

2015 Discharge to the Commission

WRITTEN QUESTIONS TO COMMISSIONER CRETU

on 8 December 2016

EU 2020

1. Can the Commissioner report on the proceedings of the Inter Service Group on Innovation Union as it stated for the discharge 2014 that the Inter Service Group on Innovation Union was mobilised to contribute to the State of the Innovation Union 2015 Report which was expected to be published by the end of 2015? In this regard, can the Commissioner also elaborate on the 34 commitments made under the Europe 2020 Innovation Union Flagship Initiative?

Commission's answer:

The Honourable Member is informed that the Innovation Union is within the portfolio of Commissioner Moedas, Commissioner for Research, Science and Innovation.

The State of the Innovation Union report 2015 has been issued and is available on the Commission website. It covers the 34 commitments made under the Europe 2020 Innovation Union Flagship Initiative.

The foreword concludes that "Five years after the Innovation Union was launched as one of the pillars of the Europe 2020 growth strategy, the present brochure shows that impressive progress has been made in numerous fields. We have achieved great progress in making Europe a more innovative continent since the launch of the Innovation Union in 2010. Nevertheless, the world has evolved since then and new elements need to be taken into account so as to better tackle the challenge of innovation in Europe. It is now time to acknowledge the progress achieved and open a new chapter, with a focus on opening up our research and innovation systems through Open Innovation, Open Science and by being Open to the World."

For more details, the Honourable Member is invited to consult the report at the following address:

http://ec.europa.eu/research/innovation-union/index_en.cfm?pg=keydocs

2. When can the Commissioner present the final results of the 2007-2013 programming period for projects financed under the Cohesion Policy? Will she further demonstrate to what extent projects financed under Cohesion Policy for 2014-2020 programmes in 2015 actually added value and had an impact on citizens' life? Would you have concrete examples of good projects in 2015?

Commission's answer:

The Commission published in September 2016 the results of the ex-post evaluation of Cohesion policy for the 2007-2013 policy achievements (Commission Staff working document – Ex post evaluation of the ERDF and Cohesion Fund 2007-2013 – SWD(2016)318 final – 19/09/2016).

The ex-post evaluation of the 2007-2013 period examined the impact of cohesion policy as key investment at the European level, following a legal obligation of the general regulation for the 2007-2013 period. There was a separate evaluation for ERDF/Cohesion Fund and ESF. To ensure independence, the ex-post evaluation was tendered to independent evaluation companies.

The approach was twofold:

- A thematic approach with 10 work packages which assessed the impact and achievements in thematic areas and the delivery system, covering the following:
 - support to Small and Medium Enterprises and business innovation,
 - financial instruments for enterprise support,
 - support to large enterprises,
 - transport,
 - environment: waste, water and waste water infrastructure,
 - energy efficiency in public and residential buildings,
 - culture and tourism,
 - urban development and social infrastructures,
 - European Territorial Cooperation,
 - Delivery system.
- A cross cutting approach through 4 work packages which collected data on the aggregate performance of all of the funds, assessed the macro-economic impact and synthesised elements from the thematic work packages.

The ex-post evaluation brings a greater analytical depth to these issues and looks at several thematic areas not examined in depth before. It is therefore more comprehensive and detailed than previous exercises.

The hearing on 8 December will provide an opportunity to share with the members of the CONT Committee the main results of the ex-post evaluation as it was done recently in the REGI Committee.

In 2007-2013 Cohesion Policy was a vital source of public investment. It navigated the deepest economic/financial crisis in the EU history and 12 new Member States with different development needs benefited from their first full programme period. Countries such as Hungary, Lithuania or Slovakia had more than 50% of their public investment funded by Cohesion Policy. This is also true for those older EU Member States – for instance, Portugal or Greece - which faced the heaviest challenges linked to the economic crisis and credit crunch.

At aggregate level, it is estimated that 1 euro of Cohesion policy invested in that period will generate 2,74 euros of additional cumulated Gross Domestic Product (GDP) by 2023, or the equivalent to one trillion euro in addition.

In terms of concrete achievements, available monitoring data shows that Cohesion policy contributed to create around 1 million jobs; to provide financial support to 400.000 small and medium enterprises; to provide broadband access to about 8.4 million people; to remove transport bottlenecks, reduce travel times and support urban transports with over 7.000 kilometres of new roads and almost 28.000 kilometres of reconstructed roads. It also made a significant contribution to the environment by connecting additional population of 5.9 million people to new or improved supply of clean drinking water and 6.9 million people to new or upgraded wastewater treatment facilities

The ex-post evaluation of the ESF also shows that the 2007-2013 programmes have been an important instrument supporting the implementation of national and EU priorities under the Lisbon and Europe 2020 strategy and related Country specific recommendations. Interventions under ESF 2007-2013 have been significant and effective in reaching the most policy relevant target groups in need of support: 98.7 million people participated in ESF operations until the end of 2014 and at least 9.4 million people gained employment.

The ESI Funds Open Data Platform provides in full transparency an overview of all 2007-2013 achievements which are further reflected on dedicated country pages. The INFOREGIO project databases provide concrete examples of achievements per Member State, region, theme, type (major project or not) and/or programming period.

Emphasis on well-performing projects is made especially during the European Week of Regions and Cities (ex-'Open days') and the 'RegioStars Award'. The European Week of Regions and Cities (ex-'Open days') is an opportunity for stakeholders to exchange good practices and know-how in the field of regional and urban development. The RegioStars Awards allows identifying and highlighting original and innovative projects which could inspire other regions.

The following are some concrete examples of success stories in 2015:

- the "Copenhagen Cleantech Cluster" project created networks of companies and research institutes to spark ideas for new clean technology products and services; it also develop them into viable businesses and created over 1000 new jobs;
- the "Centro Bio: Bio-industries, Biorefineries and Bioproducts" project in the Portugal's Centro region. This project works with researchers and local farmers, foresters and entrepreneurs to develop new industries from by-products, improve businesses efficiency and train future scientists and entrepreneurs. It created so far 52 high-skilled jobs;
- the revitalisation of the lower town district in Gdańsk in Poland involved the regeneration of existing buildings and infrastructure, and the creation new social opportunities ;

- the "Open Innovation Platform in RIS3 Context", which is an online platform in the Italian region of Lombardy that provides innovators with tailored tools, contacts and information on opportunities relevant to their needs. It helps them also to bring business ideas to the market.
- the RO-NET project in Romania that aims at expanding broadband internet access to nearly 800 localities in "white areas" and at reducing the digital gap between rural and urban areas, creating at the same time 480 jobs.

In relation to the programme period 2014-2020 the Commission will publish by the end of the year the first report under Article 53 of the Common Provisions Regulation to summarise the contents of the programme annual implementation reports issued by Member States and the results of the first evaluations covering 2014-2015. That report will be presented to the EU institutions later in December 2016. It will set out information on the EUR 124 billion allocated across all ESI Funds to selected projects, provide information on the volume of support allocated to enterprises, and provide examples of supported projects so far that have a concrete impact on the life of citizens. This information will also be published online on the 2014-2020 Open Data Platform which already set out the objectives and expected results for the adopted 2014-2020 programmes.

More information on **key achievements of Cohesion policy 2007-2013** can be found on our regional policy website:

http://ec.europa.eu/regional_policy/en/policy/what/key-achievements/

More information on examples of success stories and other examples in 2015 can be found on the website of the RegioStars Awards 2015:

http://ec.europa.eu/regional_policy/en/regio-stars-awards/

2007-2013 and 2014-2020 datasets are available in the ESI Funds **Open Data Platform** catalogue: <https://cohesiondata.ec.europa.eu/>

3. According to the ERDF/CF ex-post evaluation of the 2007-2013 programming period document, it is estimated that 1 euro of Cohesion Policy investment in the period 2007-13 will generate 2.74 euros of additional GDP by 2023. How does the Commission calculate the prognoses of 10 years – is it based on data provided during projects' sustainability?

Commission's answer:

The estimation of the impact of each euro of Cohesion Policy investment for the period 2007-2013, presented in the expert evaluation of the programming period is based on econometric simulations carried out through the macroeconomic model QUESTIII simulations.

The model uses the total payments of all Funds (ERDF+CF, ESF and EAFRD) between 2007 and end-2015.

The impact in each Member State is directly related to the size of the financial support it receives from cohesion and rural development policies. In order to capture better the effectiveness of the interventions, the results of the simulation can be used to calculate a cumulative multiplier of the impact on GDP per euro

spent. For a country, or group of countries, the cumulative multiplier is calculated as the ratio of the cumulated change in GDP (relative to baseline) up to a given year and the cumulated amounts spent up to the same year.

More details and explanations can be found on page 7, 22 and 23 of the report "*The impact of cohesion policy 2007-2013: model simulations with QUEST III*", which is available on Inforegio:

http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp14a_final_report_en.pdf

As regards projects sustainability: with an estimated 600.000 projects supported by the ERDF and Cohesion Fund in 2007-2013, the Commission's evaluation work is focused at programme level. That said, a number of the ex-post work packages examined case studies and looked at the sustainability of some of the projects financed.

4. What do you do to improve the effectiveness of spending programmes in order to create regional growth?

Commission's answer:

In order that the 2014-2020 generation of programmes are more effective in creating regional growth and jobs, the Commission introduced a reinforced result orientation at the core of Cohesion Policy. Indeed the reformed framework for the European and Structural Investment Funds (ESI Funds) represents a move towards a more focused policy approach, improved result orientation, solid framework conditions and prioritisation of EU common objectives alongside regional needs.

The new result orientation is based on a stronger intervention logic for each programme and each priority axis, starting from a clear assessment of needs and the identification of the intended change. The achievement of the expected change is measured by a result indicator with a starting point (the baseline) and a target. Programmes have to systematically measure and report progress of result indicators. Projects are selected to contribute to intended results and their progress is measured with compulsory output indicators.

The reformed Cohesion Policy introduced ex-ante conditionalities, to promote a high-quality regulatory or strategic investment framework, and sufficient administrative capacity of the relevant institutions as from the start of the programming period.

An important feature of the 2014-2020 period is also the increased use of financial instruments, which have the potential to be a more efficient means of funding investment across many policy areas. Financial instruments have to play a stronger role in the implementation of the new generation of programmes. Instruments such as loans, equity and guarantees are relatively new to many public authorities compared to grants, but they have proven their ability to deliver support to the real economy by providing increased incentives to beneficiaries to deliver the expected outputs, and to mobilise additional investment services. The objective is to achieve an overall doubling in the use of financial instruments compared to previous programming period: 6.2% of the total 2014-2020 allocations for cohesion policy are planned to be delivered through financial

instruments. The possibilities for using financial instruments have thus been extended and facilitated for the new round of programming, with stricter rules for their financial management and reporting obligations.

Finally, the performance framework is intended as a further incentive for performance. It will reward those programmes which achieve their milestones at the level of priorities with a share of the 6% performance reserve. But it may also trigger corrective measures for programmes which fail to do so. The performance review in 2019 will take account of the information and the assessments presented in the annual implementation reports submitted by Member States.

The Commission produced a report on the outcome of the negotiations by the end of 2015, as required by Article 16 of the Common Provisions Regulation for the 2014-2020 period. The Communication "*Investing in jobs and growth - maximizing the contribution of European Structural and Investment Funds*" lays out the contribution of ESI Funds to the European Union's growth strategy, the Investment Plan and the Commission's political priorities over the next decade, and the expected achievements by 2023 (detailed results are available on the Open Data Platform for which an internet link is provided under the reply to question 2). With an EU budget of EUR 454 billion for 2014-2020, the European Structural and Investment Funds are the European Union's main investment policy tool. They will deliver a critical mass of investment in key EU priority areas, to respond to the needs of the real economy by supporting job creation and by getting the European economy growing again in a sustainable way.

In addition, the report acknowledged the strong link between programmes and country-specific recommendations issued in the context of the European semester. More than two thirds of the 2014 country-specific recommendations are relevant for Cohesion Policy. They have been addressed in the programmes, in areas such as health system reforms, social inclusion, transport reforms and administrative capacity.

Errors and error rate

5. Again the error rate in the area "economic, social and territorial cohesion" was the highest estimated by the ECA and stood at 5.2%. It was however lower than in 2014. How is the Commission planning to further improve the error rate and which measures proved effective to decrease the error rate from 2014 to 2015?

Commission's answer:

It is important to note first that the Court's audits in 2015 continued to cover exclusively payments for the 2007-2013 programming period. As explained in previous years, the Commission expected that the error rate identified by the ECA would continue to oscillate between 5% and 7%, year on year. This is due to the multiannual nature of management and control systems under Cohesion policy against the Court's annual approach for the error rate which is a snapshot of the situation at a certain date, before all checks and controls have been carried out by Member States.

The Court notes a general improvement in tackling errors in Cohesion Policy over the years and an improvement in 2015 compared to 2014. This improvement reflects the strict supervision of the Commission and actions taken to tackle the root causes of errors. However the Commission agrees that the error rate is still high and continues to take actions to ensure that all remaining material errors have been treated by closure.

On the corrective side, the Commission immediately stops payments to (part of) programmes as soon as serious weaknesses are detected, through interruptions or suspensions. In addition, the Commission provides targeted help to fix the systems in need through administrative and audit capacity building initiatives: training, seminars, guidance, advice and help to develop improved tools such as checklists or exchange of good practices. This contributes for example to remedy weaknesses found and improve management verifications at the level of managing authorities and their concerned intermediate bodies, which is the first source of error as identified by the Court. The Honourable Member is also referred to the reply to question 24(B) for more details on the supervisory actions taken by the Commission in 2015.

The Commission has also initiated targeted measures in areas that have been the main sources of errors under the 2007-2013 period: management verifications by managing authorities, public procurement and State aid. The Honourable Member is referred to the reply to question 8 below for further details on the Commission action plans designed and implemented under these headings. The fact that less frequent errors in the areas of public procurement and State aid were found by the Court this year, may also indicate that these Commission and Member States' joint efforts start paying off.

Last, the Commission continued working with the Member States in 2015 and 2016 with a view to ensure a robust and rigorous preparation of closure documents due in March 2017. At closure the Commission will apply strict supervision over final payment claims that should reflect all financial corrections as a result of all national control and audit work. Based on reported audit opinions and error rates that it will carefully analyse and validate, the Commission will carry out any necessary additional financial corrections, where necessary. The purpose is to close each programme with a level of residual error which is acceptable (below the materiality threshold fixed at 2%).

The measures that proved effective to decrease the error rate will continue under 2014-2020. Moreover, the assurance framework for Cohesion policy in 2014-2020 has been substantially revised to address the weakness from the previous regulatory framework where the level of assurance could vary according to the stage of the management and control cycle. In particular, for 2014-2020 programmes the control architecture and the Member States' accountability was reinforced in the regulations through:

- the introduction of annual accounts,
- a retention of 10% by the Commission on all interim payments in order to protect the EU budget,
- submission of annual certified accounts for expenditure declared to the Commission, together with a complete assurance package including a

management declaration and audit opinion, in order to ensure that all necessary controls have been carried out at national level,

- the application of net corrections if serious irregularities still remain undetected, unreported and uncorrected by the Member State and are detected by the Commission or the European Court of Auditors after submission of the assurance package.

The programme authorities will have to implement corrective measures every year to bring the residual level of error for each programme below the materiality level of 2%.

Last, the Commission is also strongly promoting the effective use of simplification, in particular, simplified cost options, by all Member States, since these are much less prone to errors as acknowledged by the Court in paragraph 6.15 of its Annual Report. Apart from reinforcing compliance, simplified cost options allow actors to reduce efforts on administrative procedures to appropriately justify declared costs and to focus on results and deliverables for all projects. The Commission has made a proposal to amend the Common Provisions Regulation and to expand further the possibilities to use such simplified cost schemes, including by rendering them obligatory for operations below EUR 100.000.

The combination of these measures should bring about a further lasting reduction in the error rate for the 2014-2020 period.

6. Protecting the EU budget from fraud by verifying that regional funds are spent according to the rules is one of your responsibilities. But ECA stated that the reimbursement schemes are causing routinely and continuously errors in the EU budget. The errors resulted from the reimbursement systems are 5,2% higher than the ones based on payment entitlements. What did you do to change this situation?

Commission's answer:

The Honourable Member will have noted that in its 2015 annual report (paragraph 1.22) the European Court of Auditors quotes estimated levels of error of 5,2% for reimbursement expenditure and 1,9% for entitlement programmes. The difference between these two types of programme expenditure is therefore 3,3%, showing that entitlements indeed generate less errors as underlined by the Court. This is expected since entitlements correspond to a beneficiary (typically a farmer under an agricultural scheme) meeting certain conditions fixed by the scheme and thus having a legal right to receive certain compensatory payments. For ESI Funds supported operations, beneficiaries have to demonstrate that their project application corresponds to the criteria for selection set out by the programme monitoring committee, in line with the Partnership Agreement and programme objectives, and once retained for funding that implementation corresponds to the conditions set out in the grant agreement and applicable rules, both from the point of view of achieved outputs and eligibility criteria for expenditure declared. As described in the reply to question 4 above, projects selected by programme managing authorities under ESI Funds programmes have

to feed into the intervention logic and contribute to the overall objective and result(s) set for each programme priority.

The Commission supports the view that the policy needs to move further to more result based ways of implementation. In order to shift focus and efforts to results and deliverables for all projects, the Commission is actively promoting the effective use of simplification, in particular, simplified cost options, by all Member States, since these are much less prone to errors as acknowledged by the Court in paragraph 6.15 of its Annual Report. The Commission has made a proposal in the context of the MFF midterm review to amend the Common Provisions Regulation and to expand further the possibilities to use such simplified cost schemes, including by rendering them obligatory for operations below EUR 100.000. The common provisions regulation and the Commission legislative proposal under the MFF review also include a new form of financing allowing for payments based on performance (joint action plans) and proposes further simplification to such schemes to further encourage take-up.

As to the reference in the question of the Honourable Member to the Commission responsibility to protect the EU budget from fraud, reference is made to the words of Mr Lehne, the President of the European Court of Auditors who stressed in his presentation of the 2015 annual report in front of the CONT Committee on 12 October 2016 that errors and irregularities are not fraud. Irregularities are any breach of applicable (EU or national) law, whereas fraud involves an intentional behaviour. The Court itself explains in its report that the error rate is not a measure of fraud, inefficiency or waste. The Commission maintains a policy of zero tolerance for fraud and corruption. At the same time one has to acknowledge that a certain level of non-compliance with rules cannot be avoided for complex programmes implemented in 28 Member States by hundreds of thousands of beneficiaries under Cohesion Policy. However the error level has to be brought to a residual level which is acceptable (judged against a materiality threshold set in the regulations).

The Commission underlines that under shared management, Member States are primarily responsible for the effective and efficient functioning of management and control systems at national level to prevent, detect and correct fraud and irregularities. The Commission seeks to ensure that national systems better filter out errors before certification of expenditure to the EU budget. The Commission co-operates with managing authorities on achieving sound and timely management verifications in order to prevent irregularities occurring in the first place or being included in payment claims certified to the Commission. According to the European Court of Auditors, the estimated level of error for economic, social and territorial cohesion would have been 3 percentage points lower altogether if proper management verifications were in place (paragraph 6.36 of the European Court of Auditors' 2015 annual report). The Honourable Member is also invited to refer to the reply to question 5.

7. The 2015 audit report of the European Court of Auditors states that the highest estimated error levels have been detected in the field of European Economic and Territorial Cohesion (5,2%). How do you explain this? What did you do to improve the situation?

Commission's answer:

The Honourable Member is referred to the Commission's reply to question 5 above.

8. We see some reservations for the past financial exercises, what kind of technical assistance does the EC ensure for the 2014-2020 programme in order to avoid the errors of the past?

Commission's answer:

During the 2007-2013 programming period, the Commission services put in place targeted actions to improve administrative capacity in the Member States. This continues under the 2014-2020 programming period. In addition to the specific actions defined for each programme, DG Regional and Urban Policy is implementing crosscutting initiatives to mitigate the main risks and weaknesses identified. The role of the competence centre on administrative capacity building (established in DG Regional and Urban Policy beginning of 2013) in implementing these initiatives is primordial. The actions already implemented or ongoing include notably:

1. A general administrative capacity initiative. In 2015, the activities taken mainly concern:
 - a peer-to-peer exchange of expertise between authorities managing the programmes 'TAIEX REGIO PEER 2 PEER' . By November 2016, 109 exchanges have been approved and of these 70 exchanges involving 1.142 participants have been implemented with positive feedback. Most active Member States: LT, CZ, HR, RO, PL and BG. 23 Member States have provided assistance in the form of peer experts. Most popular topics: financial instruments, public procurement, State aid management and control and audit, monitoring and reporting.
 - A strategic training programme for managing, certifying and audit authorities and intermediate bodies on the implementation of the new Regulations. Some 540 programme experts and desk officers from all Member States have attended the four different training modules so far.
 - Competency Framework for efficient management and implementation of ERDF and Cohesion Fund. The overall aim is to support further professionalization of the management of the funds. The study is accompanied by a self-assessment tool to help managing/audit/certifying authorities, intermediate bodies and joint secretariats of INTERREG programmes to identify competency and skills gaps among their staff and thus define training and recruitment needs. The self-assessment tool was subject to internal testing by Commission services and will be subject to further testing before being widely disseminated to all programme authorities.
 - Specific workshops in 15 most concerned Member States on implementation of effective and proportionate anti-fraud/anti-corruption measures to increase awareness of risks and acceptance that preventive measures are possible.

- Pilot Integrity Pacts in cooperation with Transparency International. 17 pilot Integrity Pacts are being set up in 11 Member States (BG, CZ, EL, HU, LT, LV, SI, PT, RO, IT, PL) as from 2016 and run for a period of four years. A special event took place in Brussels on 17 June where all contracting authorities and civil society organisations participating in the pilot were brought together and discuss next steps for the future
2. On public procurement, dedicated action plans for strengthening capacity in these fields have been set up by DG Regional and Urban Policy in close cooperation with DG Internal Market, Industry, Entrepreneurship and SMEs, DG Competition and other ESI Funds DGs, and continued to be implemented during 2015. The action plan was endorsed by the Commission. The key actions include:
- a Public Procurement Guidance for Practitioners on the avoidance of errors in ESI- funded projects published in October 2015 in all EU languages; the guide will be updated taking into consideration the new public procurement directives for which the transposition deadline was 18 April 2016;
 - monitoring of the ex-ante conditionality action plans on public procurement with a focus on Member States that are still implementing their action plans, including providing customised support to Member States not fulfilling the ex-ante conditionality;
 - a public procurement stock-taking study which includes more than 50 good practice examples in public procurement across the EU has been widely disseminated. It also contains 28 country profiles with concrete recommendations; if Member States want to follow up on this they are encouraged to use the technical assistance available in their programmes;
 - two pilot projects in cooperation with OECD where support is given to BG and SK for their implementation of their ex-ante conditionality action plan on public procurement (especially training);
 - promotion of transparency and open data on public procurement, including through the initiative for Pilot Integrity Pacts presented above.
3. A State aid action plan designed by DG Regional and Urban Policy in close cooperation with DG Competition was also adopted in March 2015. Its aim is to increase awareness and understanding of the subject, improve the co-operation between the various actors involved in the monitoring of State aid in the Member States and provide pro-active support to the EU Member States and regions in the correct application of State aid rules. It includes measures for:
- review of existing good practices and their dissemination;
 - strategic training programme, including expert and country specific training planned for the second half of 2015 and the beginning of 2016. 4 seminars took place in 2015 in HR, CZ/SK, RO and BG on general information about State aid rules (on average 100 participants per seminar). In 2016 the focus was on specific / thematic topics. A seminar on "State aid

in Research, Development and Innovation" took place on 27 January in Brussels (80 participants). A second on "State aid in energy projects" took place on 21 June and two additional workshops were held in the autumn: "Regional aid and State aid for SMEs" (22 September) and "State aid in Transport projects" (1st December);

- exchange between the Commission and audit authorities, for further dissemination of audit checklists adapted to the 2014 GBER revisions;
- customised assistance to Member States not fulfilling the ex-ante conditionality on State aid to help them implement their action plan.

4. As regards the audit authorities, regular administrative capacity building actions (technical meetings, methodology discussions, fora for exchanges of good practices) are in place to ensure a robust joint audit framework. Guidance for Member States is continuously improved and discussed with audit authorities in technical meetings. There is furthermore a tailor made approach through a delivery of specific training sessions to audit authorities on request as well as specific remedial action plans for those few audit authorities not up to standards. The main topics concerned by dedicated meetings, workshops or targeted actions are anti-fraud/corruption, audit methodology for public procurement or State aid, recommended statistical sampling techniques for conclusive and reliable audit results and effective implementation of the 2014-2020 new regulatory features (such as audit of performance indicators or e-cohesion). In 2015, the Audit Directorate of DG Regional and Urban Policy also actively promoted, in close cooperation with DG Employment, Social affairs and Inclusion the use by responsible national authorities of the Arachne tool, a preventive risk-scoring tool developed by the Commission.

During the whole 2007-2013 programming period, the audit capacity initiative has contributed to an increased reliance on the work of national auditors, which is currently the main source of assurance. As a result, all but a very few audit authorities are now up to standards and provide the Directorate-general with reliable audit results, as shown in 2015 by our reliance on 97% of the audit opinions issued and 95% of the error rates reported by audit authorities. The expertise accumulated by audit authorities so far in close cooperation with DG Regional and Urban Policy is a source of additional assurance for the 2014-2020 period taking into account that almost all audit authorities will continue carrying out their functions for the 2014-2020 programmes.

The Directorate general for Regional and Urban Policy is also closely cooperating in its general and specific actions in relation to the technical support provided to Member States with the Structural Reform Support Service set up in 2015 in the Commission.

9. Arachne was supposed to be fully operational at the end of 2015. Is this the case? Did it already contribute to lowering the error rate in 2015 and if so, how? Has it been able to identify the most risky projects in the Member States?

Commission's answer:

The Commission's risk scoring tool put at the disposal of Member States for free, Arachne, is in a testing phase. The opinion of the European Data Protection Supervisor on the latest version of the tool has been received. The European Data Protection Supervisor has issued a number of recommendations which have been accepted and will be implemented without delay. Arachne will then move to the "production phase" in the Member States as soon as they have signed the Arachne Charter. They will thus be granted the rights to manage access to the tool autonomously.

The Commission points out that the main objective of Arachne is to support Member States, in particular managing authorities and their intermediate bodies, to assess and identify the potential risk of fraud or conflict of interest in operations during their management verifications. Managing authorities have used it in several ways for 2007-2013 programmes, some more extensively than others. Data for the 2014-2020 period is very limited for the moment. There is a time lag induced by the natural implementation of multi-annual programmes. A critical mass of data needs to be reached on the ground for the tool to deploy its full potential.

The impact of ARACHNE on the reduction of the error rate in the future is difficult to measure as the irregularities are more often related to lack of compliance with the applicable rules, rather than to instances of fraud with limited impact on the error rate over the last years (reference is also made to the Commission reply to question 6). It is very likely however, that the more Member States will use the tool, the more this will have a positive impact on the effective mitigation of the risk of fraud and errors and on the error rate. Where the data is of sufficient quality, managing authorities will be able to identify the most risky projects, beneficiaries, contracts and contractors in a more sophisticated way than before, thus contributing to putting in place efficient and proportionate anti-fraud measures, a new regulatory requirement under 2014-2020 management and control systems.

10. Can the Commissioner report on the work of the High Level Group on of the implementation of simplification opportunities in Member States and regions? Have recommendations been made on how to improve the uptake of opportunities of simplification for beneficiaries provided by the regulations?

Commission's answer:

The High Level Group on simplification is currently assessing the uptake of simplification opportunities by Member States, including Member States' commitments to reduce the administrative burden for beneficiaries as set out in their partnership agreements covering the ESI Funds for 2014-2020, and taking into account the specificities of the different ESI Funds. Moreover, it analyses the implementation of simplification opportunities in Member States and regions, and their impact on administrative burden and costs.

The High Level Group met six times since October 2015. They have delivered five sets of specific recommendations on e-governance, simplified cost options, access to EU funding for SMEs, financial instruments and "gold-plating". A last meeting has been held on 29 November to discuss cross-cutting audit issues. In 2017, the High-Level Group will focus on the post-2020 framework. Its conclusions and final report will feed the ongoing internal discussion on enhanced simplification as well as the reflection on the future of Cohesion policy.

All conclusions of the High Level Group on Simplification are available on the dedicated page of InfoREGIO:

http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/high-level-group-simplification/

Building on these recommendations, the Commission recently proposed further and ambitious simplification and flexibility in the rules governing ESI Funds. These proposals are contained in the Omnibus regulation adopted by the Commission in September 2016 in the context of the mid-term review of the Multi-Financial Framework. In particular, it includes further provisions to deploy and use more widely simplified cost options, including to make their use compulsory for operations below EUR 100.000, joint action plans as well as a number of measures in the field of financial instruments, including under rural development. These proposals aim at clarifying certain provisions, prolonging the SME Initiative and facilitating synergies with the European Fund for Strategic Investments.

11. What did you do to improve the performance indicators?

Commission's answer:

Performance indicators are an essential component of the framework of the 2014-2020 programming period for ESI Funds which shift the focus towards quantifying policy objectives, tracking the implementation of outputs and assessing the contribution of programmes to results. This **result orientation** relies on clear objectives defined in programmes with result indicators, a strong **intervention logic** per programme based on a clear assessment of needs and the identification of the intended change and targets set for output indicators (contribution of projects to the intended results).

The achievement of the expected change is measured by a **result indicator** with a baseline (the starting point) and a target. Programmes have to **systematically measure and report progress** of these result indicators. Result indicators provide information on a particular and measurable aspect of the objective and allow verifying if the intended change has taken place. For instance, a higher competitiveness of enterprises could be reflected in their productivity. It is important however to note that the intended results are influenced not only by the inputs of the programme funding, but also by external factors such as, for example, the economic development in the sector of the enterprise.

Actions (e.g. financial support to an enterprise) will help to achieve the result. Projects are selected to contribute to intended results and their progress is measured with **output indicators**. The regulatory provisions require a

compulsory use of common output indicators, when relevant, with cumulative targets, as well as EU-wide recommended definitions and measurement units. These indicators relate to most frequently implemented actions and constitute a more comprehensive set of indicators than in 2007-2013. They will provide aggregate and reliable information for analysis and communication purposes.

There are some differences between the ESI Funds in the concepts used and the lists of defined indicators which are not common across the Funds. This is because both the types of investment and the policy changes envisaged vary significantly between ESI Funds programmes.

Regarding the European Social Fund, the fund-specific Regulation has established a set of common output, immediate result and longer-term result indicators, as well as Youth Employment Initiative result indicators that will be collected on every participant and operation. These common indicators will use common definitions across programmes and Member States. In addition, the programmes have formulated specific objectives measured by result indicators and defined the activities envisaged to attain those objectives measured by related output indicators. All these indicators are specific and measurable. Operational programmes also include the source of all indicators and the reporting frequency. On the basis of the competence entrusted to the Commission in Article 4(3) in Commission Implementing Regulation (EU) No 215/2014, the Commission has requested and assessed the methodology for calculating the targets of the performance indicators to ensure they are realistic.

The overall strengthening of the result orientation and use of performance indicators provided a basis to add the specific mechanism of the **Performance Framework** in order, in particular, to award the 6% **Performance Reserve** in 2019 to programmes and priorities which present objective records of good progress towards their objectives.

The Commission will ensure the reliability of systems for reporting performance data (output indicators for ERDF/Cohesion Fund) by using the results of the audits carried out by programme audit authorities and their own audit work.

12. According to ECA the corrective measures have adjusted the global level of error from 4,3 to 3,8%. What corrective measures indicated by ECA have you applied? What were the results?

Commission's answer:

The Commission understands that the Honourable Member refers to paragraph 1.43 of the 2015 Court's annual report which states that *"for 16 transactions sampled in 2015, the Commission and Member States authorities had applied corrective measures that directly affected the transactions concerned and were relevant for our calculations. Those corrective measures reduced our estimate level of error by 0.5 percentage points."*

The Commission understands from the Court's report that this reduction affects the overall error rate assessed by the Court for all Commission policies (estimated at 3.8% for 2015) and not only Cohesion policy. The Commission does not have the details for this adjustment and related corrective measures at project level

considered by the Court for those 16 transactions. The Honourable Member is invited to request such information from the Court of Auditors.

For an overview of the preventive and corrective mechanisms used by the Commission to protect the EU budget, the Honourable Member is invited to consult the Commission Communication on the protection of the EU budget (COM(2016) 486).

13. ECA states that the Commission didn't use all the information it had, in order to limit the errors. According to ECA, if you had used the information provided by ECA, the level of expenditure error in the Rural development, environment and climate policies would have been 3,2% lower. Could you please give us examples where you have used the ECA information and the improvement resulted?

Commission's answer:

The Commission understands that this question refers to chapter 7 'Natural resources' of the 2015 Annual Report of the Court of Auditors. Rural Development falls under the competence of Commissioner Hogan.

The Court of Auditors stated that in some cases under rural development [climate action and fisheries], Member States (not the Commission) did not use the information available to them through documentation and databases to avoid errors (paragraph 7.24 of the Court of Auditors' Annual Report 2015).

The Commission is aware that the national authorities could potentially have detected many of the errors found by the Court under rural development. The Commission is aware of the root causes of errors and is working with the Member States to remedy the situations by offering guidance or requesting action plans to be implemented.

For further details the Honourable Member is referred to the Commission's reply to written questions to Commissioner Hogan, in particular questions 14 & 19.

14. Is the Commission considering forms of further flexibility such as the proposed reflow of decommitments including from heading 1b, as a result of total or partial non-implementation, into the EU budget?

Commission's answer:

The Commission has presented its proposals on flexibility on 14 September 2016 as part of its Mid-term review/revision of the multiannual financial framework 2014-2020. These proposals are currently under discussion in Council and the European Parliament. The Commission has good hopes that this will result in an agreement which will significantly increase the flexibility of the EU budget and therefore its capacity to react to unforeseen events.

15. Will the Commission maintain an adequate payments plan until 2023 and propose increase of payment ceilings, if necessary, until the end of the current programming period?

Commission's answer:

The Commission has presented the medium-term payments forecast as part of its Mid-term review/revision of the Multi-Financial Framework (MFF) adopted on 14 September 2016. The payment forecast covers the period until 2020 and assesses the sustainability of the payment ceilings until 2020. The forecast profile of interim payments takes into account the evolution of the RAL (*reste à liquider*) as well as the presumed de-commitments until 2020. The forecast shows that the current payment ceiling should be just sufficient to satisfy the payment needs thanks to the global margin for payments which allows to align better the annual profile of the MFF to the forecasted payment needs (i.e. transfer of unspent margins from 2016 and 2017 to the later years when programme implementation in the Member States is expected to accelerate). The global margin for payments therefore provides a sufficient degree of flexibility for payments - there is no need to revise the overall ceilings of the MFF.

The Commission will regularly update its payment forecast and assessment of the sustainability of the payment ceilings and present the result of its analysis to the European Parliament and the Council.

The updated forecast of the RAL by end 2020 and the forecast for the post-2020 period will be presented in 2017 (as foreseen under point 9 of the Inter-institutional agreement on budgetary discipline, on cooperation in budgetary matters and on sound financial management).

16. Having in regard the challenges ahead, how will the Commission deploy needed technical assistance and advisory services to managing, certifying and auditing authorities with a view to facilitate and speed up implementation of the policy on the ground?

Commission's answer:

Technical assistance is an important element of ESI Funds, contributing to capacity development and the strengthening of institutions. All Member States have technical assistance funds at their disposal to help in the implementation, monitoring and control of programmes. This is programmed in the same way as other parts of the allocations, including the setting of objectives and results and the identification of output and result indicators.

The regulation also reserves technical assistance credits for the Commission that has designed a strategy to provide technical assistance, advice and support to Member States' programme authorities through outside expertise if needed, in addition to its own technical assistance actions. Thus the Commission will continue to assist and support programme authorities as needed through capacity building actions and programme implementation tools (e.g. REGIO TAIEX Peer2Peer, JASPERS, Fi-compass, etc.), advisory services and training. This includes activities such as the exchange of good practice and networking across Member States via seminars organised in Brussels or in the Member States, thematic training or the issuance of technical guidance or concrete tools on various common issues related to regulatory aspects and policy implementation.

In addition to technical assistance, Member States also benefit from operational credits under thematic objective 11 to "*enhance institutional capacity of public authorities and stakeholders and efficient public administration*".

For more details on technical assistance actions launched by DG Regional and Urban Policy, the Honourable Member is referred to the Commission reply to question 8 above.

17. Is the Commission prepared to continue discussion on these issues in the Cohesion Forum and come forward with solutions in the 7th Cohesion report, taking also the necessary steps for the timely start of the post 2020 period?

Commission's answer:

The Commission will continue to assess ways in which it can make the best use of its technical resources for the 2014/20 period as well as monitor the way in which Member States apply their own technical assistance allocations. Reflections on the post 2020 period will certainly include an examination of the most effective ways to improve administrative capacity in Member States through the use of technical assistance, and this could be a subject covered by the next Cohesion report, although no commitment as to the content of this report can be made at this stage.

18. Many Member States are facing challenges in meeting the deadline for fulfilment of the ex-ante conditionalities including on public procurement, which continued to generate significant numbers of irregularities and fraud in implementation of Cohesion Policy programmes and projects in 2015. Does the Commission intend to stick to the deadline for fulfilment of ex-ante conditionalities by end-2016 and proceed with suspension of payments in case of pending completion of actions as required by Article 19 of regulation 1303/2013?

Commission's answer:

The Commission will not refrain from using the suspension of payments for non-fulfilment of ex-ante conditionality where justified and after careful analysis of the actions taken by the Member State, within the deadlines set in the regulation.

The procedure will be launched following the Commission's assessment of the actions taken by the Member State to fulfil the applicable ex-ante conditionality. The fulfilment of these actions is to be reported at the latest in the annual implementation report for 2016 submitted by the Member State by end June 2017 (Article 111(2) CPR) or, by exception foreseen under Articles 19(2) and 111(4) CPR for Member States with no more than one programme per Fund, in the progress report on the Partnership Agreement to be submitted by 31 August 2017.

Therefore, procedures aiming at suspending payments for non-fulfilment of ex-ante conditionality are unlikely to start before the summer 2017.

19. Does the Commission compare the data found for EU Cohesion Policy with data on similar national support schemes in view of broadening the analysis and fine-tuning the conclusions to be drawn?

Commission's answer:

Data on national support schemes similar to Cohesion Policy is systematically only available at Member State level. Broadening the analysis beyond EU Cohesion Policy measures would require intensive collaboration between the EC and the Member States to produce a reliable data source that would enable comparisons at EU level.

The EC has already carried out counterfactual evaluations assessing the effectiveness of intensity of the allocation of funds among regions. The analysis covers EU-27 Nuts-2 regions across the programming periods 1994-99, 2000-06 and 2007-13. The results of the analysis show that the EU funds have a significant role in stimulating regional growth and economic development.

Concerning 2007-2013, additional comparisons between the performance of EU funded support schemes and similar national support schemes might offer useful policy lessons, but these analyses would have to be conducted on a national basis and would have to deal with the following challenges among others:

- 1) In Convergence regions in 2007-2013 Cohesion policy programmes were generally the main source of support along with national co-financing, often with no other national support schemes targeting the same measures (i.e. active labour market policies).
- 2) In Regional Competitiveness and Employment regions in 2007-2013 the EU funding was in some cases focussed on particular investment niches or individual projects making comparison complex.
- 3) Cohesion Policy Programmes provide a unique 7-10 year programming context and finding comparable national schemes over the same time periods is challenging.

Concerning 2014-2020, the Commission considers that improving impact evaluations of Cohesion policy programmes is a top priority. The obligation to carry out impact evaluations of Cohesion policy programmes at national or regional level in 2014-2020 is intended to improve the detail, quality and relevance of evaluations conducted. It also opens the possibility that some programme authorities might conduct comparisons with national schemes.

Depending on their quality, the results of these evaluations would be taken into account in the ex post evaluation of the 2014-2020 programming period.

20. Does the Commission promote de-centralised approaches for cohesion policy implementation in order to increase ownership and responsibility of action on the ground, thus contributing to avoiding fraudulent use of public money?

Commission's answer:

Under Shared management, Member States are free to decide the set-up of their management and control systems for programme implementation in line with

their institutional and legal framework and in compliance with the EU rules (e.g. designation criteria set out in annex XIII of the common provisions regulation, inter alia). The regulation therefore allows programme authorities to be located at central or decentralised / regional level.

One of the regulatory obligations for each Member State under the Common Provisions Regulation is to organise for the preparation and implementation of Partnership Agreements and each programme, in accordance with its institutional and legal framework, a partnership with the competent regional and local authorities, including with different public and socio-economic partners under a multi-level governance approach (article 5 CPR). This European code of conduct on partnership is further detailed in Delegated Regulation (EU) No 240/2014, where the Commission outlined the minimum standards for how a well-functioning partnership should be organised, ensuring that all relevant stakeholders at national, regional and local levels and urban and other public authorities are included in the process.

Regardless of their institutional framework and centralised or de-centralised administrative organisation, Member States and their managing authorities shall put in place effective and proportionate measures to reduce the risk of fraudulent use of programme allocations (article 125(4)(d) CPR). In addition, the accountability of programme managing authorities is strengthened, in particular with the obligation to put in place timely management verifications to ensure the legality and regularity of expenditure entered in the programme annual accounts and to sign each year a management declaration in line with Article 59(5) of the Financial Regulation. In this management declaration each managing authority has to confirm, amongst other points, that all confirmed irregularities have been appropriately treated in the accounts, that adequate follow up was given to deficiencies reported by audits in the management and control system and that the effective and proportionate anti-fraud measures referred to above are in place (the template for the management declaration is to be found in annex VI of Commission implementing regulation (EU) 2015/207).

21. Which measures has the Commission taken for the closure of programmes of the 2007-2013 period to avoid overpriced, wasteful or meaningless projects in Cohesion Policy, which have only be authorised in the intention of not losing resources?

Commission's answer:

The Commission adopted guidelines on closure (Commission Decision C(2015) 2771) to explain to Member States all legal requirements in relation to closure and to provide clarifications as to how the Commission expects programme authorities to present closure documents and to treat specific situations and projects. The guidelines address weaknesses and bottlenecks identified in the 2000-2006 closure exercise, including measures to avoid unfinished or non-functioning projects at closure. The general principle is that at the time of the submission of closure documents, Member States have to ensure that all projects for which expenditure is included in the programme are functioning, meaning are completed and in use, to be considered eligible. The closure guidelines specify under which well justified and exceptional circumstances Member State may decide and on a case-by-case basis to include expenditure paid for non-

functioning projects in the final statement of expenditure (details are provided in section 3.5 of Commission Decision C(2015) 2771).

In addition, the closure guidelines provide the specific conditions for the phasing of major projects and non-major projects over two programming periods (section 3.3 and 3.4), in order to limit the risk of incomplete and ineligible projects. The phasing concept allows ensuring continuity of investments between programming periods in order to fulfil the ultimate objective of projects, while reducing the artificial investment demand linked to the 7-year programming cycle - that could result in high prices.

The Commission also provided targeted assistance to Member States authorities which required it (for example through the Task Force on Better Implementation) and also raised awareness of Member States during closure seminars organised in all Member States on the importance of the resources allocated to closure to ensure the sound financial management of projects finally retained in the final declaration of expenditure.

Overpricing is an issue looked at as part of the audit process throughout the period. Transparent and open competition for tenders and project calls are the best solution to avoid overpricing. Overpricing, as part of public procurement procedures or grants, is a critical issue for the sound management of EU programmes in some countries. This risk has been carefully taken into account when planning audits at EU and national level. Targeted audits detected errors linked to non-transparent selection of public contracts or of projects, or substantial overpricing (already in the project application phase) or in some cases potential fraud. In such cases, substantial financial corrections were imposed.

Regarding the risk of wasteful or meaningless projects, in addition to the checks on legality and regularity of the expenditure, evaluation and performance assessment of programmes take place in the context of closure. In particular, as provided in section 5.2 of the closure guidelines on the final implementation report, Member States are required to report on the achievement of the projects indicators and justify where they have missed them by more than 25%. The final implementation report will only be accepted if all the requirements and comments from the Commission have been addressed.

For 2014-2020 key elements of the reformed policy put emphasis on prevention and quality. For example, a clear intervention logic for each programme and priority allows to carefully define the changes needed and expected for the region / area covered through the programme, and projects are selected to contribute to the results intended for each priority axis. Ex ante conditionalities are pre-conditions from the start of programme implementation to ensure that co-financed investments and projects will be effective and efficient under coherent and well thought-through strategies (ex. in the health sector, for transport infrastructure etc). Ex-ante conditionalities also cover issues of administrative capacity, public procurement and State aid, main causes of errors for Cohesion policy and thus contribute overall to an improvement in the quality of projects to be selected and implemented under EU programmes.

22. Simplification in the implementation of EU funds is a major block of "an EU budget focused on results" initiative. Where are we now with the simplification process?

Commission's answer:

The regulations related to the 2014-2020 programming period offer a broad range of opportunities for simplification and reduced administrative burden. These include:

- a set of common rules for all ESI Funds and coordination with other EU instruments under the common strategic framework,
- the extended use of simplified costs options,
- simplified rules for revenue-generating projects and financial instruments, and
- e-cohesion (electronic exchange of information between beneficiaries of Cohesion policy programmes and programme authorities).

In addition, the legislation has been revised and clarified for public procurement and State aid, two areas which have triggered until recently the majority of errors.

But Member States and regions have to play their role and avoid redundant administrative procedures or superfluous rules not required by EU law (gold plating). The up-take of simplification options, such as simplified cost options, which are now not obligatory, is also relatively low since Member States seek legal security for the implementation of such schemes.

The legislative proposal by the Commission in the framework of the MFF review (Omnibus regulation) provides a wide range of further incentives which are intended to encourage Member State authorities to simplify further their procedures (the Honourable Member is also referred to the Commission's reply to question 10). For instance, the Commission has proposed to expand the use of simplified cost options, offering more "off the shelf" rates set at EU level to offer improved legal certainty or proposing that simplified cost schemes become compulsory for operations below EUR 100.000. The proposal also contains further clarifications and simplifications for the use of financial instruments and their combination with the EFSI.

The Commission is also promoting best practices, in particular those identified by the High Level Group, using real-life examples of programmes with simple procedures and low error rates. We have also encouraged national auditors to contribute to the simplification effort, by identifying redundant procedures when auditing management and control systems and by contributing to the ex-ante assessment of methodologies to set up simplified cost options in the Member States.

A number of studies underway and planned will contribute to further assess the up-take of the opportunities for simplification.

23. Another obstacle in the absorption process is the lack of capacity building. How does the EC look into that, is it part of the action plans to improve it?

Commission's answer:

The Commission continuously assists Member States in view of accelerating implementation and will continue to do so under the 2014-2020 programmes. The Commission participates in monitoring committee and technical meetings with Member State authorities, provide guidance on implementation related issues when need for clarification is identified or requested by Member States and follows closely the progress in terms of the designation process and the fulfilment of ex-ante conditionalities.

Tools to improve administrative capacities at Member State level have been developed in the recent years and are made available to all Member States (REGIO TAIEX Peer2Peer, JASPERS, Fi-compass etc.), in addition to technical assistance resources available to Member States and programme authorities for this purpose. The Honourable Member is referred to the detailed explanations on Commission actions targeted at improving the administrative capacity of programme authorities, provided in the reply to question 8 above.

Furthermore, for programmes considered being at risk of implementation a specific monitoring is being implemented. The Commission is ready to provide assistance to Member States however it is imperative that Member States step up efforts to rapidly launch calls, select operations and assist beneficiaries in implementation of Cohesion policy.

In order to tackle the low implementation rate of the 2007-2013 programmes in certain Member States, an internal task force was set up in DG Regional and Urban Policy to assess the situation and provide targeted help to these Member States (task force for better implementation). After a detailed situation analysis, it has drawn up or completed existing action plans for each Member State concerned. In this context, administrative capacity building actions were undertaken in the form of seminars, workshops and technical meetings with national authorities in view of also providing fora for the exchange of good practices. These events also helped the national authorities to understand better the options and flexibilities they have under the rules and adjust the implementation of the programmes in their favour.

Even if the task force formally finished its work with the end of the eligibility period at end 2015, close follow-up continues to ensure a smooth closure process and in particular to provide assistance in relation to phasing of projects between programming periods.

The Commission will continue organising similar events for the benefit of Member States facing similar problems for the 2014-2020 programmes as well. For example, on request of Croatia a dedicated project team was created to assist this Member State in a tailored way on a number of aspects of implementing the 2014-2020 programmes.

24. Does the EC have a strategy in communicating the best practices and results of the regional development and cohesion policy programmes to the potential beneficiaries? The question of a better communication of the results was raised in the Commission proposal for the MFF mid-term review, it would be important to see if this approach was spread at all levels of the DGs?

Commission's answer:

The Commission fully agrees with the Honourable Member that it is indeed important that citizens are aware of the results of Cohesion Policy. The September 2015 Eurobarometer survey on citizens' awareness and perceptions of EU regional policy has shown that only just over a third of citizens are aware of EU co-financed projects in their local area. Given the scale of the EU Cohesion Policy budget (more than €350 billion in the period 2014-2020), which constitutes a substantial share of public investment in most Member States, there is a need to reinforce efforts to raise awareness and to inform the citizens of the benefits of EU investments.

The Commissioners responsible for Cohesion policy see their role as ambassadors of the policy. Commissioner Crețu for example is very much engaged in communicating on the benefits of regional and urban policy through Citizen's Dialogues. These dialogues allow citizens to voice their opinions and ask questions on the issues most important to them. They also give the opportunity to listen first hand to the citizens, explain the policy and point out to the tangible effects of decisions taken at European level on the citizens' lives.

The Commission has recently completed the ex-post evaluation for 2007-2013 programmes, which shows that the policy delivers significant results. During this period, for example, Cohesion Policy has supported 400.000 small and medium enterprises to modernise, invest in RTD and survive the crisis, while preserving employment and a vital part of the socio economic fabric. In the aftermath of the economic crisis and its consequence on employment, Cohesion Policy contributed to create around 1 million jobs and through the ESF millions of people were trained, found employment or self-employment or gained a qualification / a certificate allowing them to improve their employment opportunities (the Honourable Member is also referred to the Commission detailed reply to questions 2 and 4 above). The Commission services are actively communicating these remarkable results which show that our investments pay off and which point towards a clear added value of Cohesion Policy in supporting long term economic development.

But under shared management, it is for the national, regional and local authorities in charge of implementing EU programmes to play a key role in actively communicating about EU-funded local projects and their success. These public authorities are in direct contact with the people's challenges and expectations on the ground. The Commission pays attention to the respect of the required publicity rules for supported projects. Through the INFORM network the Commission services are engaging with the communication officers responsible for communicating on ERDF and Cohesion Fund investments in all the Member States.

An excellent example of a campaign to encourage Europeans to discover and learn more about EU-funded projects all over Europe is the "*Europe in My Region*" campaign. This campaign was organised by the Commission's Directorate General for Regional and Urban Policy with the support of the programme managing authorities and the Commission's Representations. Citizens were encouraged to visit projects and share images and experiences via social media. The campaign ran from 29 April until 30 June 2016 in 23 EU

countries, and over 400.000 citizens from 23 countries visited the 2.500 projects involved in the campaign.

The Commission also created networking opportunities, such as the "*European Week of Regions and Cities*", co-organised by the Committee of the Regions and the Directorate General of Regional and Urban Policy. This event provides a great opportunity for Europe's cities and regions to learn from each other and to share good practices and to build strong partnerships. Every October, it welcomes around 6.000 participants (local, regional, national and European decision-makers, academics and experts) for more than 100 workshops and debates, exhibitions.

Every year, the Commission is also running the competition for the *Regiostars Awards*, which honour Europe's most inspirational and innovative regional projects supported by Cohesion Policy.

The 'Inforegio' website presents all these efforts and projects in 23 languages, along with publications and other tools to communicate Europe-wide: http://ec.europa.eu/regional_policy/index_en.cfm

- A) What are the different types of reservations made? How many reservations have been issued in 2015 and for which reasons?

Commission's answer:

The Director general expresses different types of reservations at programme level in his annual activity report. A reservation can be a full reservation, when the identified deficiency affects the whole operational programme, or a partial reservation, when the system deficiency affects only part of the operational programme (e.g. at the level of an intermediate body or a specific measure). A reservation can also be made on a reputational basis ("reputational reservation") if no payment was made in the year concerned by the annual activity report for a programme under reservation, but a system deficiency was previously identified (payments were immediately stopped) but could not be solved during the year (payments did not resume during the year).

In the 2015 Annual Activity Report of DG Regional and Urban Policy, two overall reservations grouping the reservations at programme level were made:

- 1) a reservation concerning ERDF/CF and IPA-CBC for the 2007-2013 programming period;
- 2) a reputational reservation concerning ERDF/CF for the 2000-2006 programming period.

The overall two groups of reservations are divided in 72 reservations at programme level: 68 related to the 2007-2013 programming period including one IPA-CBC programme and four related to the 2000-2006 programming period.

As a general rule, reservations for the 2007-2013 period are made if at least one of the following conditions applies:

- material deficiencies in the management and control systems,
- projected error rate above 5%,

- cumulative residual risk above 2%.

As regards the number of reservations made by the Director general for Regional and Urban policy as well as the detailed reasons behind each reservation, this information is publicly made available in the annual activity report of DG Regional and Urban Policy. The Honourable Member is referred to Annex 7A of the 2015 Annual Activity Report available at the following link:

http://ec.europa.eu/atwork/synthesis/aar/doc/regio_aar_2015_annexe.pdf

- o B) How do you ensure appropriate follow-up and a consistent approach?

Commission's answer:

All reservations in the annual activity report are related to deficiencies in the management and control systems of Member States. All payments to the affected programmes are stopped (systematically interrupted and/or suspended) until the problems are resolved (the system is fixed in view of ensuring the legality and regularity of new expenditure that will go through the system), the improved functioning is verified and the necessary financial corrections for past expenditure are confirmed. No reservation is lifted and no payment is resumed unless the Directorate general has clear audit evidence that the problems are solved (audit evidence obtained from its own audits or from reliable audit authorities, typically when the deficiencies were detected by the audit authority). In all cases, the EU budget is protected.

For each of the programmes under reservation, DG Regional and Urban Policy identifies in a letter to the concerned Member States and programme authorities the required targeted remedial actions with clear exit points in view of correcting past expenditure and fixing the system to avoid repetition of irregular expenditure for the future. Such action plans are set with Member States for each reservation and are tailor-made to address each specific deficiency or serious irregularity identified. At this stage of the programming period, required exit points concern mainly the application of a financial correction. However, when the Directorate general assesses that the same authorities / system continue to function for 2014-2020, it still requires system improvements to prevent irregularities under the 2014-2020 programmes.

As far as monitoring of the action plans is concerned, during the year, DG Regional and Urban Policy checks, based on information sent by the concerned programme authorities, that the remedial actions are indeed implemented and, when relevant, have been audited by the national audit authorities. This supervision also includes carrying out on-the-spot audits, when necessary, to confirm the effectiveness of the remedial actions implemented by the relevant programme authorities.

In all cases, payments are resumed only when there is evidence that corrective actions, including financial corrections where necessary, are fully implemented and when assurance is given that systems function better and problems have been remedied for the future. This follows strictly the request by the European Parliament in its previous Discharge resolutions.

In addition to the strict supervisory policy for interruption and suspensions to address identified risks and roots of errors in the problematic programmes and to impose the necessary financial corrections (corrective approach), the

Commission services continue to support and provide guidance to Member State where needed to improve systems (prevention or targeted intervention in relation with the identified deficiency) and to encourage Member State to simplify the management and control systems and the procedures in order to reduce the risk of errors.

In order to ensure a consistent and timely monitoring and treatment of all cases, DG Regional and Urban Policy has established an Interruptions Committee chaired by the Director-General. This Committee is meeting every fortnight to decide on new interruptions, on the possibility of resuming payments for interrupted programmes based on the assessment of replies and audit evidence provided, or on the need to launch suspension or financial correction procedures in view of Commission decisions. Members of the interruption committee are the Director General, the Audit Director, Geographical Directors concerned, the DG legal unit and the implementation coordination unit.

- C) What is the State of play on the AAR reservations as of today?

Commission's answer:

In the 2015 Annual Activity Report of DG Regional and Urban Policy, 72 reservations were made at programme level, 68 related to the 2007-2013 programming period including one IPA-CBC programme and four related to the 2000-2006 programming period (as described under question 24(A) above).

Concerning the 2000-2006 reservations, the reservation covering the closure of the operational programme Objective 1 – Campania has been lifted due to the agreement reached on an important financial corrections applied by the Commission at closure. Three reservations still remain open: two for Cohesion Fund transport projects in Romania and in Bulgaria, as respectively a flat-rate correction for the non-respect of contract specifications still needs to be proposed and because the Bulgarian authorities have rejected the Commission's closure proposal, including the proposed financial correction. For the latter, the legal base for the corrections is being consulted with the Legal Service (the Honourable Member is also referred to the Commission reply to question 31). And the third one covers the closure of the operational programme Sicilia – Objective 1 as no agreement had yet been reached on the level of financial corrections that the Commission intends to apply at closure.

Concerning the 68 reservations related to 2007-2013,

- 23 reservations have been lifted: one covering Bulgaria, three covering European territorial cooperation programmes, two covering Germany, five covering Spain, five covering Hungary, one covering Italy, four covering Slovakia, and two covering the United Kingdom;

- for the majority of the 45 remaining programmes still under reservation, it is likely that the identified deficiencies and necessary financial corrections will not be addressed before closure when the programme authorities will implement all necessary financial corrections. Such reservations may therefore be carried over to the next annual activity report until analysis by DG Regional and urban policy of the implementation of the required financial corrections in the frame of the closure. It should also be noted that the majority of outstanding reservations are partial (i.e. impacting only part of the programmes) and many relate to Spain, for which

deficiencies were detected at the level of 20 Intermediate Bodies intervening on some parts only of Spanish regional programmes.

The Commission continues however to apply a strong supervision on the work of the concerned programme authorities, so as to ensure a smooth closure process, and will endeavour to close as many reservations as possible before closure.

- D) What are the root causes of errors identified and the additional measures you are taking to address them?

Commission's answer:

For the 2000-2006 programming period, the main reasons for the reservations expressed in the annual activity report were that financial corrections above 5% for the Cohesion Fund projects concerned under the transport sector in the two Member States and for the Campania and Sicily programmes at stake still needed to be applied at closure.

For the 2007-2013 programming period: the main deficiencies detected are mainly at the level of managing authorities/intermediate bodies in particular deficiencies in management verifications (this would result in error rates above materiality). Root causes of errors lie among others in complex management structures in some Member States, high staff turnover in some authorities leading to a loss of expertise or insufficient staff allocation (explained by the budgetary situation). Public procurement continues to be the main source of error, together with non-compliant implementation of State aid rules and eligibility issues.

For each reservation the reason for it is disclosed in Annex 7A of DG Regional and Urban Policy 2015 Annual Activity Report, as indicated in reply to question 24(A) above (http://ec.europa.eu/atwork/synthesis/aar/doc/regio_aar_2015_annexe.pdf).

Through the programming period, DG Regional and Urban Policy has managed to identify these problematic programmes and/or bodies and focus the remedial actions to them. The Honourable Member is referred to the Commission reply to question 5 where the detailed Commission action plans to address root causes of errors and administrative capacity building actions are described.

- E) Why is the error rate from the Court above your risk range?

Commission's answer:

The Court and the Commission use different methods to obtain the best estimate of the risk to payments, by calculating an error interval.

The error rate reported by the Court is a snapshot of the situation at a certain cut-off date, based on a pan-European sample of 223 transactions for all Cohesion Policy, before all checks and controls foreseen in our multi-annual system have been carried out. Given this multi-annual character of the management and control systems under cohesion policy, errors made in a given year may be corrected in subsequent years until closure of the programming period. The Court is 95% confident that the estimated level of error in the population for Cohesion policy lies between 2.8% and 7.6% (point 6.11 and footnote 11 to the 2015 Annual Report of the Court), i.e. with a precision of almost 5 points.

DG Regional and Urban Policy assesses the risks linked specifically to the ERDF/Cohesion Fund expenditure for each programme every year in the context of the declaration on assurance delivered by the Director General in the Annual Activity Report. This assurance is built notably on a comprehensive assessment of the annual control reports and the audit opinions submitted every year by the audit authorities and covering all ERDF/Cohesion Fund programmes' management and control systems, assessed and complemented by the Commission's own desk and on-the-spot audit work (bottom-up approach based on the audit conclusions from audit authorities for around 7.300 operations or parts of operations audited in all programmes, following validation by the Directorate-general). On that basis, DG Regional and Urban Policy estimated an annual average risk rate of 3% for 2015 payments.

The Directorate general also establishes the best estimate of the possible upper limit of the risk range. For that purpose it uses when available the upper limits of the error intervals reported by audit authorities and which it validated (where statistical sampling was used). It uses professional judgement otherwise, for example in the case of non statistical sampling (no upper limit available) or for 5% of reported error rates where the Directorate general did not rely on the reported error rates and used its own risk estimates instead (flat rate used for the upper limit).

As a result the Directorate general estimated the risk for the payments made in 2015 for 2007-2013 programmes to be between 3% and 5.6%. This is within the same range as last year (2,6% to 5,3%) and is included within the range estimated by the Court of Auditors for Cohesion Policy in 2015 (2,8% to 7,6%).

Taking into account ESF as well, for which DG Employment, Social Affairs and Inclusion applies the same method to calculate the risk interval as DG Regional and Urban Policy, the Court reports in chapter 1 (figure 1.8) that the gross financial exposure on 2015 payments reported by REGIO and EMPL together is within the interval of 2,5% – 4,3%, therefore largely overlapping with the Court's interval.

- F) What is the expected impacts of 2014-2020 regulations on your AAR and on reservations?

Commission's answer:

As a consequence of the implementation of the new regulatory framework, the Commission expects risks to be better managed and the number of programmes to be put in reservations to be reduced significantly. In particular the 2014-2020 regulations:

- introduce pre-conditions for funding, namely on one hand ex-ante conditionalities including horizontal ones e.g. on public procurement and State aid, main sources of errors under the previous period; and on the other hand designation criteria including more stringent supervision of managing authorities over intermediate bodies and increased accountability for both managing authorities, which have to sign each year a management declaration and certifying authorities which have to deduct all necessary corrections and doubtful expenditure from the accounts that they certify each year for each programme;
- require programme authorities to provide assurance annually after implementation of the full national control cycle, while the Commission retained 10% on all interim payments during the accounting year; and
- introduce an annual acceptance of accounts (a block of expenditure that is expected to be fully legal and regular) and the related possibility for the Commission to apply net financial corrections under certain conditions, a strong incentive and driver for programme authorities to apply timely, stringent and improved management verifications and controls and to prevent, detect and appropriately correct serious deficiencies before certifying programme accounts to the Commission;
- require certifying authorities to certify programme accounts each year with expenditure that contains a residual level of error below the materiality threshold of 2%.

In addition, it is expected that legal complexity will decrease in the 2014-2020 period with the enhanced possibilities for the Common Strategic Framework providing common rules for all 5 ESIF and with other EU instruments, simplification (e.g. for complex issues such as funding gap, use of off-the-shelf financial instruments), simplified cost options with further extended possibilities offered under the Omnibus regulation if adopted, and implementation of e-cohesion which not only should reduce the administrative burden on beneficiaries but allows improving the audit trail. Improved and simplified public procurement rules (with the newly adopted Directive) and State aid rules (extended 2014 General Block Exemption Regulation and notice on the notion of aid published in June 2016 and providing further clarifications in important sectors, like infrastructure) should also have an impact on reducing the level of irregularities and therefore the need for reservations.

Each year in mid-February, as from 2017 in practice, programme authorities will transmit to the Commission an assurance package comprising a management declaration and annual summary of all controls and follow-up given, the programme accounts for the expenditure in the accounting year, and an independent audit opinion on the accounts, on the functioning of the system and on legality and regularity of expenditure included in the accounts accompanied by an annual control report of the work carried out by the audit authority. This assurance package will be used for the annual activity report (to be delivered by

end April each year) and will be further analysed during the subsequent year including through desk work and, for programme accounts considered at risk, on-the-spot compliance audits on audit authorities' work to ascertain the reliability of all reported information.

- G) For 2014-2020 you explain in your AAR that you will receive a new type of assurance documents from the Member States. What is the acceptance of the annual accounts? How does it contribute to enhancing assurance?

Commission's answer:

The assurance framework for Cohesion policy in 2014-2020 has been substantially revised and addresses weaknesses from the previous regulatory framework where the level of assurance could vary according to the stage of the management and control cycle.

As previously explained under the reply to question 24(F), the revised control architecture has been reinforced thanks to the new elements introduced i.e.:

- a twelve-month accounting period running from 1 July n-1 to 30 June n;
- the retention of 10% from each interim payment in relation to the expenditure of the accounting year, in order to protect the EU budget until all national control and verification work is carried out and the submission of the related accounts;
- the submission for each programme of certified accounts for the expenditure declared to the Commission in relation to the accounting period, as well as accompanying documents to give assurance on the accuracy of the accounts, the effective functioning of the system and the legality and regularity of the underlying transactions (management declaration, annual summary of controls and audits, audit opinion based on residual error rates after all corrections are taken into account at national level and control report), by 15 February n+1;
- the payment or recovery of the annual balance due, following acceptance of the accounts by the Commission by 31 May n+1; the accounts should reflect the financial corrections carried out to bring the annual residual risk below the materiality threshold of 2% for each programme each year;
- the obligatory application of net financial corrections where irregularities demonstrating serious system deficiencies are still detected by the Commission (or the European Court of Auditors), unless already identified or corrected by the national authorities.

The acceptance of accounts by the Commission is one new process, separate from the assessment of legality and regularity as foreseen in the regulation (article 139 CPR). The Commission must accept accounts by 31 May each year based on the audit opinion provided by audit authorities, or inform the Member State otherwise. When accounts are accepted, the Commission must calculate and pay or recover the balance for the year, taking account of the level of expenditure certified in the accounts and confirmed by the audit opinion, yearly advance payment and interim payments made with the retention of 10%.

However, the block of expenditure contained in the programme accounts should not contain any remaining material level of irregularities. If it is not the case,

either as reported by the audit authority or as identified through EU audits, the Commission will be able to interrupt the payment of the balance and immediately launch financial correction procedures. These corrections will be net either if the Member State does not accept the corrections (as for 2007-2013) or if they point to serious deficiencies not previously detected / corrected or reported by the Member State (new for 2014-2020).

The reinforced assurance process for 2014-2020 will continue to take into account the single audit concept whereby the Commission may rely principally on previous controls performed by the audit authorities, after having verified the reliance it can place on their audit results. Additional possibilities to apply the single audit principle are offered in the regulation (Article 148 CPR). At the final stage, the Commission conformity audits and the resulting application of net financial corrections where necessary should allow to provide assurance that the residual risk of error – after all corrections are applied – is below 2% for each programme, year on year.

It is expected that the Commission will receive complete assurance packages and accounts for all programmes in 2018 only, since only 72 ERDF/CF and ESF programmes declared expenditure in the second accounting year ending June 2016. As from 2018 assurance packages for all 295 ERDF/CF programmes will then have to be assessed every year by the Directorate general.

The 2016 Annual Activity Report will disclose in detail the assurance model and the different levels of risks and mitigating measures in place for each type of Commission payments made during the calendar year referred to in the annual activity report (interim payments in the first semester and interim payments made in the second semester, related to two different accounting years and different levels of assurance, and the final balance related to a third accounting year and for which more complete assurance will be available based on joint national and EU audit results).

- H) What is the cumulative residual risk? How is it calculated and used for your assurance process?

Commission's answer:

The cumulative residual risk is an indicator of the corrective capacity of the programme ahead of closure, taking into account the regulatory constraints of the 2007-2013 programmes. It is the best estimate of the overall corrective capacity cumulatively since 2007, at the date of its calculation. It is the sum of the residual risks calculated on the payments of each year. This is an additional criterion for reservations. It allows assessing whether the financial risk for the programmes is kept on a tolerable basis, on a cumulative level and in view of closure. At closure, audit authorities will have to take into account this cumulative residual risk for the formulation of their audit opinion, after all corrections have been taken into account.

For all programmes where the cumulative residual risk is above 2% at the time of establishing the annual activity report, the Directorate general makes a reservation, interrupts payments to the programme, and imposes action plans and the required financial corrections. At closure, a cumulative residual risk

remaining above 2% will be carefully analysed and will lead the Commission to propose additional financial corrections, if not already done by the programme certifying authority.

The cumulative residual risk is calculated based on validated error rates of the audit authorities and on financial corrections reported by certifying authorities. Reliability of data is therefore important. Data (error rates and reported financial corrections) were subject to numerous audits by DG Regional and Urban Policy to ascertain their reliability throughout the programming period. The Directorate general reports each year in the annual activity report on the results of this reliability assessment, both for error rates and for reports on financial corrections. Audit authorities also have to review all financial correction reports of certifying authorities in view of their closure audit opinion.

For the whole of ERDF/Cohesion Fund programmes and on average, the cumulative residual risk after implementation of financial corrections was 1% in March 2016 when establishing the 2015 annual activity report. Assurance can therefore be provided that the EU budget is protected except for the programmes or part of programmes where reservations are made and for which corrective actions are taken.

Under the 2014-2020 programming period, this indicator will be calculated on an annual basis for each operational programme. On this aspect, the Honourable Member is referred to question 24 (G).

The Honourable Member is also referred to DG Regional and Urban Policy 2015 Annual Activity Report page 72 and annex 8 page 77 for more detailed information on the cumulative residual risk.

http://ec.europa.eu/atwork/synthesis/aar/doc/regio_aar_2015.pdf

http://ec.europa.eu/atwork/synthesis/aar/doc/regio_aar_2015_annexe.pdf

- 1) How do you monitor policy performance?

Commission's answer:

As a consequence of the strengthened result-orientation of the 2014-2020 programming period, enhanced definition and monitoring of result (for programmes) and output (for ERDF/Cohesion Fund projects) indicators and stronger evaluation requirements will allow to follow the development of programmes and maintain the focus on results. For the definition of the performance framework and intervention logic, the Honourable Member is referred to the Commission reply to questions 4 and 11.

Monitoring follows the development of output indicators and result indicators. Evaluations ask the question where a programme was successful or not concentrating on deviations from programmed or intended results and estimate the contribution of EU funding to the achieved results comparing them with targets. Managing authorities have to undertake evaluations and were requested to establish an evaluation plan within one year of the adoption of their programmes.

Managing authorities will deliver annual programme reports - in May or June each year - on implementation, achievements and available evaluations. The Commission will analyse and publish at the end of each year a synthesis of these reports, consolidating data for the European and Structural Investment (ESI) Funds. It will communicate this synthesis to the European Parliament and the Council and will make data public. Accordingly, by the end of this year the Commission will issue the first summary report on the implementation of programmes in 2014-2015, based on annual implementation reports received from Member States as well as available evaluations up to end 2015. The first programme implementation reports with widespread and substantial information on programme implementation are however expected in June 2017, after effective and more substantial implementation on the ground. The Commission will issue a strategic report by end 2017 and by end 2019. By the end of 2022, managing authorities will report on the main outputs and results achieved for each programme and the summary of all evaluations carried out during the programming period.

The Commission launched at the end of 2015 a new Open Data Platform for all five ESI Funds to allow public monitoring of the implementation of programmes throughout the period. The platform initially supported the Communication issued in December 2015 on the expected achievements of the 2014-2020 programmes and it will become a permanent tool to monitor the achievements of the ESI Funds.

The Open Data Platform presents visualisations of key information - information on financial data and on expected achievements - on the 533 ESI Funds programmes aggregated at EU level, by Member State, by thematic objective and by Fund. Information on the financial allocation by "Thematic Objective" is made available in a common format across all funds and comes from the financial tables of each programme. It includes information on both EU and national financing. Expected achievements are described under common indicators that have been agreed for the five ESI Funds to measure the direct outputs or effects of the investments planned across programmes and countries. The indicators are listed with the Fund Investments Priorities for each Fund regulations and defined in specific guidance documents. The five funds have separate lists of specific indicators because they are focussed on different policy fields, different stakeholders or specific different sectors. The data is exchanged by the national and regional authorities and the Commission through a common IT platform – SFC2014.

In July 2016, the Open Data platform was extended to give access to specific visualisations on each programme. End of 2016, the first information on implementation will be published along with the adoption of the first Annual Summary report on ESI Funds implementation. Actual achievements will be displayed in the platform.

The Open Data platform is available at the following address:
<https://cohesiondata.ec.europa.eu/>

The visualisation of programmes can be found by clicking on the list of programmes linked to each Member State pages:

<https://cohesiondata.ec.europa.eu/countries>

- J) Can we rely on the indicator values reported by the Member States?

Commission's answer:

The Commission understands the question of the Honourable Member as referring to performance indicators.

As a consequence of the strengthened result-orientation of the 2014-2020 programming period, reliability and coverage of the performance data reported by the Member States will increase significantly. Audit authorities and the Commission will audit the systems established at national level to collect, monitor and report data. This will provide assurance about the reliability of performance data. Unreliable data will be considered as a weakness in the management and control system and may lead to financial sanctions.

The Honourable Member is also referred to the reply to the question above concerning the Open Data platform which is publicly available to monitor the achievements reported under the 2014-2020 programming period. Publicity and transparency given to data reported by Member States will provide a further incentive for programme authorities to maintain and report reliable data on their investments activities.

- K) How do cohesion policy contributes to progress towards the EU2020 targets?

Commission's answer:

The EU 2020 targets encompass the areas of employment, research and development, climate change and energy sustainability, education and the fighting poverty and social exclusion.

The ex-post evaluations of the 2007-2013 programming period show the achievements of cohesion policy in relation to these target. As an example, according to the ex post evaluation of the ERDF and Cohesion Fund, 3900 MW additional capacity of renewable energy production were created in relation with headline target N°3; 41 600 research jobs were created and 400 000 SMEs were supported in relation with the headline targets N°1 and N°2. According to the ex-post evaluation of the European Social Fund, at least 9.4 million people gained employment (of which more than 300.000 people supported became self-employed) in relation with the headline target N°1 and at least 8.7 million people gained a qualification/certificate in relation with the headline target N°4.

In the 2014-2020 period, partnership agreements and programmes have been structured around eleven thematic objectives that derive from the Europe 2020 strategy. They constitute the basis for identifying specific objectives and ensure that regional and national investments contributes to its objectives.

In Greece, for example, the national programme for competitiveness identified the objective of increasing the share of renewables (geothermal, biomass) by 20% on average in the country's energy balance. This responds to Thematic Objective

4 of Cohesion Policy ('Supporting the shift towards a low-carbon economy in all sectors'), which is in line with the target N°3 of the Europe 2020 strategy.

In Hungary, the national programme for economic development and innovation identified the targets of nearly 3,000 research jobs to be created, giving a boost to SME innovation activities and Hungarian research institutes, while improving cooperation among private and public research centres. This responds to Thematic Objective 1 (strengthening research, technological development and innovation) and Thematic Objective 3 (enhancing the competitiveness of SMEs), which is in line with the targets N°1 and N°2 of the Europe 2020 strategy.

The Honourable Member is also referred to the Commission reply to question 2 above.

- L) How do the financial instruments perform under 2007-2013 programmes?

Commission's answer:

The Commission produced at the end of September 2016 the summary of data on the progress made in financing and implementing financial instruments under 2007-2013 programmes. This report was sent to the Committee on Budgetary Control. The report acknowledges the improvement in the quality and completeness of the data compared to previous years. By end 2015, more than 1.000 financial instruments were operating in 25 Member States (all Member States except Ireland, Luxembourg and Croatia). On average 75% of the available funding was paid to final recipients, mostly enterprises. This is a significant increase compared to 2014 (+38%). The Commission notes a steady progress each year and expects further progress in 2016 till closure. The total value of operational programmes contributions paid to financial instruments (including the national co-financing) amounted to 16.9 billion euros, out of which 11.7 billion of Structural Funds (ERDF + ESF).

Nevertheless, there are significant differences in progress between Member States and also between areas of intervention. This percentage of 75% covers instruments established in 2008 as well as instruments newly established for which implementation only started recently. There are a significant number of instruments which have already achieved 100% absorption and are now re-investing revolving funds. The reporting shows the following disbursement rates for investments in:

- enterprises: 77%;
- urban development: 69%; and
- energy efficiency: 50%.

The legislation does not oblige Member States to provide information on revolving amounts and leverage effect. Nevertheless, based on voluntary reporting and case studies, funds were identified with a significant leverage effect (21 times for a guarantee facility under JEREMIE Catalonia) and also funds already investing the resources returned (e.g. renovation loan programme in Estonia).

Conclusions on the leverage and revolving effect of financial instruments supported with ERDF and ESF under 2007-2013 programmes can however only be drawn at closure, when the full eligible activity of supported financial instruments will be reported.

25. About the so-called "coherent" projects or the moving of the resources, within the POR, for other projects, which could supplement or replace the measures or projects that present operational difficulties or irregularities: the Commission may indicate which ex ante assessments had required to verify that the replacement projects would respond to the objectives?

Commission's answer:

The Commission has at various occasions alerted Member States about the inherent risks linked to the inclusion, in programme expenditure, of "coherent projects" (or "retrospective projects" as the Commission calls them in its guidance note to programme authorities) pre-financed under national resources. It has issued guidance to Member States in this regard. In order to ensure that such retrospective projects correspond to the objectives of the ERDF/Cohesion Fund operational programmes and are fully legal and regular, the Commission requires the programme managing authorities to ensure that those projects comply with the provisions of the Treaty and acts adopted under it (e.g. compliance with public procurement and State aid rules), that they are in line with the objectives of the operational programme and with the selection criteria established by the monitoring committee. The programme authorities must ensure that these projects have complied with all applicable Union and national rules for the whole of their implementation. If such projects do not respect one of the above criteria, they should not be included in programme expenditure.

The Commission has requested audit authorities to pay particular attention to the risks linked to such projects, during programme implementation and in view of their final audit opinion at closure.

26. Figure 6.4, ECA 2015 report: Could the Commission please list the projects addressed by the ECA in its annual report (figure 6.4), with their corresponding EU-funded amounts?

Commission's answer:

The Honourable Member is invited to address this question to the Court of auditors for more details as its services carried out the audits and not the Commission.

According to the information provided to the Commission, the projects addressed by the Court of auditors in its Annual report 2015 under figure 6.4 are the following:

Two Czech projects are related to OP 2007CZ161PO004 - Entrepreneurship and innovation). The corresponding EU funded amounts for these projects are respectively 42 225 450 CZK and 5 695 000 CZK.

The Italian project is related to OP 2007IT162PO011 - Regione Piemonte. The corresponding EU funded amount is 26 130.54 Euros.

The Polish project concerns OP 2007PL161PO001 - Innovative Economy. The corresponding EU funded amount is 6 761 155.00 PLN.

27. The Swiss newspaper Neue Zürcher Zeitung published in August this year an Article^[1] about an increased risk of corruption that corresponds with the funding through EU structural funds.

- Does the Commission agree with the analyses of the above mentioned article?
- According to the Corruption Research Centre Budapest (CRCB) the risk of corruption is higher when it comes to EU-funded projects in comparison with solely Hungarian funded projects. Does the Commission agree with the findings of the Corruption Research Centre Budapest (CRCB)?
- What measures does the Commission plan to take in response to these findings?

Commission's answer:

The Commission is aware of the risk of corruption particularly in economies which receive important transfers through ESI Funds, as referred to in the article. It underlines however that ESIF funding is subject to a number of pre-conditions which have to be put in place before the spending can start and are subject to strict controls and scrutiny by the programme authorities. Management verifications are carried out by the programme managing authorities before expenditure is accepted and audits are carried out by audit authorities and by Commission auditors, including OLAF, on a risk-basis. Therefore the Commission also receives the message and perception by ESI Funds beneficiaries that Cohesion policy is synonym of heavy administrative and audit burden for beneficiaries.

Member States have an obligation to report to the Commission cases of fraudulent and non-fraudulent irregularities that they have detected. Fraud suspicions detected in ESI Funds are relatively limited in number – 0,96% of payments in 2015 or 0,36 % of commitments for Cohesion policy over the period 2008-2015, in accordance with irregularities reported by Member States.

The Commission is pursuing a zero tolerance approach to fraud and corruption and has already been taking measures for a long time to fight fraud and corruption in the management of the ESI Funds and, wherever such suspicions arise in the European Union. The focus is now broadening from a primarily investigative and corrective approach (which will stay strong with OLAF and its national counterparts continuing their investigative work) to a more pro-active and preventive approach with the requirement for proportionate and effective antifraud measures in addition to the previous obligations of each programme managing authority to prevent, detect and correct irregularities. The Commission services work very closely with OLAF and Member States in preventing, detecting and correcting errors, fraud and corruption under a joint antifraud strategy for 2015-2020 designed by the directorates general responsible for Cohesion and Maritime and Fisheries policies.

^[1] <http://www.nzz.ch/wirtschaft/wirtschaftspolitik/korruption-in-ostmitteleuropa-der-fluch-der-eu-strukturhilfen-ld.110737>

The joint antifraud strategy takes note that transparency, public scrutiny, awareness and enhanced and open competition for public works and services are powerful tools against corruption. Therefore the Commission has developed actions to increase transparency and public scrutiny in the use of EU funding.

In particular, the Commission services have organized anti-fraud and anti-corruption seminars in 15 Member States in 2014 and 2015, including for example in Hungary, Slovak and Czech Republics or Poland, where the Transparency International fraud perception index is the highest with a view to strengthening their capacity to counter fraud and corruption. Certain shortcomings for specific countries are also being addressed through the European Semester in country specific recommendations (e.g. transparency and competition in public procurement).

In addition, the Commission also works with non-governmental organizations such as Transparency International. Integrity Pacts are in a pilot phase and have also received high interest by both public authorities and civil society organizations in 11 Member States (including in Hungary, the Czech Republic or Poland for example). As part of those pacts, independent civil society organizations will monitor the fairness and regularity of selected public procurement tendering.

Other tools and capacity building activities undertaken under the joint antifraud strategy for Cohesion and Fisheries and Maritime policies include:

- a. Issuance of Commission Guidance to Member States on how e.g. to set up fraud risk assessments (with a fraud risk self-assessment tool put at the disposal of Member States) and definition of red flags to identify projects and beneficiaries with higher potential risk of fraud and corruption, in the framework of awareness raising on the new requirements in Article 125(4)(c) CPR for managing authorities to implement effective and proportionate antifraud measures
- b. Continued promotion of National Anti-fraud Strategies (NAFS): 9 Member States currently have NAFS. Two Member States are in the process of adopting one and others are currently considering starting the NAFS process. While Article 125(4)(c) CPR does not go so far as to require Member States to devise and adopt NAFS, a comprehensive approach is highly recommended with view to an efficient and effective protection of the financial interests of the European Union, based on self-assessments of the risk of fraud and corruption.
- c. Promotion of the data mining IT tool ARACHNE helping managing authorities to better identify risky operations, procurements, contractors (data mining).
- d. New Study being launched by Directorate General Regional and Urban Policy to stake stock of anti-fraud measures and practices put in place by national and regional authorities. Results will be ready to be shared end of 2017.

- e. Cooperation with anti-corruption experts, in close cooperation with the Directorates general for Home affairs and internal Market, to analyse the risk of corruption in ESI Funds programmes and define appropriate and targeted replies.

28. Problems with regard to the reimbursement of VAT: Could the Commission please inform the Parliament about the amount which was affected with problems due to the reimbursement of VAT. How does the Commission intend to tackle this problem with the Management authorities?

Commission's answer:

The Commission notes that the Court of Auditors found only three ERDF cases of ineligible VAT expenditure in its 2015 sample of 229 Cohesion policy projects. These cases represent an estimated error of approximately 19,4% of the total audited amount of EUR 3,4 million for these projects. The Court does not provide the exact impact of these errors in the overall error rate assessed for the 'Economic, social and territorial cohesion' chapter in its 2015 Annual report, but according to our estimate it should be less than 0.3 percentage points of the estimated level of error of 5.2%. The Commission will follow up the three cases identified by the Court and will take the necessary measures needed.

The regulatory provisions mentioned by the Court for Cohesion policy are the outcome of a policy choice made by the co-legislators. They are overall aligned with the standard principles on eligibility of VAT for grants in other EU policies, in particular under direct management. Indeed the Commission notes that VAT is a general tax collected by national or regional governments which do not redirect it back to individual financed projects. A more stringent position which would declare VAT as ineligible costs for ministries or public bodies directly under their authority would actually penalise those beneficiaries which are not in a position to recover VAT or be compensated for it. Such bodies would therefore be obliged to find additional funding to implement their projects or would have to contribute more to their financing than other beneficiaries recovering VAT. This is not the policy choice made by the co-legislators for Cohesion policy.

In principle, the Commission relies on the Member State's assessment of the beneficiary's taxable or non-taxable status regarding VAT. However, as confirmed by the Court of Justice in 2012, the notion of recoverable VAT does not result only from the formal examination of the taxable/non-taxable status of the beneficiary.

The Commission intends to provide further clarification to Member States in this matter for the current 2014-2020 programming period, through additional guidance, as recommended by the Court.

The Honourable Member is also referred to the reply given to the written question number 23 received for Commissioner Thyssen in the context of 2015 Discharge to the Commission.

Bulgaria

29. In the 2015 Annual Activity Report of DG REGIO it is stated that in 2015 and Q1 2016 six Bulgarian operational programmes have been affected by a warning or an interruption of payment of which one programme has been affected by pre-suspension. Please provide information which are the programmes concerned, what are the reasons for taking measures by the Commission and is there any suspension of payments under Bulgarian OPs in 2016?

Commission's answer:

In 2015 and Q1 of 2016 there were 6 procedures of warning/interruption/pre-suspension of payments launched and/or followed up in relation to operational programmes in Bulgaria, as follows:

Five warning and/or interruptions procedures concern 4 operational programmes as follows:

- Regional Development Operational Programme (CCI2007BG161PO001) – 2 procedures for irregularities resulting from insufficient management verifications related to public procurement and potential conflicts of interest namely:
 - o 1 procedure concerning Priority Axis 1 - Sustainable and Integrated Urban Development and Priority Axis 3 - Sustainable Tourism Development of the programme in question, subsequently moved into a pre-suspension procedure (see below);
 - o 1 procedure concerning Priority Axis 2 - Regional and local accessibility and Priority Axis 4 - Local development and cooperation of the programme in question.
- Environment Operational Programme (CCI2007BG161PO005) – 1 procedure for irregularities resulting from insufficient management verifications related to public procurement.
- Transport Operational Programme (CCI2007BG161PO004) - 1 procedure for irregularities resulting from insufficient management verifications related to public procurement.
- Development of the Competitiveness of the Bulgarian Economy Operational Programme (CCI2007BG161PO003) - 1 procedure for irregularities resulting from insufficient management verifications related to public procurement.

The sixth procedure concerns a subsequent step in the interruption procedure quoted above for the Regional Development Operational Programme (CCI2007BG161PO001), namely the pre-suspension stage for significant irregularities identified in resulting from insufficient management verifications related to public procurement and potential conflicts of interest in Priority Axis 1 - Sustainable and Integrated Urban Development and Priority Axis 3 - Sustainable Tourism Development.

All the aforementioned procedures have been closed following the adequate implementation of the required action plans to improve the concerned parts of the management and control systems and of the financial corrections recommended by DG Regional and Urban Policy.

There is no suspension of payments procedure launched in 2016 for any operational programme in Bulgaria.

30. In 2015 the Bulgarian OP “Development of the Competitiveness of the Bulgarian Economy” was under partial reservation. What are the reasons for the reservation? Have these reasons been properly addressed by the Bulgarian authorities?

Commission's answer:

The partial reservation on all public procurement procedures implemented under the operational programme in question issued for the Development of the Competitiveness of the Bulgarian Economy Operational Programme (CCI2007BG161PO003) in Bulgaria concerned significant weaknesses identified in relation to the performance of management verifications related to public procurement by the managing authority.

All the measures recommended by DG Regional and Urban Policy in the exit points of the correspondence with the Member State have been adequately implemented and therefore the conditions for resuming the payments to the Member State for the concerned operational programme were fulfilled in September (letter lifting the interruption of payments sent to the Member State on 16/09/2016).

Following the implementation of the action plan, the Member State implemented financial corrections in total value (ERDF + National Contribution) of EUR 10.813.665.

31. It is clear that corrective actions for 2000-2006 Cohesion Fund transport sectors in Bulgaria and Romania have not been taken. Which are the projects concerned? What is the amount of the correction to be applied? What are the reasons stated by Bulgarian and Romanian authorities for not applying the corrections?

Commission's answer:

In Bulgaria two transport projects and one transport related to technical assistance project are potentially subject to financial corrections for 2000-2006 Cohesion Funds respectively:

- Transport 2004BG16PPT005 - Construction of Cross-border, Road/Rail Bridge over the Danube River at Vidin-Calafat - EUR 51 938 496.17 (public procurement irregularities).

- Transport 2001BG16PPT003 - Plovdiv - Svilengrad railway electrification and upgrading - EUR 10 729 162.83 (public procurement irregularities).

- Transport related technical assistance 2001BG16PPA001 - Danube Bridge - Technical Assistance Measure for the Recruitment of International Engineering and Management Consultant - EUR 387 155 (public procurement irregularities).

The proposed corrections for these projects in Bulgaria amount to around 63 million euros. The Bulgarian authorities rejected the Commission's findings on public procurement irregularities stating that the procurement was carried out correctly. The next stage will be to proceed to a Commission financial correction decision.

For Romania, the ten following transport projects related to the 2000-2006 Cohesion Fund are potentially subject to financial corrections:

- 2000RO16PPT001- Rehabilitation of the Railway section Budapest-Banease-Fetesti on the Bucharest-Constanta railway line;
- 2000RO16PPT002 - Widening to four lanes of the national roads n°5 Bucharest – Giurgiu;
- 2000RO16PPT003 – Construction of the Bucharest-Cernavoda motorway ;
- 2000RO16PPT004 – Rehabilitation of the national road DN6-Section Craiova-Drobeta Turnu Severin;
- 2001R016PPT005 - Construction of the Sibiu Motorway By-Pass;
- 2001R016PPT006 - Rehabilitation of section Drobeta Turnu Severin-Lugoj on the DN 6 road;
- 2003R016PPT007 - Rehabilitation of the railway section Campina-Predeal on the Bucharest-Brasov railway line;
- 2004RO16PPT008 - Construction of the Deva-Orastie Motorway By-pass in Romania;
- 2004R016PPT009 - Road and rail to the second bridge over Danube at Calafat-Vidin (Romanian side);
- 2005RO16PPT002 - Reconstruction of rail and road infrastructure sections damaged by floods in July and August 2005.

The correction for Romania is still to be quantified, based on the findings from a study commissioned by the Commission on the quality of road and rail projects. This study showed problems with the quality of works which the Romanian authorities now claim to be corrected. Once the Commission has quantified the required corrections, it will launch a financial correction procedure which will start with a contradictory procedure with the Member State.

32. Following the closure of the 2007 – 2013 programming period what is the ERDF/CF absorption rate for the Bulgarian operational programmes in comparison with their initial budget? What are the amounts subject of automatic decommitment for the whole programming period? Please provide information per operational programme.

Commission's answer:

The Honourable Member is informed that closure of the 2007-2013 programme will start on 31 March 2017, deadline for Member States to submit to the Commission their closure declarations. The total budget for ERDF and Cohesion Fund for Bulgaria in 2007-2013 amounted to EUR 5 434 million. Of this amount

95% (the regulatory maximum amount) have been paid by the Commission to the Member States to date, leaving 5% to be settled at closure. Overall implementation rate at closure is expected to reach at least 97% of the available allocation based on forecasts by the Member State. However, the final rate of implementation will be known only after the submission of the closure documents.

Closure is expected from financial and physical implementation point of view to run smoothly for all 5 programmes for Bulgaria.

Thanks to the work carried out by DG Regional and Urban Policy with the Member State, including in the framework of the Task Force for Better Implementation, Bulgaria optimised implementation and prevented loss of funds for all 5 programmes by re-programming within the regulatory deadlines.

The amounts which have been subject of automatic de-commitment until now are:

- 71 045 804 EUR for OP Environment
- 1 836 827 EUR for OP Technical Assistance

33. In DG REGIO's Annual Activity Report there is a positive example for the investments in environment infrastructure quoting Bulgaria. Please provide information what is the number of the CF projects for environment infrastructure in Bulgaria for the 2007-2013 programming period, what is the absorption rate of the EU funding in comparison to the contracted amounts and how many of these projects have been completed and reported in the period of eligibility of expenditure?

Commission's answer:

For the 2007-2013 programming period Cohesion Fund support is included in programmes, together with ERDF. In Bulgaria, environment infrastructure is thus funded through ERDF or Cohesion Fund depending on the type of infrastructure. The waste management sector (including the example of the Sofia Solid Waste Treatment Plant quoted in DG REGIO's annual activity report) was supported by ERDF, not by the Cohesion Fund.

The Commission has not yet received the final implementation report for OP Environment (OPE) 2007-2013 which is due by end of March 2017, the deadline for the closure programmes. Although we cannot provide final figures as regards projects completion based on the final report, the latest information we received in 2016 on the working level from the Managing Authority showed that altogether the OP Environment supported 88 investment projects with Cohesion Fund support, covering different types of water and waste water infrastructures (waste water treatment plants, sewerage and water supply network). For example as concerns construction/rehabilitation of waste water treatment plants (WWTPs), 50 out of 58 projects which received support from Cohesion Fund were completed, while some works for the remaining 8 will be phased and finalized through the 2014-2020 environment programme. Given that the OP Environment had initially planned to complete works only for only 45 wastewater treatment plans, we note that good progress has been achieved for the 2007-2013 environment programme that has surpassed its initial objectives.

The implementation rate for both Cohesion Fund and ERDF under OP Environment 2007-2013 reached 95%, so far (regulatory ceiling for reimbursement of interim payments by the Commission before closure.

Italy

34. (1) In 2015 how many regional funds had been spent in Italy (data region by region) for the securing of public buildings?

Commission's answer:

Data region by region specifically for the securing of public building in 2015 is not available because the codes for category of interventions used by the national system are aggregated at a more general level.

However, more general information related to environmental risks is available. In Italy overall some EUR 230 million have been allocated for environmental risk prevention measures for the whole period 2007-2013, which include securing of public buildings. The support EUR 230 million has been financed as follows, per region, based on implementation reports received so far from programme authorities :

- In the Sicily regional programme, there was a specific objective related to risk prevention. The scope is wider than earthquake risks and deals with "environmental" risks (such as hydrogeological, volcanic, industrial...) and the responsibilities are shared between the department for environment and the civil protection. Actions under the responsibility of the civil protection, which may be considered a closer proxy for earthquake risks, are worth EUR 104.6 million.

- In the Campania regional programme there was a similar specific objective related to risk prevention. Again the scope deals with different risks such as floods, volcanic and earthquakes, and covered also the security of public buildings against risks. The total amount is worth EUR 31 million.

- In the Calabria regional programme an amount of EUR 29.4 million went specifically for the prevention of the seismic risk for schools. A total of 73 projects have been financed.

- In the Tuscany regional programme a specific measure for the prevention of seismic risks in public buildings and in schools focussed on the highest risk areas. A total of 77 projects have been financed for a total amount of EUR 24.7 million.

- In the Umbria regional programme there was a specific priority for environment and risk prevention. That included earthquake prevention measures, mainly mapping and studies but also structural works, with total funding of EUR 12 million. The region has set up a plan on monitoring and management of natural risks. Structural works have also been co-financed in 17 schools in 2007-2013, with total declared expenditure of some EUR 3.8 million.

- In the Lazio regional programme, one project concerned the creation of a digital radio network system to be used in case of crises and emergencies, such as earthquakes. The expenditure paid for the project amounts to EUR 13 million.

- In Apulia five projects for earthquake risk prevention from the regional programme and the national programme for Research and Competitiveness totalling EUR 12.7 million were financed.
- In the Piemonte regional programme there were three projects for seismic risk prevention in schools totalling EUR 0,8 million.

34. (2) Which ex-ante and ex-post evaluations were carried out to verify the correctness of that spending?

Commission's answer:

Programme evaluations (ex-ante and ex-post) refer to the analysis of the programme performance to reach the policy objectives, and do not cover individual projects. Selection of operations is the responsibility of programme managing authorities, on the basis and in compliance with selection criteria set by the programme monitoring Committee.

The ex-ante controls, referred to as management verifications in the regulation, are carried out by the managing authorities of the programmes before the expenditure is declared to the Commission. There are two types of management verifications foreseen in the regulation which are administrative verifications for each payment application introduced by project beneficiary and on-the-spot checks which are normally carried out by the managing authority on a sample of operations based on a risk analysis. The certifying authority should ensure that all expenditure has gone through these management verifications, ensuring that it is legal and regular, before it declares the expenditure to the Commission for reimbursement. On an annual basis, the programme audit authorities select samples of operations (mostly statistical based) from the expenditure certified to the Commission during the year and carries out its independent audit work (ex-post controls).

Under shared management of Cohesion policy, the Commission is obtaining from Member States overall results from these ex ante and ex post national verifications and not results at the level of individual projects.

35. Financial corrections: in Italy in 2015 have been confirmed financial corrections for an amount of 1 588 million euros (14% of ERDF and ESF funds for the 2007-2013 period) and 293 million euro (8% of the ERDF and ESF funds for the 2007-2013): could the Commission provide disaggregated for ERDF and by Region and highlight what had been the principal reasons for these corrections?

Commission's answer:

The Commission needs to clarify the following elements of the Honourable Member:

- the amount EUR 1.588 million quoted in the question come from the Commission Communication on the protection of the EU budget 2015, COM(2016)486 final and it refers to the *cumulative financial corrections*

(i.e. not 2015 only) confirmed for 2000-2006 programmes (i.e. not for 2007-2013).

- As shown in the table 5.4.1 (page 29) of the above-mentioned Communication, the amount of EUR 1 588 million represent 5.8 % (i.e. not 14%) of ERDF and ESF funds for the all 2000-06 programming period. The table also shows that when taking into consideration the financial corrections in progress (i.e. the corrections not yet confirmed at the end of 2015), the percentage of financial corrections in relation to the EU funds allocations would be 7.1%. Those rates are higher than the average rate of corrections for all Member States (4.2%). Moreover, the Commission would like to refer the Honourable Member to the comprehensive report on financial corrections carried out for ERDF and ESF on 2000-2006 programmes, provided to the CONT Committee of the European Parliament in 2015 (Ref. Ares(2013)689652 - 12/04/2013).
- As regards the EUR 293 million quoted by the Honourable Member, these refer to the *cumulative financial corrections* confirmed for the 2007-2013 programmes in Italy and represent 1% (i.e. not 8%) of the ERDF and ESF Funds. As disclosed by the Commission in table 5.4.2, page 31 of the above-mentioned Communication, this rate is below the average rate of corrections shown for all Member States (1.4%).

The financial corrections in Italy split by region are shown in the below table:

2000-2006	ESF	ERDF/CF	TOTAL
ERDF national programmes		452,2	452,2
Calabria	202,2	134,2	336,4
Sicilia	43,3	183,0	226,3
Puglia	39,8	156,7	196,5
Sardegna	15,3	168,8	184,1
Campania	65,9	34,2	100,1
Lazio	26,5	25,4	51,9
other regions	3,4	36,7	40,1
	396,4	1.191,2	1.587,6

2007-2013	ESF	ERDF/CF	TOTAL
ERDF national programmes		166,5	166,5
Calabria	7,0	19,7	26,7
Sicilia	2,1	47,2	49,3
Abruzzo	14,6	0,5	15,1

Puglia		14,5	14,5
Sardegna		9,8	9,8
Campania		3,9	3,9
Lazio	1,0	2,6	3,6
other regions	2,1	1,5	3,6
	26,7	266,2	292,9

Main issues for the period 2000-2006 are linked to the weak or absent administrative verifications by the regional authorities, non-eligible projects, public procurement and ineligible expenditure, resulting in a high frequency of errors and in a high error rate at the closure of the operational programmes, making thus necessary the application of additional financial corrections at closure to decrease the risk on the final statement of expenditure. The Honourable Member is also referred to the Commission, reply to question 24(C) above.

Main issues for the period 2007-2013 are linked to irregularities on projects linked to ineligible expenditure, public procurement, lack of audit trail and lack of compliance with the sound financial management principle, thus demonstrating weak and inadequate management verifications at managing authority level.

The Honourable Member is also referred to the reply given to the written question number 20 received for Commissioner Thyssen in the context of 2015 Discharge to the Commission.

Czech Republic

36. *Čapí hnízdo - Stork farm*: In its reply to the follow-up questionnaire to Commissioner Cretu in the context of the 2014 discharge procedure (question 41, page 31), the Commission informed us that it would request the Czech Certifying and Audit authorities to carry out additional verifications to check whether indeed all conditions were fulfilled when providing this grant. Could the Commission please inform us about the outcome of these additional verifications? Had any deficiencies been detected? Had payments been interrupted and/ or financial corrections been implemented?

Commission's answer:

The Commission requested the programme audit authority to carry out additional verifications on the eligibility of the beneficiary as an SME under the 2007-2013 Central Bohemia Regional Operational Programme. The audit authority sent its report to the Commission in May 2016 and informed that it could not definitely conclude on the conditions for the eligibility of the beneficiary due to the difficulties to clearly establish the SME status at the time of funding. Indeed the audit authority does not have the power to audit all related group companies in case of EU funding to only one of these companies, in order to establish whether the beneficiary and any of these group companies 'operated in the same market segment, a condition to establish the SME status of the beneficiary. This prevented it from establishing the status of the beneficiary company for State aid purposes (i.e. SME or part of a group and therefore a large enterprise).

The Commission sent this information to the European Anti-Fraud Office which had opened an investigation already in January 2016. Since the OLAF investigation is on-going, and in line with current procedures in such cases, the Directorate general for Regional and Urban Policy refrained from taking further action at this stage. The Commission will take any appropriate corrective measures required after finalisation of the European Anti-Fraud Office's work. If the breach is confirmed by the European Anti-Fraud Office, then the grant will be deducted at the closure of the programme, or still after closure if need be. Therefore the EU budget will be protected

37. *Implementation of the OP Enterprise and Innovation*: In last year's reply given on the follow-up questionnaire in the context of the 2014 discharge procedure (question no 44 f) it was stated the following: "The Commission services had in any event already planned an early on-the spot early preventive system audit on the OP Enterprise and Innovation for Competitiveness in the context of the designation procedure, focusing amongst others on projects selection. If there is clear evidence of serious deficiencies in the functioning of the management and control system, payments will be interrupted and appropriate financial corrections will be required." Could the Commission please provide us with further information about the outcome of this audit? Had any deficiencies been detected? Had payments been interrupted or financial corrections been implemented?

Commission's answer:

The Czech authorities submitted the notification of designation of programme authorities regarding the setup of the management and control system for the Enterprise and Innovation OP 2014-20 only in September 2016. Payment declarations cannot be submitted to the Commission prior to this notification. To date, no payment claims have been submitted to the Commission for this programme.

Due to the delayed designation process and the fact that no expenditure has been declared to the Commission so far, the system audit by DG Regional and Urban Policy, originally scheduled in 2016, has been re-scheduled for the first half of 2017, depending on the timing of the first declaration of expenditure under this programme.

38. The Czech Supreme Audit Office (SAO) scrutinized the Ministry of Regional Development and funds, which were used for development of the national infrastructure for electronic tenders (NIPEZ). Auditors aimed at the national electronic tool for awarding of public contracts (NEN), which is one of the NIPEZ features. Among other findings, auditors of the Supreme Audit Office also concluded, "the Ministry of Regional Development had violated the budgetary discipline in the amount of CZK 267.6 million in relation to the NIPEZ and the NEN. The Ministry also violated the Public Procurement Act as well as conditions for co-funding the projects from the EU. For example, the Ministry unjustly awarded a contract without tendering and significantly altered the conditions pre-set in the tender documentation and in the agreed subject-matter which could have negatively affected the selection process." More information can be found in the summary of the press release and in the report itself on the website of the Czech Supreme Audit Institution: <http://www.nku.cz/en/media/the-nen-tool-cost-czk-230-myillion-and-was-launched-2-5-years-behind-schedule;-only-few-public-contracts-have-been-awarded-so-far-id8310/>

- What measures does the Commission plan to take to remedy these irregular applications of public procurement rules considering the fact that ministries in charge of the managing authorities of EU funded programmes are responsible for these failures?
- Does the Commission consider the ex-ante conditionalities for the period 2014-2020 relating to the public procurement as fulfilled even though the above stated cases suggest there are problems in this area on the central level of the government in the area of public procurement?

Commission's answer:

As referred to in the question, the Czech Supreme Audit Office (SAO) report of identified March 2016 public procurement breaches in the area of the development of the national infrastructure for electronic tenders (NIPEZ) and in particular, in relation to the National Electronic Tool (NET) system. These operations were co-financed by the ERDF under the Integrated OP 2007-13. However, prior to the SAO's audit and following recommendations made as result of a 2014 Commission audit mission, in 2015, the audit authority carried out two

audits in which it identified various public procurement breaches for which it proposed financial corrections. These corrections involve individual flat rate corrections totalling CZK 41,766,241 (EUR 1,561,551) and have already been implemented. A summary of the results of the audit authority's work was submitted to the Commission in January 2016.

The audit authority will have to provide in March 2017 a closure declaration taking account of all corrective measures being implemented by the managing authority for the Integrated OP arising from all related audit work, including that of the SAO. The Commission will verify in the programme closure documents that appropriate follow-up, including if necessary additional financial corrections, have been given to the Czech SAO findings.

The Czech Republic was considered not to fulfil the ex-ante conditionality for public procurement, and for this reasons an action plan was designed in 2014. According to the action plan and in line with Directive 2014/24/EU, the Czech Republic was obliged to:

- Launch the National Electronic Tool (NET) on 1 October 2015; and
- The Czech Government to decide on the obligation of individual types of contracting authorities to use the National Electronic Tool.

The Member State recently provided its conclusion to the implementation of the action plan. The Commission is currently assessing the fulfilment of the public procurement ex ante conditionality on the basis of the documents recently submitted by the Czech Republic. The Commission will inform the Czech authorities about the result of this assessment in the first quarter of 2017.

39. How does the European Commission ensure that the EU funds expenditures were spent in line with the EU - Czech Republic Partnership agreement 2014 - 2020, in particular in line with the obligation to disclose and evidence the ownership structure of EU funds recipients up to their beneficial owner? A study from the centrum of Excellence for Good Governance of October 2016 revealed that around 27 % of regional funds recipients in the Czech Republic during the period 2007 - 2013 had an anonymous owner.

- If the recipients of EU funds in the Czech Republic have not disclosed and evidenced their ownership structure up to the beneficial owner before receiving EU funds, will the Commission insist on returning the grants back to the EU? Or will the Commission consider grants to such recipients with non-verified structures up to the beneficial owners as eligible and, therefore, spent in line with the EU - Czech Republic Partnership agreement?
- Which concrete measures has the Czech Republic taken since 2014 following the requirement in the EU - Czech Republic Partnership agreement 2014 - 2020 to disclose and evidence ownership structures up to the beneficial owners to ensure that EU funds are not paid to recipients with anonymous ownership structure and/or beneficial owners?

Commission's answer:

The Partnership Agreement 2014 – 2020 signed between the European Commission and the Czech Republic reads as follows: "*with respect to the transparency principle and to prevent potential conflict of interests, applicants will be obliged to disclose their ownership structure based on the proportionality principle according to the methodological guideline specifying the area of financial flows when submitting their grant applications or during the project selection process. Applicants at risk of conflict of interests or who will not be able to prove their ownership structure will be excluded.*" Therefore the Partnership Agreement provides a clear position for the exclusion of 2014-2020 applicants that have not evidenced their ownership structure up to the beneficial owner before receiving EU funds.

The Czech Republic acknowledges the requirement regarding the disclosure of ownership structure, taking also account of the principles of proportionality, non-discrimination and equal treatment of applicants for public subsidy.

As requested by the Partnership Agreement, according to the Methodological Guidance on Financial Flows for 2014-2020 programming period issued by the Payment and Certifying Authority, as amended in August 2016, all applicants not having the form of a natural person or public body, are since the calls for proposals launched in September 2016 required to disclose all their beneficial owners (within the meaning of the national Anti-Money Laundering law implementing the Anti-Money Laundering Directive). Thus each managing authority shall assure that any applicant, who is not a natural person or a public body, submits together with its application a list of its beneficial owners as defined by the national Anti-Money Laundering law. Any applicant or beneficiary is also obliged to provide full supporting documents and evidence concerning its beneficial owners at any time at the request of the managing authority, the payment and certifying authority, the audit authority, the European Commission or the European Court of Auditors. Any beneficiary is obliged to report any changes in the list of its beneficial owners without delay to the provider of the grant (the managing authority). Moreover, the above mentioned obligations of the beneficiaries should be stipulated in the respective grant decision/agreement. Also, the amendment to the national Anti-Money Laundering law (No 159/2006 Coll.), which is still under legislative procedure, will enable the managing authority, the payment and certifying authority, the audit authority to use the forthcoming central register on beneficial owners.

As regards the verifications of the ownership structure of beneficiaries, beneficiaries shall thus be able to show their entire corporate structure up to the ultimate beneficial owners. The European Commission asked the Czech authorities to apply a risk-based approach, based on a thorough assessment of the risks and transparent rules when and how the verifications would be applied. In addition, the European Commission has commissioned an anti-fraud study which will include benchmarking of disclosure of the ownership structure of beneficiaries among Member States, including in the Czech Republic.

40. The Court of Auditors found that in the programming period 2007/2013 a significant number of the ERDF financial instruments was oversized. This has meant that in many cases the funds were "frozen" in banks or in financial intermediaries. What controls has the Commission put on to ensure that in 2015, on the 2007/2013 programme period, this issue had been resolved?

Commission's answer:

The European Court of Auditors' annual report presents an average disbursement rate of financial instruments to final recipients under Cohesion Policy of 57% at the end of 2014, which increased to 75% at the end of 2015. The average disbursement rate of 57% at the end of 2014 represented a very heterogeneous situation. In the ECA special report 19/2016, particular attention was drawn to six Member States with a disbursement rate below the average. In all these Member States the disbursement rates increased significantly at the end of 2016. The low disbursement rate at the end of 2014 was a result of a number of factors including the financial crisis, limited experience in some Member States and the late start of some instruments. The Commission considers that the risk of not achieving full disbursement at closure concerns a limited number of financial instruments in a few Member States only.

For those few instruments in some countries with low disbursement rates, continued efforts are needed to speed up implementation. The Commission together with Member States has undertaken in 2015, particularly within the interne TFBI a number of measures to ensure that the remaining investments will reach final recipients on time:

- Improving monitoring of performance by managing authorities and encouraging reallocation of amounts from low performing funds to well performing funds; before the end date of eligibility.
- Encouraging changes to the instruments and financial products in order to adapt them to changing market conditions;
- For long-term investments in urban development or energy efficiency where payments are made gradually with the progress of the projects, a request for reporting of the investment pipeline.

Taking into account the life cycle of definitive financial instruments, an increase is expected in the last years of implementation and a conclusion on the disbursement rates can be fully drawn only at closure.

For 2014-2020 programmes, lessons have been learnt and funds will not be able to be "parked" in over-sized financial instruments, since payments into such funds have to be made in tranches in relation to effective disbursements of the instruments to final recipients. In addition, the requirement for an ex ante assessment prior to the set-up of a financial instrument should ensure that the level of funding planned for a financial instrument corresponds to the objectively evaluated needs of the potential recipients. The Commission will release by end 2016 a report on implementation of financial instruments for 2014-2020, showing that indeed payments into such constituted instruments have been only gradual so far.

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