capacities in partner countries to better manage migration and refugee flows, and also address the more structural root causes of irregular migration and forced displacement. Until the end of 2016, 106 projects worth EUR 1 589 million have been approved, with EUR 594 million contracted and EUR 175 million disbursed in 2016.

Building on the successful experience of the Investment Plan for Europe, the Commission proposed in 2016 an ambitious **European External Investment Plan** for Africa and the European Neighbourhood as a means to address the root causes of migration. As part of the plan, the European Fund for Sustainable Development is expected to mobilise up to EUR 44 billion investments with funds from the general budget of the Union.

In 2016, the EU's budget supported the Union's continued efforts to preserve peace, help third countries prevent conflicts, respond to crises and strengthen international security. Under the **Instrument contributing to Stability and Peace (IcSP),** a record amount of EUR 271.5 million was committed for crisis-response in 2016, EUR 27 million for conflict prevention, peace-building and crisis preparedness actions and EUR 224.7 million for Common Foreign and Security Policy actions.

The focus on the security-development nexus was also increased when designing other programmes and actions, in particular in sub-Saharan Africa (e.g. through the African Peace Facility).

The Commission's actions under this budget heading also contributed in 2016 to stabilising neighbourhood countries. One example is **Ukraine**, where the conflict continued throughout 2016, and where EU financial and technical assistance has been essential, for instance, in supporting the broader peace effort as well as reforms. In 2016, the EU mobilised EUR 25.6 million under the **Instrument contributing to Stability and Peace (IcSP)** to address the crisis in the country and support conflict-affected populations, of which EUR 14.6 million have already been contracted. EUR 5 million[138] was made available to the OSCE Special Monitoring Mission for an interim response programme in the country. EUR 1.2 billion of **Macro-Financial Assistance (MFA) to Ukraine** was scheduled to be disbursed in 2016, subject to the fulfilment of the policy conditions. The Macro-Financial Assistance is a programme in support of the country’s external financing needs. The foreseen disbursement was delayed due to financial and economic policy conditions[139] not being met by Ukraine. Despite a change of government and with some exceptions, Ukraine pursued a steady pace in reforms across a number of sectors of the economy and society in 2016. The EU was also one of the largest humanitarian donors in Ukraine, where projects directly helped half a million people by providing food, shelter, health services and psychological help.

In 2016, EU funding has also contributed to achieving a major project milestone on the site of the Chernobyl nuclear disaster in **Ukraine**. On 29 November 2016, as part of a project aimed at reducing the radioactive release from the remains of the destroyed reactor for the next 100 years, the last section of a giant arch-shaped structure was moved onto the reactor site. The total project costs of the "**New Safe Confinement"** amount to around EUR 1.5 billion, jointly funded by the EU, Ukraine, the European Bank for Reconstruction and Development, and the international community. The EU contributed EUR 210 million under the **Technical Assistance to the Commonwealth of Independent States (TACIS)** and EUR 220 million, EUR 40 million in 2016 alone, under the **Instrument Contributing for Nuclear Safety Cooperation (INSC).** The project is scheduled for completion by the end of 2017.

1.5.2. Results of 2007-2013 programmes

In 2016, a number of reviews and evaluations were published providing new insights in the effectiveness of the 2007-2013 programmes.

Crises response in third countries – a flexible external programme

The **Instrument for Stability (IfS)** was a strategic 2007-2013 programme, to address security and development challenges. Its **Crisis Response component (IfS CRC)**[140] focused on rapid and flexible initial response to political crises or natural disasters in third countries. In 2007-2013, around EUR 1 076 million from the EU budget were committed for interventions of the Crisis Response component of the Instrument for Stability.

Evaluation[141] evidence suggests that this component of the Instrument for Stability has been valuable to the EU's external actions.

The evaluation of the Crisis Response component of the EU's Instrument for Stability (IfS CRC) 2007-2013 found that this component delivered EU added value where it filled gaps in the toolbox of existing crisis response instruments.

The Policy Advice and Mediation Facility (PAMF) of the Crisis Response component of the EU's Instrument for Stability was particularly singled out as a positive example. The Policy Advice and Mediation Facility accounted for under 1 % of the total funding and 4 % of the projects. The facility made it possible to fund quick and focused actions in the areas of policy advice, technical assistance, mediation and reconciliation, up to an amount of EUR 2 million. The time of deployment was kept short due to the Policy Advice and Mediation Facility being based on annual standing financing decisions. This valuable characteristic made it highly complementary to existing crisis response tools of EU Member States and international donors.[142]

Interventions were shown to be most effective in delivering results when employed in coordination with political and policy dialogue and/or other funding. For instance, IfS CRC funding for **primary health care sector reform** in **Lebanon** was active alongside a country-owned process of institutional reform which amplified its impact. The IfS CRC intervention was credited with having been conducive to **reducing tensions between Lebanese citizens and Syrian refugees** by supporting access to and the improvement of health services for the vulnerable population of Lebanon[143].

The evaluation, however, also concludes that the overall impact of Crisis Response component of the EU's Instrument for Stability could have been higher if political engagement had more systematically supported interventions throughout, not only at the level of EU Delegations, but also with respect to how the instrument fit into the overall longer-term EU crisis response.

As a further criticism, the evaluation pointed out that Crisis Response component of the EU's Instrument for Stability focused insufficiently on learning, monitoring and evaluation of its interventions. The programme could also have had a higher impact if its potential as a operational testing ground for the EU's growing need to respond to crisis had been fully recognised.

Poverty reduction – evaluation evidence from Bangladesh (2007-2013)

During the 2017-2013 period, the EU worked closely with other development partners, including Member States, on the overall objective of **poverty reduction**. This was for instance the case in the development cooperation of Denmark, Sweden and the EU with **Bangladesh**. Over the period, the three partners disbursed a total of EUR 1.38 billion, of which the EU accounted for 57 %, mainly funded through the **Development Cooperation Instrument**[144] **(DCI)** and the **European Instrument for Democracy and Human Rights (EIDHR)**.

A 2016 evaluation[145] on the development cooperation found that the EU's contribution was **particularly effective in its strategic approach of improving coherence between trade and economic development policy**. An approach which, inter alia, enabled Bangladesh to substantially increase its exports to the Union. The EU was in turn able to leverage these trade links to catalyse improvements in areas such as workers' safety in the garment industry. Other efforts, however, have not translated into tangible improvements: this particularly concerns the instrument's focus on improvements in governance and human rights.

Research & Innovation in development – evidence from a thematic evaluation

In the context of **international development**, a 2016 evaluation[146] shed light on impacts of EU support for international **Research & Innovation**.

During the period of 2007-2013, the EU committed around EUR 1.1 billion (including the European Development Fund) in support to development projects with a Research & Innovation component. EU funding sources included the **Development Co-operation Instrument** (DCI; both geographic and thematic lines), the **European Neighbourhood & Partnership Instrument** (ENPI)' as well as the European Development Fund outside the EU budget.

The evaluation found evidence that, at a local level, development processes had benefitted from Research & Innovation results, derived from EU-supported projects. This was, for instance, the case in the **context of agriculture development work,** but also in the area of **public health programmes** where research results on diseases and drugs were taken up. A further finding was that EU-financed ICT infrastructure had facilitated **information and knowledge exchange** as well as the formation of networks between individual researchers. The impact at institutional level was found to be less evident.

The evaluation concludes, however, that the overall effectiveness and efficiency of the Research & Innovation support has been held back by a lack of coherent overall strategic approach.

Section 2
Internal control and financial management achievements

The second section of this report focuses on the Commission's management of the EU budget in 2016.[147]

Sub-sections 2.1 and 2.2 of this report illustrate how the Commission strives to achieve the highest standards of financial management and internal control.

The ultimate goal is cost-effective financial management – thereby simplifying procedures, protecting the EU budget by taking preventive and corrective actions against errors and fraud, and keeping a proportionate balance between the costs and benefits of controls.

This management assessment is complemented by a summary of the conclusions of the **Internal Audit Service** (sub-section 2.3), the work carried out by the **Audit Progress Committee** (sub-section 2.4) and the **follow-up of discharge and external audit recommendations** (sub-section 2.5).

On the basis of these elements, the **Commission takes overall political responsibility for the management of the budget** (sub-section 2.6).

The overall amount at risk at closure is estimated to be less than 2 % of the total relevant expenditure.

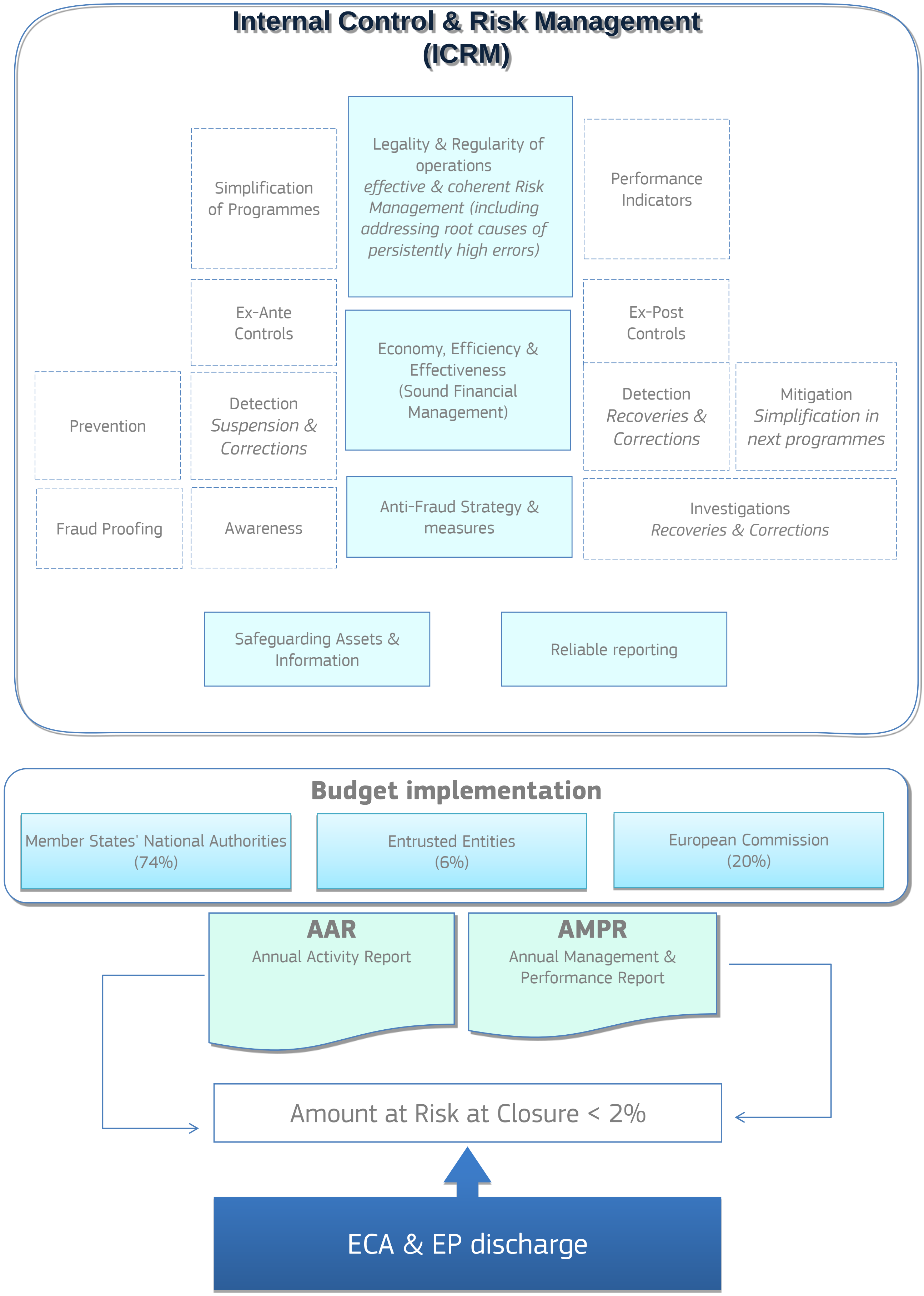
The Commission departments' multiannual control mechanisms ensure an adequate management of the risks to the legality and regularity of the transactions.

The financial corrections and recoveries made over the subsequent years do protect the EU budget overall.

Finally, the cross-cutting organisational management achievements of 2016 are highlighted in sub-section 2.7 of this report.

Schematic illustration of the Commission's integrated Internal Control & Risk Management model

The illustration on the next page shows how the different dimensions of the Commission's integrated Internal Control & Risk Management (ICRM) model fit together. The five Internal Control Objectives are achieved by deploying both preventive and detective/corrective measures, covering the three management modes. Moreover, in line with the programmes themselves also the control model is multiannual, both in detecting and correcting any errors (e.g. implementing results from ex-post controls) as well as feeding back lessons learned into the adjustment of 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 being 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.


Internal Control & Risk Management
(ICRM)
Simplification of Programmes
Legality & Regularity of operations
effective & coherent Risk Management (including addressing root causes of persistently high errors)
Performance Indicators
Ex-Ante Controls
Economy, Efficiency & Effectiveness
(Sound Financial Management)
Ex-Post Controls
Prevention
Detection
Suspension & Corrections
Detection
Recoveries & Corrections
Mitigation
Simplification in next programmes
Fraud Proofing
Awareness
Anti-Fraud Strategy & measures
Investigations
Recoveries & Corrections
Safeguarding Assets & Information
Reliable reporting
Budget implementation
Member States' National Authorities
(74%)
Entrusted Entities
(6%)
European Commission
(20%)
AAR
Annual Activity Report
AMPR
Annual Management & Performance Report
Amount at Risk at Closure < 2%
ECA & EP discharge

2.1. Achievement of internal control objectives

The Commission applies a decentralised model of financial management. According to the Financial Regulation[148], the Authorising Officer of the Commission is the College of Commissioners. The College delegates financial management tasks to the Directors-General or Heads of Service who thereby become Authorising Officers by Delegation (AOD).

At corporate level, the Commission has defined common standards, specifying the minimum features of the internal control systems.

The Commission has updated its internal control framework in line with the revision of the COSO framework.

These internal control standards are based on the COSO[149] framework. In line with the latest COSO revision, which moves from a compliance-based to a principle-based system, **the Commission has recently updated its internal control framework** accordingly.[150] These revised internal control principles will become applicable to Commission departments by the end of 2017 at the latest. The purpose of this revision is to continue to ensure robust internal control while providing the necessary flexibility allowing departments to adapt to their specific characteristics and circumstances. This will be especially useful given the efforts to make control systems more risk-based and cost-effective, inter alia by increasing synergies and efficiencies.[151]

Within this framework and in accordance with the regulatory responsibility of the Directors-General as Authorising Officers by Delegation (AOD), **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.

Overall, Internal Control Standards are effectively implemented and functioning.

The management of each Commission department regularly assesses the effectiveness of the internal control systems and analyses the findings resulting from this assessment.

As a result, for 2016, all Commission departments concluded that the **internal control standards are effectively implemented** and functioning[152]. However, 22 Commission departments reported a need to improve effectiveness in specific standards as follows:

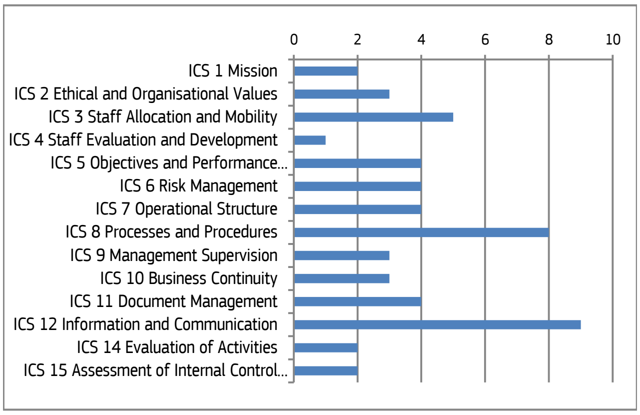


Chart: Number of standards reported for further improvements

In addition to the management's assessment of the internal control systems, **the Accounting Officer** validates the Commission departments' local financial systems. The correct functioning of the local systems which feed the Commission's central accounting system (ABAC) is key to ensure the overall reliability of the accounts. The results of the Accounting Officer's validation of the local financial systems during 2016 indicate sufficient levels of maturity and continued steady improvements. The new systems introduced in recent years for the financial management of the programming period 2014-2020 promote increased automation and more embedded controls in ensuring the respect of applicable regulations. This allows for better use of resources, reduction of errors and the standardisation of processes and procedures for the management of programmes under common regulatory provisions. Other strengths found include improved financial supervision systems and tools, good documentation of procedures and highly competent staff. Nevertheless, recommendations or reminders were issued to some services[153] about inter alia the consistency of data between local IT systems and ABAC, timeliness of recordings, quality of information registered, up-to-date guidance and documentation aligned after reorganisations or making common use of control systems.

On the basis of these assessments, the Commission departments reported on the achievement of the internal control objectives defined in the Financial Regulation[154]. This is summarised in the following subsections concerning the efficiency of financial management, the effectiveness in managing the legality and regularity risks, the cost-effectiveness of controls and the anti-fraud strategies.

2.1.1. Efficiency of financial management

In 2016 the Commission started to review its main financial business processes in view of maintaining the highest standards in financial management in the context of decreasing resources. Areas for potential synergies and efficiency gains include simplification and harmonisation of rules and procedures, modern and interconnected financial IT systems, further externalisation and mutualising financial expertise. The focus of these measures is on **increased efficiency in financial management**: lower bureaucratic burden, proportionate cost of controls on beneficiaries, lower error rates, improved data quality, shorter "time to grant" and "time to pay" periods.

Work on **simplification** has progressed with the preparation of the re-launch of the Simplification Scoreboard. For the first time, simplification of budget implementation has been monitored not only at Commission level but also at Member State level. Work has also continued to simplify financial rules together with the Mid-Term Review of the Multiannual Financial Framework and the revision of the Financial Regulation, also in view of a stronger focus on results through increased use of lump sums, prizes, payments based on outputs and results. See also the simplification efforts per policy area mentioned in the first section of this report.

Substantial progress has also been made in 2016 towards the digital management of grants (eGrants) and procurement (eProcurement) including the establishment of a single entry point to communicate and exchange information with stakeholders available to all services (SEDIA). Governance structures to oversee the delivery of an integrated corporate solution were put in place at the beginning of 2017.

In terms of **control efficiency**, data in annex 6 shows that the global **average net payment time** of the Commission services (21.4 days in 2016) is below 30 days and has steadily decreased further over the years. The global average gross payment time (24.9 days) is provided for the first time following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension.

2.1.2. Effectiveness of managing the legality and regularity risks

Control models

The Commission is ultimately responsible for ensuring that the EU budget is properly spent, regardless of whether the funds are implemented by the Commission departments themselves (direct management; approx. 20 %), entrusted to entities (indirect management; approx. 6 %) or executed by Member State authorities (shared management; approx. 74 %). For 80 % of the budget, the Commission is predominantly dependent on the reliability of the management and control information reported by Member States and other entrusted bodies 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.

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

– *Preventive*[155] *measures* typically comprise at source[156] and other ex-ante[157] controls carried out by the Commission before making a payment or accepting the expenditure made by the Member State or other entrusted body. Also, possible interruptions/suspensions of payments to Member States in case of serious deficiencies in the management and control systems have a preventive character. In addition, training and guidance is provided by the Commission to Member State authorities or to grant beneficiaries.

– *Corrective measures* typically include financial corrections or recoveries of irregular expenditure declared by Member States or beneficiaries, following ex-post[158] controls carried out by the Commission after having made a payment or having accepted the expenditure made by the Member State or other entrusted body.

While all financial operations are subject to ex-ante control before payment by the Commission[159], the intensity in terms of frequency and/or depth of these controls depends on risks and costs involved. Consequently, risk-differentiated ex-ante controls are usually not performed on the spot (prohibitive costs/benefits balance), while ex-post controls typically are (on a representative sample basis, or based on a risk assessment).

The Commission's spending programmes and thus also the control systems and management cycles are ***multiannual by design***, In fact, while errors may be detected in any given year, they are corrected in subsequent years.

Finally, sources and root causes of errors detected by the Commission or Member States through audit work are 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.

In order to measure whether the EU budget is effectively protected, the Commission departments estimate and report on the "level of error" indicator and their related amounts at risk – at different stages during the cycle:

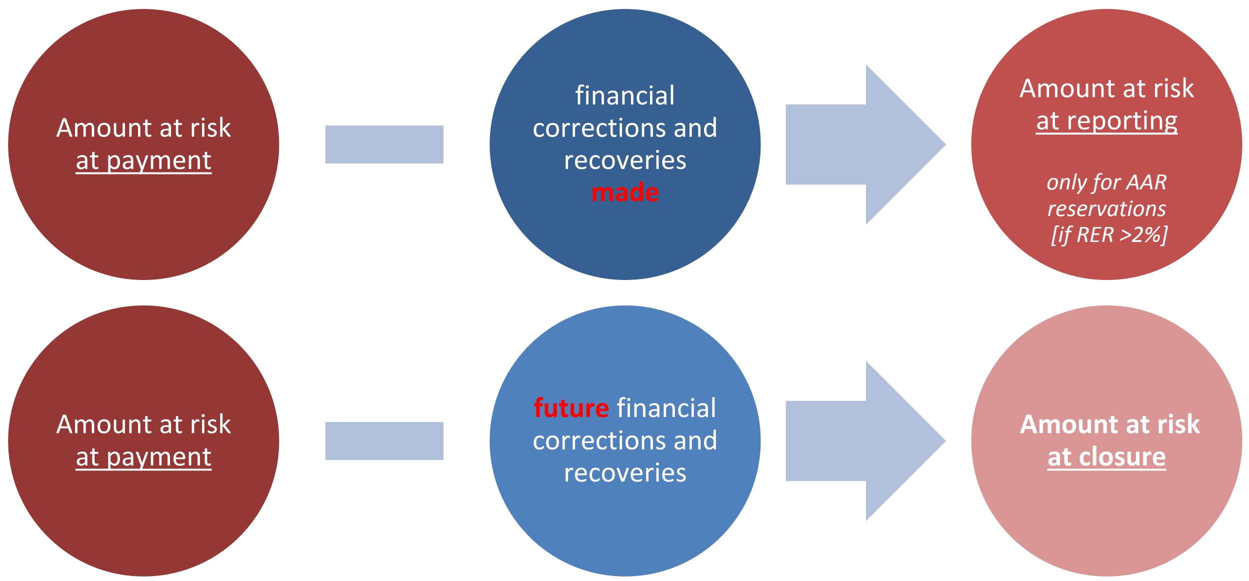
- ***Amount at risk at payment*** (*based on the detected error rate*); when ex-ante controls have been duly carried out before the payment, but no corrective measures have yet been implemented on the errors (being) found after the payment;
- ***Amount at risk at reporting*** (*based on the residual error rate*); when some corrective measures have already been implemented after the payment, but others are still expected to be implemented in successive years. *However, as this concept is based on Annual Activity Reports' reservations only, it is not an "overall" concept given that it does not cover relevant expenditure which is not under reservation (i.e. for which Residual Error Rate < 2 %)*;
- ***Amount at risk at closure*** *(i.e. taking into account the estimated future corrections as well)*; when all corrective measures in the following years have been implemented.

For the definition(s) of the amount(s) at risk and related concepts, see Annex 3.

For any given year, the Commission's ('gross') ***amount at risk at payment****, after expenditure has been accepted and/or payments have been made, is higher than 2 % of the relevant expenditure. This is in line with the European Court of Auditors' own findings.*

Yet, ***financial corrections and recoveries*** *have been and will be made during the subsequent year(s), which already reduce the ('intermediate')* ***amount at risk at reporting****. In the meantime, for full transparency, reservations are issued for (only) those programmes for which the residual error rate (RER) would not yet have decreased below 2 % at the time of the yearly management reporting (Annual Activity Reports).*

Furthermore, after also considering the ***estimated future corrections*** *that will have been made by the end of the programmes' lifecycles, the forward-looking ('net')* ***amount at risk at closure*** *is estimated to be below 2 %.*



Control results for 2016

The detailed results for the 2016 financial year are presented in the "Estimated amount at risk at closure" table on the next page.

Amount at risk at payment

Ex-post controls (e.g. on-the-spot audits) performed after payments have been authorised can still detect at least part[160] of the errors that would have remained undetected after the ex-ante controls have been duly performed, and pave the way to correct those (e.g. through implementation and even extrapolation of audit results).

Over the years, the Commission has been successful in improving its financial management. This is evidenced by declining levels of error not only reported by the Commission but also by the European Court of Auditors. These annual estimates went from double digit rates for some policy areas (particularly cohesion) before 2009 to considerably lower levels at present – below 5 % in most policy areas and close to or even below 2 % in some other areas.

For 2016, based on the detected or equivalent error rates, the Commission's overall Average Error Rate is estimated to be between 2.1 % and 2.6 % (in 2015 between 2.3 % and 3.1 %) of total relevant expenditure, and the related estimated **overall amount at risk at payment** is between EUR 2.9 and 3.6 billion (in 2015 between EUR 3.3 and 4.5 billion). This decrease is mainly due to cohesion's lower inherent risk of error for programmes of the current Multiannual Financial Framework.

Policy area	Total relevant expenditure (1)	Estimated amount at risk at payment (2) = Average Error Rate applied on (1)		Estimated future corrections (3) = Adjusted Rate of Average Recoveries and Corrections applied on (1)		Estimated amount at risk at closure (4) = (2)-(3)	
		lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	57 552.7	1 419.6 (2.47 %)	1 419.6 (2.47 %)	1 173.4 (2.04 %)	1 173.4 (2.04 %)	246.2 (0.43 %)	246.2 (0.43 %)
Cohesion	45 403.7	961.2 (2.12 %)	1 573.6 (3.47 %)	700.3 (1.54 %)	798.0 (1.76 %)	261.0 (0.57 %)	775.6 (1.71 %)
External relations	10 183.7	166.0 (1.63 %)	166.0 (1.63 %)	43.3 (0.43 %)	43.3 (0.43 %)	122.7 (1.20 %)	122.7 (1.20 %)
Research, Industry, Space, Energy and Transport	13 586.3	320.1 (2.36 %)	381.4 (2.81 %)	98.6 (0.73 %)	99.8 (0.73 %)	221.4 (1.63 %)	281.6 (2.07 %)
Other internal policies	4 532.0	35.1 (0.77 %)	39.4 (0.87 %)	8.1 (0.18 %)	8.1 (0.18 %)	27.0 (0.60 %)	31.4 (0.69 %)
Other services & Administration	5 869.5	12.2 (0.21 %)	14.9 (0.25 %)	0.5 (0.01 %)	0.6 (0.01 %)	11.8 (0.20 %)	14.3 (0.24 %)
Total	137 127.9	2 914.2 (2.13 %)	3 594.9 (2.62 %)	2 024.2 (1.48 %)	2 123.2 (1.55 %)	890.1 (0.65 %)	1 471.8 (1.07 %)

Table: Estimated amount at risk at closure for 2016 relevant expenditure (EUR million). See details in Annex 2-A and definitions in Annex 3.

The Commission and the European Court of Auditors reach the same conclusions about the nature and root causes of persistently high levels of error. Further actions are taken for those programmes with persistently high levels of error to address their root causes (see details below).

Amount at risk at reporting

Within the multiannual context of the programmes and control strategies, over the years any remaining errors that become detected will thus be corrected. Each year, when reporting in the Annual Activity Reports, the Commission departments provide an *intermediary* state-of-play of their (usually cumulative) programme expenditure, detected errors and corrections made – *up to that moment in time*.

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

The Commission takes preventive and corrective actions as foreseen by the EU legislation to **protect the EU budget from illegal or irregular expenditure**.

Where preventive mechanisms are not effective, the Commission, in the framework 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.[161]

Fund	Total EU budget payments in 2016	Total financial corrections and recoveries confirmed in 2016	% of payments of the EU budget	Total financial corrections and recoveries implemented in 2016	% of payments of the EU budget
Agriculture:	*56 454*	*2 087*	*3,7 %*	*1 948*	*3,5 %*
EAGF	44 084	1 387	*3,1 %*	1 662	*3,8 %*
Rural Development	12 370	700	*5,7 %*	286	*2,3 %*
Cohesion Policy:	*37 134*	*1 204*	*3,2 %*	*943*	*2,5 %*
ERDF	21 067	706	*3,3 %*	623	*3,0 %*
Cohesion Fund	7 449	102	*1,4 %*	1	*0,0 %*
ESF	8 148	389	*4,8 %*	235	*2,9 %*
FIFG/EFF	422	14	*3,2 %*	17	*3,9 %*
EAGGF Guidance	48	(5)	*(11,0) %*	67	*140,1 %1 %*
Internal policy areas	*23 165*	*309*	*1,3 %*	*318*	*1,4 %*
External policy areas	*10 277*	*173*	*1,7 %*	*175*	*1,7 %*
Administration	9 325	4	*0,0 %*	4	*0,0 %*
TOTAL	**136 355***	**3 777**	***2,8 %***	**3 389**	***2,5 %***

Table: Financial corrections and recoveries overview for 2016[162] (EUR million)
**Excludes EUR 61 million paid out under the Special Instruments heading*

In 2016, the total financial corrections and recoveries amounted to EUR 3.8 billion confirmed or EUR 3.4 billion implemented. This amount covers corrections and recoveries made during 2016 irrespective of the year during which the initial expenditure had been made. More details can be found in Annex 4.

Types of Financial Corrections in 2016 and Cumulative Results 2010-2016

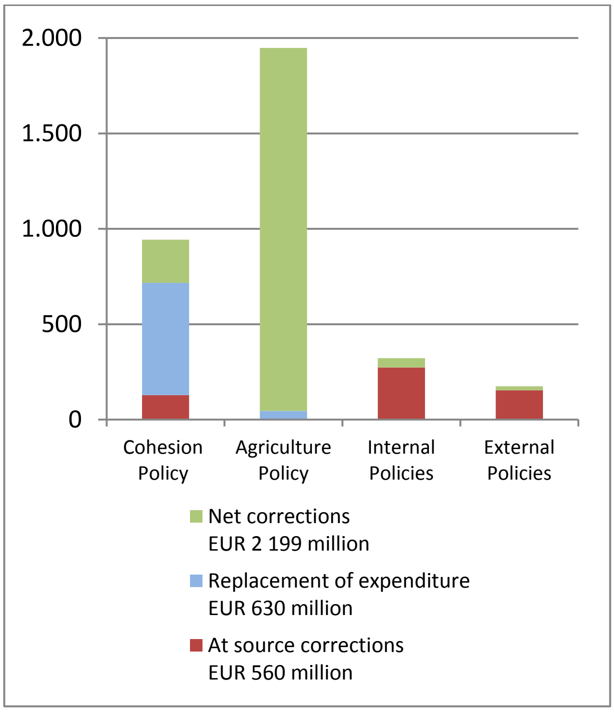


*Chart: Types of financial corrections **implemented** in 2016 (EUR millions)*

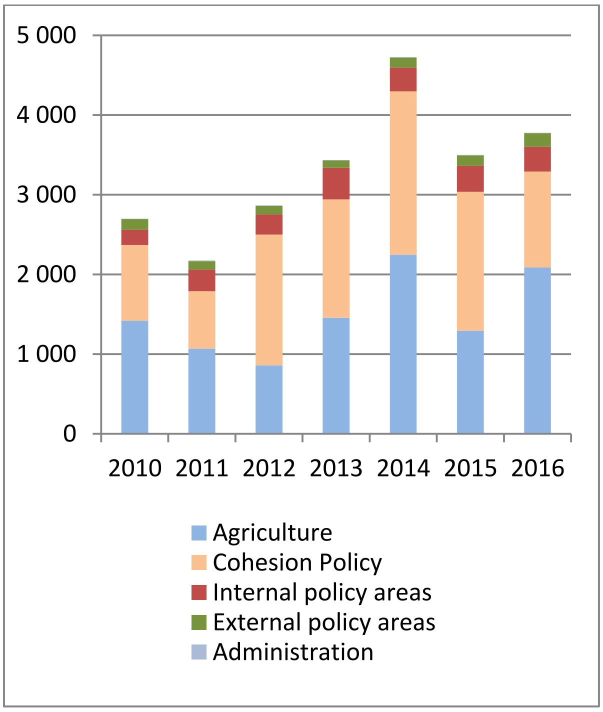


*Chart: Financial corrections and recoveries **confirmed** 2010-2016 cumulative (EUR millions)*

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development and direct and indirect management.

For Cohesion Policy, net corrections are, up to the programming period 2007-2013, the exception. Under the new legal framework, the Commission retains 10 % of each interim payment until the finalisation of all control procedures. These controls ensure that no serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected or uncorrected by the Member State. Otherwise the Commission must apply net financial 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 2016 was 1.8 % of expenditure (all of which are net financial corrections) - see Annex 4, section 2.4.

For the European Regional Development Fund (ERDF) and European Social Fund (ESF) 2007-2013 funds, at the end of 2016 the combined rate of financial corrections, based on Commission supervision work only, was 1.7 % of the allocations made - see Annex 4, section 3.4.2.

During the period 2010-2016 the average amount confirmed was EUR 3.3 billion or 2.4 % of the average amount of payments made from the EU budget, while the average amount implemented in this period was EUR 3.2 billion or 2.3 % of payments.

In view of the audited sample, part of the (cumulative) expenditure will have been fully cleaned from errors, while the other part may still be affected by similar errors. If the error rate would still be considered to be material (i.e. above the materiality criteria of 2 %) *at that stage*, then a reservation would be made or maintained in the Annual Activity Report for the programme concerned.

*In their **2016 Annual Activity Reports**, 29 Authorising Officers by Delegation provided unqualified assurance, while 20 declarations were qualified with a total of 37 reservations. More details can be found in section 2.2 and Annex 2-B.*

The **amount at risk at reporting** from (only) the programmes under reservations is estimated at **EUR 1.6 billion**, compared to EUR 1.3 billion in 2015. See details below in section 2.2.

Amount at risk at closure

Within the same multiannual context of the programmes and the control strategies, it is also possible to look ahead towards the end of the programme cycle[163] and estimate how much corrections are still expected to be made through the ex-post controls in the future. Indeed, as the expenditure of the current year may not yet have been subjected to (finalised) ex-post controls, the related corrections will only materialise during the subsequent year(s). The forward-looking amount at risk at closure can be derived only after taking into account *all* corrections that *already have been and/or will have been* implemented *by then*.

One indication for the "estimated future corrections" *could be* the historical ones (e.g. the 7-years historic average) However, programmes' features and risks as well as the related control systems' modalities and corrective capacities have evolved (e.g. simplified delivery mechanisms and/or adjusted controls). Also, the historic data is influenced by *specific* (one-off, non-structural) events. Therefore, the historic data may not always be the best basis for estimating the future corrective capacity. In those cases, the Authorising Officer by Delegation adjusts or replaces those in order to get to a better and conservative estimate.

*In their 2016 Annual Activity Reports, the Commission departments have disclosed both their basis (the 7-years average of their historic actual corrections), as well as their adjustments made towards their **best but conservative estimations for the future (ex-post) corrective capacity for the current programmes**. Categories of such adjustments include neutralising any specific (one-off, non-structural) events from the past, excluding ex-ante corrective elements (e.g. recovery of unused pre-financing, credit notes for invoices), considering a more recent historic average (e.g. DG AGRI taking only the last 5 years as better basis), considering the different inherent risks and/or control modalities for the programmes delivery mechanisms (e.g. for Cohesion based on the cumulative residual risk (CRR) estimated by the Commission departments, after validation of the error rates and the financial corrections reported by the Member States' Audit and Certifying Authorities for each Operational Programme), avoiding applying the same percentage to low-risk funding of agencies etc., or even considering that the structural ex-post future corrections would be 0 (e.g. DGs with entirely ex-ante control systems and related corrections which reduce the errors upfront).*

As shown in the "*Estimated amount at risk at closure*" table above, the Estimated Future Corrections for the 2016 expenditure are between EUR 2.0 and 2.1 billion or between 1.5 % and 1.6 % of the total relevant expenditure. This is lower than for 2015 (between EUR 2.1 and 2.7 billion, or between 1.5 % and 1.9 %), again mainly for Cohesion (which is logical given the lower estimated amount at risk at payment to be corrected, as mentioned above). In any case, compared with the actual financial corrections and recoveries in 2016 (EUR 3.8 confirmed or 3.4 billion implemented) and their historic 7-year-average (EUR 3.3 or 3.2 billion; 2.4 % or 2.3 %), this estimate can be considered conservative.

The resulting estimated overall **amount at risk at closure** for the 2016 expenditure amounts to between EUR 0.9 and 1.5 billion, or between 0.7 % and 1.1 % of the total relevant expenditure. This is lower than for 2015 (between EUR 1.2 and 1.8 billion, or between 0.8 % and 1.3 %), again mainly due to Cohesion (consequence of the lower inherent risk of error for the programmes of the current Multiannual Financial Framework, as mentioned above).

Conclusion

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

The estimated overall amount at risk at closure is less than 2 %.

In the meantime, further actions are taken for those programmes with persistently high levels of error to address their root causes.

Moreover, for transparency reasons reservations are issued in the Annual Activity Reports for those programmes for which the residual error rate (RER) would not yet have decreased below 2 % at the time of reporting (see section 2.2 below).

The Commission and the European Court of Auditors reach the same conclusions about the nature and root causes of persistently high levels of error; i.e. weaknesses in management and control systems (notably in Member States, Third Countries and International Organisations/Agencies), aggravated by the complex legal framework under which the EU policies are implemented. Over the years, the most common error types which result from this combination of factors are:

- Ineligible expenditure items;

- Ineligible beneficiaries/projects/implementation periods;

- Breach of public procurement and State aid rules;

- Insufficient reliable documentation to back expenditure declarations; and

- Incorrect declaration of eligible areas in the field of agriculture.

However, policy areas which are subject to less complex eligibility rules[164] show lower levels of error, as illustrated by the error rate being significantly lower for schemes based on 'entitlement' regimes[165] than for costs 'reimbursement' schemes. Therefore, simplification represents the most effective way of reducing both the risk of errors as well as the cost and burden of control[166].

For those programmes with persistently high errors, the Commission continuously takes actions, both preventive and corrective, to address their root causes and their impact. The DGs implement targeted measures in order to strengthen the management and control systems at national, European and international levels; lessons learned from the previous programming periods have led to improvements in the design of successive generations of programmes[167]; and the Mid-Term Revision of the 2014-2020 Multiannual Financial Framework includes a significant package of legislative proposals for simplifying[168] the rules applicable to the implementation of the EU budget.

More details can be found in the Commission Communication "Root causes of errors and actions taken (Article 32(5) of the Financial Regulation)" – COM(2017)124 of 28/02/2017.

2.1.3. Cost-effectiveness of the controls

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.

The Financial Regulation[169] requires the Authorising Officers by Delegation (AODs) to include in their Annual Activity Reports an overall assessment of the costs and benefits of controls.

All 49 Commission departments have assessed the **cost-effectiveness and the efficiency** of their control systems. As a result, for the first time, in 2016 all Commission departments were able to reach a conclusion on the cost-effectiveness of their controls. Most departments used the costs/funds indicator in 2016. Some departments even used both indicators (costs/funds and costs/benefits) and the minority only used the costs/benefits indicator. Regarding shared management, four[170] DGs reporting on the cost-effectiveness of controls included also an assessment of the costs at **Member States**.

On the basis of the above assessment all Commission departments were invited to review their control systems with of a view to ensuring that they remain **risk-based and cost-effective**, having due regard to the management environment and the nature of the actions financed. Increasingly the Commission departments are taking measures to improve their organisational fitness and agility:

- By the end of 2015, 25 departments had reviewed their control systems; half[171] had taken measures to improve cost-efficiency while the others[172] concluded that no changes were needed.
- By the year-end of 2016, 35 (out of 49) departments (71 %) had reviewed their control systems. 17 of them (49 %) have[173] adapted or will adapt[174] them while the remaining 18 departments[175] concluded that no changes were needed.

The financial importance of the 49 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 DG AGRI only and 80 % by 6 Commission services) with a long tail of other much smaller spending departments (the 'last' 5 % of payments is made by 33 (i.e. two thirds) of the Commission services).

In some areas, departments have joined their resources to **enhance the cost-effectiveness of controls**. As a practical example, through the establishment of the Common Support Centre, the departments in the Research family put together inter alia the Horizon 2020 Ex-post Audit Strategy. This serves 20 of the Authorising Officers by Delegation concerned, of which eight are DGs, four are Executive Agencies, seven are joint undertakings and one is an EU (Regulatory) agency. This in turn has led to economies of scale and enhanced the cost-effectiveness of controls in that family.

The Commission continues its efforts to boost the cost-effectiveness of controls. In this respect, the audit work of the Internal Audit Service (IAS) on the control strategies in the departments managing the main policy expenditure areas and the on-going IAS audit on the Commission's framework/arrangements for the estimation, assessment and reporting on the cost-effectiveness of controls have already provided and will continue to provide further insights.

2.1.4. Anti-fraud strategies

The anti-fraud strategy of the Commission (CAFS) was adopted in 2011 and every Commission service has developed, implemented and regularly updated when necessary its own anti-fraud strategy for the policy area that they are responsible for. The Commission Anti-Fraud Strategy required every Commission service to have such a strategy in place by the end of 2013. OLAF recommends the Commission's departments updating their strategy regularly to reflect changes in the anti-fraud environment. As presented in the table below, most Commission services have presented an update of their anti-fraud strategy after adoption of the first strategy by the end of 2013.

Year of AFS update	2017 *	2016	2015	2014	2013 **	No strategy yet ***	Total

Number of Commission services	9	16	13	1	9	1	**49**

Table: Anti-Fraud Strategies updates by Commission services.

** 9 Commission services are in the process of adopting their updated strategy and reported to do so in 2017*

*** 9 Commission services have not yet updated their strategy after adoption of their first strategy by the end of 2013.*

**** The Structural Reform Support Service (SRSS) was established in 2015 and is working on an anti-fraud strategy. For expenditure by the SRSS, anti-fraud measures are in place.*

OLAF has presented an update of its methodology for the elaboration of an anti-fraud strategy in February 2016, after consultation of the Commission's Fraud Prevention and Detection Network (FPDNet). This update concerned mainly the further integration of the anti-fraud measures (from fraud risk identification, to control activities and monitoring) into the Commission performance cycle (as part of the changes described in section 2.7.2.) and monitoring cycle. By this integration, anti-fraud activities form an integral part of a Commission service's control activities, while maintaining the specific attention fraud requires. The Commission services that have updated their anti-fraud strategies in 2016, reported to have applied the updated methodology.

*The **Executive Agency for Small and Medium Enterprises (EASME)** has used the OLAF methodology for the update of its anti-fraud strategy which was undertaken in 2016. The Agency's fraud risk assessment is now integrated in the annual risk assessment exercise. The main fraud risks that EASME is confronted with are plagiarism and double funding, and intentional inflated or false cost claims. These risks and their mitigating actions are monitored closely in the annual risk management exercise.*

EASME takes mitigating measures and reinforced controls for these risks, while keeping an eye on the principle of costs and benefits. This means that risk-based controls are applied and that in particular high-risk projects are subject to reinforcing monitoring.

For certain risks (e.g. plagiarism), EASME participated in the testing of Horizon 2020 tools for the Horizon 2020 programmes which are applied across the Commission services active in the Research area.

The implementation of the anti-fraud strategies is regularly monitored through the Commission performance cycle. Given that every policy area has specific fraud characteristics, there is no 'one size fits all' approach in anti-fraud activities. Most Commission services organise fraud awareness raising activities such as trainings and seminars. In 2016 at least 27 services reported to have organised such activities aimed at targeted staff members, such as newcomers, financial staff and managers.

After six years of implementation, the Commission is considering the update of the Commission Anti-Fraud Strategy adopted in 2011. The objective of the Commission Anti-Fraud Strategy to improve the prevention, detection and investigation of fraud and to ensure adequate sanctioning, recovery and deterrence, is firm on the agenda of the Commission. An update of the Commission Anti-Fraud Strategy would focus on continuity of this approach, with further emphasis on integrating anti-fraud measures in the internal-control systems of the Commission, in particular as concerned the reporting on implementation of anti-fraud measures such as presented in this section.

Early Detection and Exclusion System

The Early Detection and Exclusion System (EDES) for the protection of EU financial interests has been applied since 1 January 2016. This new system was introduced following the revision of the Financial Regulation of 2015. It ensures the:

- early detection of economic operators representing risks threatening the Union's financial interests;
- exclusion of unreliable economic operators from obtaining Union funds and/or the imposition of a financial penalty on them;
- 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 reinforce the deterrent effect.

The Early Detection and Exclusion System represents a significant improvement in the application of rules on administrative sanctions with respect to fundamental rights, independent advice and transparency. In order to ensure the coherence of the system, the decisions to be taken by the EU institutions, agencies and bodies to impose a sanction on unreliable economic operators can now only be taken after having obtained a recommendation of the new centralised Panel presided by a standing high-level independent Chair. This recommendation contains a preliminary classification in law of a conduct, having regard to established facts and other findings. The Panel assesses cases when there is no final judgment or final administrative decision.

The Panel started functioning in 2016. In that year, 21 cases related to 33 economic operators were addressed to the Panel by various authorising officers. By 30 April 2017, this had led to 14 recommendations, 3 of which were adopted in 2016.

The cases most frequently submitted to the Panel relate to serious breaches of contractual obligations and/or grave professional misconduct. An anonymised summary of cases dealt with by the Panel will be made available in a Staff Working Document accompanying the part dedicated to Early Detection and Exclusion System of the Commission's annual report related to Article 325(5) of the Treaty on the Functioning of the EU.

2.2. Management assurance and reservations

In their 2016 Annual Activity Reports, **all 49 Authorising Officers by Delegation declared having reasonable assurance** that the information contained in their report presents a true and fair view; the resources assigned to the activities have been used for their intended purpose and in accordance with the principle of sound financial management; and that the control procedures put in place give the necessary guarantees concerning legality and regularity of the underlying transactions.

The Authorising Officers by Delegation assessed the control results and all other relevant elements supporting their assurance on the achievement of the control objectives. 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, 29 Authorising Officers by Delegation declared an unqualified assurance, while 20 declarations were qualified with a **total of 37 reservations**[176] for 2016.

The possible qualification of the declarations of assurance in the Annual Activity Reports with reservations is a keystone in the accountability construction. It provides transparency as regards the challenges or weaknesses encountered, on the measures envisaged to address the underlying issues, and an estimation of their impact. Although most reservations are prompted by findings regarding the management and control of past payments, they have a positive preventive future effect as well, as the action plans developed in relation to reservations aim to mitigate future risks and the remedial measures will reinforce the control systems.

The 2016 Annual Activity Reports' reservations affect all expenditure and revenue areas. In all cases, the Authorising Officers by Delegation concerned have adopted action plans to address the underlying weaknesses and mitigate the resulting risks.

When comparing the 37 reservations for 2016 to the 33 in 2015, one previous reservation was lifted[177], five reservations are new, two were expanded[178] and one became partially[179] quantified. Four recurrent and two new reservations are 'non-quantified'[180] (with no financial impact on 2016). However, the (higher) number of reservations is not necessarily the most relevant indicator, e.g. when 'new' reservations are issued for the next programming period and/or for other policy segments as well (cf. more precision and transparency).

The five newly introduced reservations are the following:

- DG REGIO has introduced a reservation for its 'new' (current 2014-2020 Multiannual Financial Framework) European Regional Development Fund/Cohesion Fund (limited to 2 programmes in 2 Member States), albeit *non-quantified* for 2016.[181]
- DG HOME has introduced a reservation for its 'new' (current 2014-2020 Multiannual Financial Framework) Asylum, Migration and Integration Fund (AMIF) programme in 2 Member States.
- DG NEAR has introduced a *non-quantified reservation*, as it is currently not able to provide assurance for projects in Syria and Libya (linked to staff access to projects and auditors' access to documents). This highlights not only the inherent (high) risks of some policy areas but also the possibly insufficiently adjusted grant modalities (eligibility criteria) for spending programmes under such conditions.
- EASME has issued a second reservation for its segments of the Competitiveness and Innovation Programme (CIP); now also for the Eco-Innovation programme (i.e. beyond its recurrent reservation for the Intelligent Energy Europe (IEE) programme).
- DG BUDG has issued a reservation for the Traditional Own Resources (TOR) revenue, in view of OLAF's report on fraud related to the United Kingdom Customs duties. This directly affects the Commission's Traditional Own Resources, and may also indirectly affect the Value Added Tax basis of some Member States and thus the Value Added Tax-related resources, plus the Gross National Income-related balancing resources of the Commission.

Where error levels are persistently high, Article 32(5) of the Financial Regulation provides for the Commission to identify the weaknesses in the legal provisions and/or the control system, analyse the costs and benefits of possible corrective measures and take or propose suitable action. Management and control systems have been changed for the 2014-2020 programmes, but the Commission will be able to determine the effects of these new measures on the level of error only over time.

Policy area	Total 2016 payments	Payments concerned by reservations = scope	Amount at risk at reporting = exposure
Agriculture	56 794.0	24 008.6	1 001.2
Cohesion	40 383.5	5 140.7	394.0
External relations	12 373.3	3 898.0	77.7
Research, Industry, Space, Energy and Transport	14 835.7	1 707.3	135.4
Other internal policies	5 501.5	481.2	12.9
Other services & Administration	5 904.1	26.0	0.0
Total	135 792.1	35 261.8	1 621.2
Policy area	**Total 2016 own resources**	**Revenue concerned by reservations = scope**	**Amount at risk at reporting = exposure**
Own Resources	132 174.3	20 094.1	517.4
Total	132 174.3	20 094.1	517.4

Table: Scope and amount at risk of the 2016 reservations (EUR millions). See details in Annex 2-B.

Scope and exposure

The **scope** (payments possibly affected) of the quantified reservations amounts to EUR 35.3 billion (**26 % of payments**) for 2016. This increase compared to 2015 (EUR 29.8 billion; 21 % of payments) is mainly due to DG AGRI's European Agricultural Guarantee Fund Direct Support reservation (which affects more paying agencies in more Member States as a result of the first year of implementation of new and more demanding schemes, notably greening). Only Research has a lower scope in 2016, due to the Seventh Framework Programme (FP7) phasing out and the Horizon 2020 programme not being under reservation. The revenue affected by a quantified reservation is EUR 20.1 billion (15 % of own resources) for 2016.

The **exposure** (actual financial impact) in terms of amount at risk at reporting for the expenditure under reservation is estimated at EUR **1.6 billion**. The increase compared to 2015 (EUR 1.3 billion) is mostly due to DG AGRI's European Agricultural Guarantee Fund Direct Support reservation and is only partially offset by the better segmentations in External Relations and by Research's transition from the Seventh Framework Programme (FP7) to Horizon 2020 mentioned above. The amount at risk at reporting for the revenue under reservation is estimated at EUR 0.5 billion.

The results by policy area are shown in the table above. Detailed results by department are set out in Annex 2-B.

Progress made in 2016

Also in 2016, services continued their efforts to strengthen the assurance building in the Annual Activity Reports. Some examples of achievements:

- The External Relations DG DEVCO and DG NEAR are better 'segmenting' their assurance building for their portfolios, thereby respectively better targeting the initially overall reservation by DG DEVCO and justifying that there is no need for a reservation by DG NEAR. Both DGs thereby duly responded to the observations by the European Court of Auditors, IAS and Central Services on their 2015 Annual Activity Reports.
- The Research DGs and Executive Agencies are duly applying the specific (risk-adjusted) 2 to 5 % materiality threshold[182] foreseen in the Horizon 2020 sectoral legislation. Consequently, their declarations of assurance is not qualified with Horizon 2020 related reservations. This strategy has been endorsed by the Legislative Authority[183] from the outset of this multiannual programme, in

recognition of the inherent programme risks retained (e.g. simplifications not fully endorsed, grant delivery mechanism still predominantly based on reimbursements of eligible costs, targeting the riskier beneficiaries such as the small and medium-sized enterprises) and the control limitations set (ceiling on ex-post controls, time-limit for extending systemic audit findings to the same beneficiary's other projects). The External Relations DGs are analysing whether differentiated materiality thresholds would create opportunities for better managing their financial risk.

- The Cohesion DGs (REGIO, EMPL, MARE) introduced an annual clearance of accounts and a 10 % retention from each interim payment made 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.

Aspects mentioned in the 2015 Annual Management and Performance Report conclusions and/or the 2015 IAS Overall Opinion emphases of matter

The Commission departments mentioned in the 2015 Annual Management and Performance Report conclusions have addressed the points concerned during 2016 (DGs implementing the budget in shared management, DG NEAR and DG ENER).

Regarding the points mentioned in the 2015 IAS Overall Opinion, the IAS has reiterated its **emphasis of matter** to strengthen the monitoring and supervision strategies and activities of **DGs relying on entrusted entities** to implement parts of their **budget** (yet thereby duly taking into account the different natures, origins and (sometimes limited) mandates in this context**)**. See more details in subsection 2.3 and/or Annex 5.

Developments for 2017

The **SRSS (Structural Reform Support Service)** is a new Commission department which received status as separate Authorising Officer by Delegation in 2016. For its assurance building towards its first own Annual Activity Report, it was able to rely on the components of the control environment which were actually a continuation, together with the activities and staff taken over, from DG REGIO and DG EMPL. The SRSS budget is being expanded further. Starting in 2017, the SRSS is putting in place considerable enhancements to its (own) control system and management reporting which will allow appropriate management of this expanded budget.

EU Trust Funds[184] (EUTFs) are more and more used. Therefore, the related DGs[185] should ensure transparent and complete coverage of the EU Trust Funds in their management reporting. This entails distinguishing better between the accountability for the contributions from the EU budget and the European Development Fund paid into the EU Trust Funds as a DG, and for the transactions made out of the EU Trust Funds (i.e. with the EU, European Development Fund and other donors' funds) as a Trust Fund Manager.

Looking forward beyond 2017 and/or 2020

- While the multiannual design of the Commission's control systems is by now fully acknowledged by the **European Court of Auditors**, there is a need to further enhance the common understanding of the **types of corrections and recoveries**, their impact on the protection of the EU budget, and their presentation in the Commission's related reporting. Therefore, a joint working group has been set up in 2017.
- For analysing the control and audit results in Horizon 2020, specific materiality criteria are being used. **The Commission considers that introducing risk-differentiated materiality criteria is an important improvement.** Therefore, and more in general, this is one of the potential references in the context of the **preparation of the post-2020 programmes**, when simplifications, synergies and efficiencies, risk-differentiated and cost-effective control systems, more appropriate materiality criteria and possibly 'common' assurance building could become more standard practices.

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

The Commission departments based their assurance also on the work done by the Internal Audit Service (IAS).

Annex 5 to this Annual Management and Performance Report includes more information on the assurance provided by the IAS. A summary report of the internal auditor's work will be forwarded to the discharge authority in accordance with Article 99(5) of the Financial Regulation. The IAS concluded that 95 % of the recommendations followed up during 2012-2016 had been effectively implemented by the auditees. Of the 413 recommendations still in progress (representing 23 % of the total number of accepted recommendations over the past five years), none is classified as critical and 170 as very important. Out of these 170 recommendations rated very important, 18 were overdue by more than six months at the end of 2016, representing only 1 % of the total number of accepted recommendations of the past five years. The IAS's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The IAS continued to carry out performance audits in 2016 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 performance management and measurement, the IAS noted that important progress has been achieved over the years with, for instance, a number of new initiatives at corporate level (see section 2.7 of this report) or positive implementation in certain areas (e.g. the audit in DG EAC resulted in a positive conclusion and showed that it is possible to implement an effective performance management framework despite the fact that the DG is confronted with a diversity of policy activities and spending programmes). However, several IAS audits (DG AGRI, DG DEVCO, DG GROW, DG MOVE) focusing on performance management and measurement at DG level revealed that significant improvements are still necessary to enhance the maturity of the DGs performance management and measurement mechanisms.

(ii) Concerning the performance in implementing policies and/or budget (operational and administrative appropriations), the IAS identified specific improvements to be made in the areas of direct management (e.g. efficiency and effectiveness of grant management in DG HOME, DG JUST, DG RTD and REA), indirect management (adequacy and effectiveness of the supervision arrangements in place in DGs and Services dealing with EU decentralised agencies in DG HOME and DG SANTE, supervision of the Fusion for Energy Joint Undertaking and of the ITER project by DG ENER), shared management (e.g. the effectiveness of simplification measures under 2014-2020 European Structural and Investment funds in DG REGIO, DG EMPL and DG MARE), and policy monitoring (e.g. the supervision by DG MOVE of the aviation and maritime security policy).

In addition, as last year (following the centralisation of the internal audit function in 2015), the IAS issued limited conclusions on the state of internal control to every DG and department in February 2017. These conclusions were intended to contribute to the 2016 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 two cases (DG DEVCO and DG CLIMA) the IAS stated that the DG concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In both cases the DGs have issued such reservations in line with IAS limited conclusions.

As required by its Mission Charter, the Commission's internal auditor also submitted an overall opinion, based both on its own work (2014-2016) and that of the former Internal Audit Capabilities (for the 2014 reporting year), and focusing on financial management. It considered that, in 2016, 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 this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the Annual Activity Reports in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that future corrections will be made at a comparable level, the IAS considered that the EU budget is adequately protected as a whole and over time.

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

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

The Audit Progress Committee (APC) has focused its work on four key objectives set out in its 2016 and 2017 work programmes, namely: considering the IAS's audit planning; analysing the results of internal and external audit work to identify potentially significant risks, including findings of cross-cutting thematic interest; monitoring the follow-up by Commission services to significant residual risks identified by audit work; and monitoring the quality of internal audit work and ensuring the independence of the Internal Auditor.

The APC is satisfied as to the independence and quality of internal audit work.

It has drawn the attention of the College to the following issues in particular:

The Internal Auditor's Overall Opinion for 2016 is positive but qualified with regard to the management reservations as expressed in the DGs' Annual Activity Reports, and contains one emphasis of matter related to externalisation and in particular the Commission services' supervision of agencies and third parties implementing policies and programmes. This is a cross-cutting risk that the APC has monitored as a thematic priority (see below).

The Annual Internal Audit Report confirms the APC's view that significant improvements are necessary to enhance performance management and measurement mechanisms across the Commission. DGs have set up their performance measurement systems with varying degrees of maturity and there is still a need for further work to develop a robust performance culture including the sharing of good practices throughout the Commission. The APC has raised this issue in its Annual Report 2015-2016 and will continue to prioritise this area in its work in the coming year.

The Commission's management has drawn up satisfactory action plans to address the risks identified in the IAS's reports. No critical recommendations were issued during the reporting period. Out of a total of 258 IAS recommendations, and in six cases only after the APC's intervention, just one recommendation was finally only partially accepted (concerning DG NEAR's residual error rate methodology and calculation for 2015). However, DG NEAR has duly implemented this recommendation for 2016.

The number of overdue actions to address recommendations is the lowest since the start of reporting on the implementation of IAS and ex-Internal Audit Capabilities' recommendations. The APC's active follow-up of overdue recommendations has contributed to these results.

Following the European Court of Auditors' special report examining Commission's governance arrangements the College has increased the number of external members of the APC from two to three. Following the invitation of the College at the proposal of the APC, the IAS has launched work on the high-level governance of the Commission.

The APC has paid particular attention to externalisation. The audit report on ITER showed significant weaknesses in the Commission's supervision of the ITER project and DG ENER noted the need for additional EU funding for the ITER construction in 2021-2025. Audit work has also shown that there are important reputational and policy performance risks related to the increased reliance of the Commission on non-executive agencies and other third parties to implement the EU's policies. The APC brought these issues to the attention of the Corporate Management Board for further follow up.

The audit which the College invited the IAS to undertake on the governance, planning, monitoring and implementation of the budget line of the OLAF Supervisory Committee has been completed. While the amounts concerned are not material, the residual financial and reputational risks as described in the audit report should be addressed through effective implementation of the satisfactory action plans that have been established.

2.5. Follow-up of discharge and external audit recommendations

In its discharge recommendation adopted on 21 February 2017, the **Council** reiterated its request made in last year's discharge recommendation calling on the Commission to provide the budgetary authority with a comprehensive report on the areas where the estimated level of error identified is persistently high and outline its root causes. The Commission carried out the review and provided a report as requested[186]. Further requests addressed to the Commission related to control mechanisms to prevent, detect and correct errors as well as to simplification measures, budgetary management and reporting on performance.

The **European Parliament** adopted its discharge resolution for the financial year 2015 on 27 April 2017 after having examined in particular the recommendation from the Council and the Court of Auditors' 2015 Annual Report and relevant special reports published in 2015. Parliament also examined the Commission's 2015 Annual Management and Performance Report for the EU budget, the Annual report on internal audits carried out in 2015, the Communication on the protection of the EU budget to end 2015, and the Report on the follow-up to the discharge for the 2014 financial year.

Parliament addressed concrete requests to the Commission on specific policy areas as well as on horizontal aspects of budget implementation and financial governance such as performance and the relating reporting, the use of financial instruments and the reporting thereon, budgetary and financial management and financial mechanisms supporting Union policies.

The **Commission** will, like every year, adopt a comprehensive report in 2017 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 2016.

The past few years have also shown a continuous increase in the number and scope of the **European Court of Auditors** special reports. The Court adopted 36 special reports in 2016 (compared to 25 in 2015). The Commission is therefore facing a similar increase in recommendations and will continue ensuring that these are followed-up in an appropriate manner, including with reporting in the Annual Activity Reports. Furthermore, measures are being taken to improve the reporting on the implementation of recommendations to the Commission's Audit Progress Committee, which performs certain monitoring activities under its mandate.

The European Court of Auditors monitors the Commission's implementation of recommendations and provides feedback which helps the Commission to further strengthen its follow up activities. In its 2015 Annual Report, the European Court of Auditors assessed the Commission's follow-up of a sample of 90 audit recommendations from 11 special reports published in the period 2011-2012. Of the 83 recommendations that could be verified, the European Court of Auditors noted that the Commission fully implemented 63 % of the recommendations, 26 % were implemented in most respects and 10 % in some respects, while 1 % were not implemented.

2.6. Conclusions on internal control and financial management achievements

All Authorising Officers by Delegation have provided reasonable assurance although, where appropriate, qualified with reservations. These reservations are a keystone in the accountability chain. They outline the challenges and weaknesses encountered as well as the measures envisaged to address them and provide an estimation on their impact.

The Annual Activity Reports demonstrate that all Commission departments have put in place solid internal controls and provide evidence of the efforts undertaken to improve 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.

On the basis of the assurances and reservations in the Annual Activity Reports, the College adopts this 2016 Annual Management and Performance Report for the EU budget and takes overall political responsibility for the management of the EU budget.

2.7. Cross-cutting organisational management achievements

In order to manage the EU budget efficiently, as well as to perform the many other duties ascribed by the Treaties, the Commission continually seeks to ensure that its own internal governance and performance management arrangements are robust, and that its human and financial resources are managed optimally. In 2016, significant progress was made in a number of areas.

2.7.1. Robust governance arrangements

The corporate governance arrangements in place in the Commission are based on a clear definition of management responsibilities and strong corporate level oversight. Since their introduction in 2000, this governance structure has proved to be robust, allowing the Commission to identify emerging issues and manage them appropriately.

In the course of 2016, the European Court of Auditors conducted an audit of the Commission's governance arrangements[187]. This audit compared the Commission's arrangements to international benchmarks. The Court made a number of recommendations for further improvements, which were broadly accepted by the Commission.

For instance, the Commission:

– has updated its internal control framework/ to bring it in line with COSO 2013; (see section 2.1)

– is preparing an updated governance document providing a factual description of the existing governance arrangements in the Commission.

– Is integrating its financial reporting and making it more accessible for citizens. In 2015, for the first time, an Integrated Financial Reporting Package was published. This 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.

– Moreover, the IAS is conducting, at the Commission's request, an audit on the corporate governance and oversight arrangements concerning risk management, financial reporting and the ex-post verification/audit function.

2.7.2. Strengthened performance framework

The Commission implemented a major reform of its performance management framework in 2016 so as to strengthen the focus on results and ensure that the Commission's activities are fully aligned with the political priorities.

Under the new system, all Commission departments have produced multiannual strategic plans[188] setting out how they contribute to the Commission's 10 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 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 2016 Annual Activity Reports have, for the first time, reported on the new set of objectives and related indicators defined in the strategic plans 2016-2020 and the outputs for 2016 in the management plans.

2.7.3. Synergies and efficiencies

The Commission, like any other organisation, must ensure the optimal allocation of its resources, reflecting its political priorities, legal and institutional obligations, and allowing for flexibility to adapt to policy developments. In the context of budgetary pressures and ever growing challenges ahead of the EU, it is of critical importance that resources are deployed in the most efficient manner.

By 1 January 2017 the Commission has fulfilled its commitment[189] to reduce establishment plan posts by 5 % between 2013 and 2017, as well as the undertaking to reduce the appropriations for external staff, with a view to reducing the number of staff by 5 %. The final result is that altogether, since 2013, the Commission has reduced 1 254 establishment plan posts and the equivalent of 552 external staff, i.e. a total reduction of 1 806 Full Time Equivalents.

In parallel, in order to address the new challenges, the Commission has been actively redeploying posts across departments in order to transfer resources to priority areas.

The Commission has also conducted a thorough review of its support processes and working methods in order to identify potential efficiency improvements and to better harness synergies between departments. The Commission Communication on "Synergies and Efficiencies in the Commission – New Ways of Working"[190] of 4 April 2016 launched a new, more modern organisation of coordination and support communities in the Commission, notably in the domains of Human Resources, Information and Communication Technologies, external and internal communication, logistics, events and room management. In the different domains each relevant central service is responsible for the professionalisation of the community, the simplification of processes, and oversight of spending. The central services rely on functional reporting from domain managers. In the DGs, the measures set out in the Communication include the modernisation of the provision of Human Resources services (by pooling the local Human Resources teams per groups of DGs while keeping a small strategic team locally), the use of common Information Technology tools and standardised equipment, integrated governance for external and internal communication, a streamlined mail delivery system and centralised management of meeting rooms and supervision of conference organisation. The implementation of these measures has started in 2016 and will continue in the coming years. By redesigning delivery models in the support and coordination functions, the Commission sets an example of how a public administration can improve service delivery and management on tight budgets.

The Commission achieved a reduction of
1 806 Full Time Equivalents
between 2013 and 2017

Endnotes

1 http://ec.europa.eu/budget/library/biblio/documents/2015/communication-protection-eu-budget_en.pdf

2 COM(2016) 603 final - http://ec.europa.eu/budget/mff/figures/index_en.cfm#com_2016_603

3 for example it would allow for payments based on conditions fulfilled, “single lump sum” covering all eligible costs of the action, priority given to simplified forms of grants and clarifying the scope of controls of simplified forms of grants.

4 http://ec.europa.eu/budget/fts/index_en.htm

5 Data as per EIB EFSI Dashboard: http://www.eib.org/efsi/index.htm

6 The ESI Funds Open Data platform provides a breakdown of the investments approved by fund, Member State and programme - https://cohesiondata.ec.europa.eu/overview

7 GSA’s 2017 GNSS Market Report published on 10 May: https://www.gsa.europa.eu/system/files/reports/gnss_mr_2017.pdf

8 A report on the first year of implementation of Erasmus+, the EU funding programme for education, training, youth and sport between 2014-2020; Statistics on student and staff mobility numbers in the last academic year under the former Erasmus programme for higher education; A follow-up to the Erasmus Impact Study - focusing on regional analysis of the benefits of the Erasmus programme.

9 MicroBank (the social bank of la Caixa) in Spain was the first bank to offer Erasmus+ Master Loans in 2015. From June 2016, Banque Populaire and Caisse d'Epargne from France started providing EU-guaranteed Erasmus+ Master loans, joined in September 2016 by Future Finance Loan Corporation (from Ireland) for Master students in and out of UK. As of December 2016, outgoing students from Turkey can also apply to Finansbank.

10 .http://ec.europa.eu/eurostat/documents/2995521/8001715/3-26042017-AP-EN.pdf/05e315db-1fe3-49d1-94ff-06f7e995580e .

11 In comparison, Member States resettled 8 155 people in need of protection in 2015 and 6 550 persons in 2014 (Source EUROSTAT).

12 COM(2016) 586 final, 14.9.2016

13 The Court of Auditors' estimated Most Likely rate of Error for the Commission was 3.8 % for 2015 - OJ C 375 of 13/10/2016

14 see also the Commission's Communication on "Root causes of errors and actions taken" - COM(2017)124 of 28/02/2017

15 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 2015 Annual Report" (COM(2016)472 of 14/07/2016)

16 All acronyms for Commission's departments and Executive Agencies are available on this webpage: https://ec.europa.eu/info/departments_en

17 Overview of Commission's completed Evaluations and Studies in 2016 is available on: https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/evaluating-laws-policies-and-funding-programmes_en#documents

18 This package gathered the 2015 Annual Management and Performance Report for the EU budget, the 2015 EU Annual Accounts, the EU budget 2015 Financial Report and the Communication on the Protection of the EU budget.

19 The European Court of Auditors adopted 36 Special Reports in 2016 covering a wide range of policy areas.

20 Calculated as a percentage of commitment appropriations compared to the entire budget for 2016.

21 'Europe 2020 – a strategy for smart, sustainable and inclusive growth' COM(2010) 2020 final.

22 The Europe 2020 Strategy is built on three mutually reinforcing priorities: (i) Smart growth – developing an economy based on knowledge and innovation. (ii) Sustainable growth – promoting a more resource efficient,

greener and more competitive economy, (iii) inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

23 http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy

24 2015 data for all indicators except GHG emissions on which the data is from 2014

25 UN Resolution A/RES/70/1

26 UN decision -/CP.21, adoption of the Paris Agreement

27 UN Resolution A/RES/69/313

28 Adopted at the Third UN World Conference on Disaster Risk Reduction in Sendai, Japan, on March 18, 2015

29 http://europa.eu/rapid/press-release_IP-16-3883_en.htm

30 COM(2016) 739 final - https://ec.europa.eu/europeaid/sites/devco/files/communication-next-steps-sustainable-europe-20161122_en.pdf

31 SWD(2016) 390 final - https://ec.europa.eu/europeaid/sites/devco/files/swd-key-european-actions-2030-agenda-sdgs-390-20161122_en.pdf

32 The text in this section is based on the AARs of DGs RTD, GROW, ECFIN, EAC, MOVE, ENER, CNECT, as well as on the relevant Programme Statements for the programmes under this budgetary heading

33 http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

34 The EU guarantee provides a liquidity buffer for the Union budget against potential calls on EU guarantee to cover losses incurred on investments supported by the European Fund for Strategic Investments.

35 Data as per EIB EFSI Dashboard: http://www.eib.org/efsi/index.htm

36 https://ec.europa.eu/commission/publications/commission-evaluation-first-year-efsi_en and Draft Programme Statement EFSI; p 1.

37 The Green Shipping Guarantee (GSG) programme (Programme) is a 3-year EUR 750 million programme developed with partner financial institutions where the final beneficiary of the EIB instrument will be acceptable European shipping corporates operating in European waters.

38 'Study of the benefits of a meshed offshore grid in Northern Seas region', TE, ECOFYS, PwC; 2014 (http://ec.europa.eu/energy/sites/ener/files/documents/2014_nsog_report.pdf)

39 For the overall period of Horizon 2020.

40 Source: Corda gratn signature by 1st January 20172014- 10/2016.

41 This amount is calculated from FP7 grants, as data from Horizon 2020 grants is not yet available.

42 Defined as the total amount of funds leveraged through an Art. 187 initiatives, including additional activities, divided by the respective EU contribution to this initiative.

43 Results of the financial instruments under the 2007-2013 Competitiveness and Innovation Framework Programme.

44 Source: Quarterly Operational Reports as at 31 December 2016 provided by the European Investment Fund (EIF) on 31 March 2017.

45 Source: Quarterly Operational Reports as at 31 December 2016 provided by the European Investment Fund (EIF) on 31 March 2017.

46 would be or established for max 3 years

47 established entrepreneurs for at least 3 years

48 In addition to the existing four satellites deployed under previous Multiannual Financial Framework, the two satellites of the first batch were launched in August 2014. The 12 other satellites of the same batch were successfully launched between March 2015 and November 2016. With 15 satellites fully operational out of the 18 in orbit, the Galileo IOC was inaugurated on 15 December 2016.

49 Further details can be found on the following website: http://www.usegalileo.eu/EN/

50 GSA's 2017 GNSS Market Report published on 10 May:

https://www.gsa.europa.eu/system/files/reports/gnss_mr_2017.pdf

51 Figures provided by the European GNSS Agency.

52 Source: DG EAC's web reporting tool- contracted mobilities and organisations participating in learning mobility projects over the period 2014-16.

53 A report on the first year of implementation of Erasmus+, the EU funding programme for education, training, youth and sport between 2014-2020; Statistics on student and staff mobility numbers in the last academic year under the former Erasmus programme for higher education; A follow-up to the Erasmus Impact Study - focusing on regional analysis of the benefits of the Erasmus programme.

54 http://europa.eu/rapid/press-release_MEMO-16-143_en.htm

55 MicroBank (the social bank of la Caixa) in Spain was the first bank to offer Erasmus+ Master Loans in 2015. From June 2016, Banque Populaire and Caisse d'Epargne from France started providing EU-guaranteed Erasmus+ Master loans, joined in September 2016 by Future Finance Loan Corporation (from Ireland) for Master students in and out of UK. As of December 2016, outgoing students from Turkey can also apply to Finansbank.

56 The Student Loan Guarantee facility enables students completing a full Master's degree abroad (1 or 2 years) to gain access to loans provided by participating banks and guaranteed by the EU, via its partner the European Investment Fund.

57 For a complete overview of finalised evaluations and studies of the Commission in 2016 see https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/evaluating-laws-policies-and-funding-programmes_en#documents

58 The text in this section is based on the AARs of DGs REGIO and EMPL, as well as on the relevant Programme Statements for the programmes under this budgetary heading

59 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).

60 Recommendations on how to boost jobs and growth, while maintaining sound public finances, issued annually by the Commission based on its analysis of Member States' economic and social policies.

61 Special report No 2/2017: The Commission’s negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion

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

63 See also special report from the European Court Auditors No 2/2017: 'The Commission’s negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion'.

64 Pre-conditions aimed at making sure that Member States have put in place adequate regulatory and policy frameworks and that there is sufficient administrative capacity before investments of the ESIF are made in order to maximise the performance of the funding.

65 Commission SWD "The added value of ex ante conditionalities in the European Structural and Investment Funds" –

SWD(2017) 127 final, 31.3.2017

66 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf

67 ESI Funds Open Data Platform: https://cohesiondata.ec.europa.eu/

68 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 8

69 Data based on projects selected (project pipeline)

70 ESI Funds Open Data Platform: https://cohesiondata.ec.europa.eu/

71 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 11

72 ESI Funds Open Data Platform: https://cohesiondata.ec.europa.eu/ as well as REGIO PS on km of reconstructed TEN-T roads built

73 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 12

74 http://europa.eu/rapid/press-release_IP-16-3216_en.htm

75 SWD(2016) 323 final, p. 98 - http://eur-lex.europa.eu/resource.html?uri=cellar:73591c12-8afc-11e6-b955-01aa75ed71a1.0001.02/DOC_2&format=PDF. The European Court of Auditors also published a special report, No 5/2017: 'Youth unemployment – have EU policies made a difference?'

76 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 14

77 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 13

78 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf, p. 14

79 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf , p. 16

80 .SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf

81 There is a lag between spending on the ground and payment claims, then another lag to final reimbursement. Taking account of this (indicatively 3-6 month) lag, payments from the Commission to Managing Authorities is a good proxy for programme implementation.

82 Note that the proportion cannot exceed 95% since 5% of payments are held back until the programmes are formally completed.

83 Member States that joined the EU in 2004 and 2007.

84 Member States that were in the EU before 2004.

85 Note that in Greece, the payments rate was just over 97% at the end of March 2016 because of a special agreement made to release the final 5% of funding early as a result of the severe public finance problems in the country.

86 ..SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf

87 .SWD(2016) 452 final – http://ec.europa.eu/social/main.jsp?pager.offset=5&advSearchKey=ex-post&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0

88 .SWD(2016) 318 final - http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_swd_report_en.pdf

89 .SWD(2016) 452 final – http://ec.europa.eu/social/main.jsp?pager.offset=5&advSearchKey=ex-post&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0

90 Preliminary data from 2007-13 Final reports under final verification

91 SWD(2016) 318 final, p. 4 and 32

92 SWD(2016) 318 final, p. 4

93 SWD(2016) 318 final, p. 4

94 SWD(2016) 318 final, p. 32

95 The text in this section is based on the AARs of DGs AGRI, MARE, ENV and CLIMA as well as on the relevant Programme Statements for the programmes under this budgetary heading

96 The milk production reduction measure was adopted in 2016 and implemented in the autumn 2016, but with the financial year starting on 16 October according to EAGF rules, the aid formally falls under 2017 expenditure.

97 See https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/short-term-outlook/pdf/2017-03_en.pdf

98 See http://ec.europa.eu/agriculture/direct-support/direct-payments/docs/implementation-decisions-ms_en.pdf and https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/simplementation-decisions-ms-2016_en.pdf

99 In full: "Payment for agricultural practices beneficial for the climate and the environment", as provided for in Arts. 43-47 of Regulation (EU) No 1307/2013.

100 The deadline for the relevant notifications by Member States is 15 December each year. The figure presented above for 2015 and 2016 is based on notifications from all Member States except France.

101 Commission Staff Working Document SWD(2016)218 of 23/06/2016.

102 Commission Delegated Regulation (EU) No 639/2014

103 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf

104 https://bookshop.europa.eu/en/evaluation-study-of-the-implementation-of-the-european-innovation-partnership-for-agricultural-productivity-and-sustainability-pbKF0216023.

105 https://bookshop.europa.eu/en/mapping-and-analysis-of-the-implementation-of-the-cap-pbKF0416021/

106 ESIF 2014-2020 2016 Summary Report of the programme annual implementation reports covering implementation in 2014-2015, COM(2016) 812 final - http://ec.europa.eu/regional_policy/sources/how/strategic-report/esif_annual_summary_2016_en.pdf

107 Commission's database on projects

108 http://ec.europa.eu/environment/life/bestprojects/bestenv2015/index.htm and http://ec.europa.eu/environment/life/bestprojects/bestnat2015/index.htm .

109 LIFE Integrated Projects provide funding for plans, programmes and strategies developed on the regional, multi-regional or national level. The aim is to implement environmental legislation and goals on a wider scale and to increase the impact of the LIFE programme.

110 The preliminary results of the external study will be presented in a Staff Working Document summarising the results of the mid-term evaluation that will be published in mid-2017.

111 The topics covered by the Court were: the contribution of technical assistance to agriculture and rural development; financial instruments as a successful and promising tool in the rural development area; the cost-effectiveness of EU Rural Development support for non-productive investments in agriculture; EU support for rural infrastructure: potential to achieve significantly greater value for money; the EU priority of promoting a knowledge-based rural economy

112 https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/

113 Projects being rejected by the EU Commission after having been implemented and paid by the Member Stated to the beneficiary

114 Some evaluations are still incomplete or missing: BG, RO, ES (Galicia), FR (Hexagone only draft)

115 Member States that joined the EU after 2004.

116 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report: https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/

117 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report,

p. 135: https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/

118 See evaluations: http://ec.europa.eu/agriculture/analysis/external/cross_compliance/index_en.htm as well as http://ec.europa.eu/agriculture/eval/reports/environment-summary/fulltext_fr.pdf

119 Member States that were in the EU before 2013.

120 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report, p. 140: https://bookshop.europa.eu/en/ex-post-evaluation-of-the-european-fisheries-fund-2007-2013--pbKL0117039/

121 In the agricultural sector direct payments made up an average of 46 % of farm income between 2005 and 2013, with large variations between Member States and types of farming.

122 External study part of the Ex-post evaluation of the European Fisheries Fund (2007-2013) Final Report, p. 137

123 The text in this section is based on the AARs of DGs HOME, JUST, ECHO, SANTE, EAC as well as on the relevant Programme Statements for the programmes under this budgetary heading

124 Supports national efforts to improve reception capacities, ensure that asylum procedures are in line with Union standards, integrate migrants at local and regional levels and increase the effectiveness of return programmes.

125 For persons who are resettled under the Common Union resettlement priorities (Annex III of the AMIF Regulation) or under the vulnerable groups of persons indicated in Article 17(5) of the AMIF Regulation.

126 See also European Court of Auditors special report no 06/2017: 'EU response to the refugee crisis: the ‘hotspot’ approach'.

127 Council Regulation (EU) 2016/369, adopted in March 2016 by the European Council

128 The exceptional scale and impact of the disaster give rise to severe wide-ranging humanitarian consequences in one or more Member States; and that no other instrument available to Member States and to the Union is sufficient

129 In its Special Report No 33/2016 'Union Civil Protection Mechanism: the coordination of responses to disasters outside the EU has been broadly effective'1, which examined the response to three recent disasters: the floods in Bosnia and Herzegovina (2014), the Ebola virus outbreak in West Africa (2014-2016), and the Nepal earthquake (2015), the European Court of Auditors found that the Commission has been broadly effective in facilitating the coordination of responses to disasters outside the Union since the beginning of 2014.

130 The Mechanism's Participating States are the 28 EU Member States together with Serbia, Montenegro, Turkey, Norway, Iceland, FYROM

131 The Visa Information System (VIS) is a system for the exchange of visa data between Schengen States. For the purpose of the implementation of the VIS, consular posts and external border crossing points of the Schengen States should be connected to the central VIS database.

132 The Schengen Information System (SIS II) is a system which supports external border control and law enforcement co-operation, allowing signatories of the Schengen Agreement to share data on criminals, on people who may not have the right to enter or stay in the EU, on missing persons and on stolen, misappropriated or lost property.

133 See at http://ec.europa.eu/health/programme/policy/2008-2013/evaluation_en and

https://ec.europa.eu/health/sites/health/files/programme/docs/ex-post_2nd-hp-2008-13_exec-sum-cwsd_en.pdf

134 The text in this section is based on the AARs of DGs DEVCO, ECHO, NEAR, FPI, ECFIN, as well as on the relevant Programme Statements for the programmes under this budgetary heading

135 The EU in 2016 — Highlights, European Commission, Brussels, 2017

136 First Annual Report on the Facility for Refugees in Turkey (COM(2017)130final), page 12

137 First Annual Report on the Facility for Refugees in Turkey (COM(2017)130final), page 12 FN42 on EUTF/UNICEF project (Ref. SC150526) "Generation Found"

138 CRIS decision number: 039-962; Commission Decision C(2016)753

139 Successful implementation of agreed economic policy and financial conditions and a continuous

satisfactory track record of implementing the International Monetary Fund programme.

140 Based on Article 3 of the IfS Regulation (EC) No 1717/2006.

141 Final Evaluation - Instrument for Stability (IfS) Crisis Response component (2007-2013); (http://ec.europa.eu/dgs/fpi/key-documents/crisis_response_component_en.htm)

142 Ibid, page 6, page 8, page 13.

143 Ibid, page15, foot note 38.

144 66% from the bilateral geographic instrument of DCI-Asia and 30 % of the disbursements from various DCI thematic instruments.

145 Joint strategic country evaluation of the development cooperation of Denmark, Sweden and the European Union with Bangladesh 2007-2013; (http://ec.europa.eu/europeaid/joint-strategic-country-evaluation-development-cooperation-denmark-sweden-and-european-union_en)

146 Evaluation of the EU Support to Research and Innovation for Development in Partner Countries (2007-2013); (http://ec.europa.eu/europeaid/evaluation-eu-support-research-and-innovation-development-partner-countries-2007-2013_en)

147 This actually covers the Commission's management of funds from the EU budget and from the European Development Funds (EDF), in both cases also including the EC contributions paid into the EU Trust Funds (but not the transactions made out of the EU Trust Funds, i.e. with the EU, EDF and other donors' funds).

148 Articles 65 and 66 of the Financial Regulation

149 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.

150 Communication to the Commission from Commissioner Oettinger – Revision of the Internal Control Framework (C(2017) 2373 of 19 April 2017)

151 See below in subsection 2.1.3 for further information on the Commission department's assessment of their control cost-effectiveness and on the actions taken

152 This assessment was still based on the previous internal control standards.

153 RTD, CNECT, DEVCO, ECHO and PMO

154 Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (Financial Regulation, article 32(2) FR)

155 e.g. interruptions, suspensions, retentions, rejection of (part of) costs claimed, recovering unused pre-financing, etc.

156 Mainly in shared management): financial corrections before declaring, accepting and reimbursing the expenditure to the Commission

157 Before accepting the expenditure, clearing the pre-financing (=transferring its ownership) and/or making the interim/final payment

158 After having accepted the expenditure, cleared the pre-financing (=ownership transferred) and/or made the interim/final payment

159 as required by the Financial Regulation, article 66(5) FR

160 These may include errors of a formal nature which, although important to address, do not always result in undue payments and therefore do not always give rise to financial corrections or recovery orders.

161 (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.)

162 Including financial corrections at source and corrections from financial clearance in Agriculture

163 For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for

which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

164 Such as direct payments for the European Agricultural Guarantee Fund (EAGF), European Research Council (ERC) grants, Marie-Curie Schemes, use of Simplified Cost Options within the European Social Fund (ESF).

165 For entitlements, where payments are based on meeting certain conditions, the risk of errors is largely mitigated by the simpler nature of the information expected from beneficiaries, which can in large part even be verified before payment.

166 Complexity of the eligibility conditions has also a large impact in the cost-effectiveness of the necessary controls. In some cases, the cost of control may be disproportionally high and/or the control burden may adversely impact the effectiveness of the programme. The Commission is engaged in avoiding such cases.

167 As illustrated by the new instruments and measures of the current 2014-2020 Multiannual Financial Framework, such as for instance the 10 % retention mechanism in Cohesion, the possible implementation of net financial corrections, the new 'Audit Opinion/Management Declarations' by national authorities, the impact of the new Public Procurement Directives, the requirements resulting from the ex-ante conditionalities and simplified eligibility rules.

168 The Commission proposes in a single act an ambitious revision of the general financial rules. This act also contains corresponding changes to the sectorial financial rules set out in 15 legislative acts concerning multi-annual programmes related for instance to the European Structural and Investment Funds (ESIF) or Agriculture.

169 Article 66 (9) of the Financial Regulation

170 AGRI, REGIO, EMPL, and also EAC

171 AGRI, CNECT, DEVCO, ECFIN, ENV, EPSO, ESTAT, HOME, HR, OIB, PMO, REA, SANTE.

172 BUDG, CLIMA, EACEA, ERCEA, FPI, GROW, IAS, JUST, OIL, OP, RTD, TAXUD.

173 EASME, ECFIN, ENV, EPSC, FPI, GROW, HR, OIB, REGIO

174 CNECT, COMM, DEVCO, EMPL, ESTAT, OP, PMO, SANTE

175 AGRI, CLIMA, EAC, EACEA, ECHO, ERCEA, ENER, HOME, IAS, INEA, JUST, MOVE, NEAR, REA, RTD, TAXUD, CHAFEA, EPSO/EUSA

176 Annex 2-B shows the 2016 AAR reservations, including those newly introduced.

177 DG ENER's (non-quantified) reservation on the Nuclear Decommissioning Assistance Programme (NDAP), given the IAS's positive assessment of the progress made regarding the critical audit recommendation. In 2016, DG ENER thereby duly responded to the observations by the IAS and Central Services on 2015 by adequately and effectively implementing the remedial measures set up to address as regards this recommendation..

178 DG AGRI has included, in its recurrent reservation for Direct Support, a (non-quantified) sub-reservation for its Voluntary Coupled Support (VCS) schemes, as preliminary results from the ex-ante analysis of Member States' notification letters indicate that certain VCS measures in eight8 Member States may not be fully compliant with the eligibility conditions. DG AGRI has launched eight8 conformity desk audits, which are still at the early stage and their outcome is subject to a significant degree of uncertainty. EMPL's reservation for the 2014-2020 period is no longer only for the Fund for European Aid to the most Deprived (FEAD) but now also for the European Social Fund (ESF) and the Youth Employment Initiative (YEI).

179 HOME's (previously non-quantified) reservation on the European Refugee Fund (ERF) and the European Integration Fund (EIF), now becoming partially quantified (for ERF)

180 '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 or which cannot be quantified because they are only reputational.

181 DG EMPL has expanded its already existing 2014-2020 reservation (in 2015 only for FEAD) now to cover the ESF/YEI/FEAD management and control systems. DG MARE does not need to issue a reservation for its 2014-2020 EMFF programme.

182 In their AARs 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 services (by which the residual error rate must be lower than 2 % by the end of the implementation of the programme).

183 The 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 %."

184 Four EUTFs in 2016: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic (EDF); the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis (EU); the EU Emergency Trust Fund for Africa (EDF); the EU Trust Fund for Colombia (EU)

185 Three in 2016; i.e. DG DEVCO, DG NEAR, DG ECHO

186 COM(2017)124 of 28 February 2017

187 Special report No 27/2016: Governance at the European Commission — best practice?

188 https://ec.europa.eu/info/publications/strategic-plans-2016-2020_en

189 Inter-institutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management of 2 December 2013, OJ C 373, 20.12.2013, point 27.

190 COM(2016)170 of 4.04.2016.

Credits