



# Annual Activity Report 2023

DIRECTORATE-GENERAL REGIONAL AND  
URBAN POLICY

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## REGIO IN BRIEF

The Directorate-General Regional and Urban Policy (REGIO) reports to Commissioner Elisa Ferreira, responsible for Cohesion and Reforms. With approximately 700 staff members, REGIO is composed of seven directorates. The Joint Audit Directorate for Cohesion (DAC) – is shared with the Directorate-General for Employment, Social Affairs and Inclusion (EMPL).

REGIO is guided by the Treaties on the European Union and on the Functioning of the European Union (TFEU). Article 174 provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at **reducing disparities** in the levels of development of the regions and the backwardness of the least favoured ones, and that particular attention is to be paid to rural areas, to areas affected by industrial transition, and to regions which suffer from severe and permanent natural or demographic handicaps.

REGIO manages programmes financed under the **European Regional Development Fund (ERDF)** supporting the Investment for Jobs and Growth and European Territorial Cooperation goals, **the Cohesion Fund (CF)** and the **Just Transition Fund (JTF)**. Thanks to the alignment of investments to EU-wide priorities, concentration on less developed and transition regions, multiannual programming, the place-based approach, multi-level governance and interregional cooperation, the cohesion policy investments bring strong European added value. The funds were reinforced by the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), financed under NextGenerationEU, to support crisis repair measures. The **European Union Solidarity Fund (EUSF)** grants financial assistance, mainly in the event of major natural disasters. The **Brexit Adjustment Reserve (BAR)** provides support after the withdrawal of the United Kingdom from the EU.

REGIO also manages: the cross-border components of the **Instrument for Pre-accession Assistance (IPA-CBC)** on EU support for reforms in accession countries; the cross-border components of the **European Neighbourhood Instrument (ENI-CBC)** facilitating cross-border cooperation with neighbouring countries; **Urban Innovative Actions (UIA)** and the **European Urban Initiative (EUI) for the 2021-2027 period**, identifying and implementing highly innovative projects in cities. Furthermore, REGIO manages the third pillar of the Just Transition Mechanism (JTM) - the **Public Sector Loan Facility (PSLF)** and a new **Interregional Innovation Investment Instrument (I3)**. REGIO is among the lead services implementing the **New European Bauhaus (NEB)** initiative.

Regional and urban policy is implemented under different management modes:

- **Shared management** (ERDF, CF and JTF; BAR; EUSF; IPA-CBC; ENI-CBC): the co-legislators adopt the legal framework and overall funding. The Commission adopts programmes and cooperates with Member State administrations who are in charge of implementation. Specific implementation mechanisms apply to the EUSF and BAR. 99.5% of all REGIO expenditure is channelled through this management mode.
- **Indirect management** (mainly UIA and EUI): funding is managed by partner organisations or other authorities.
- **Direct management** (technical assistance; 3<sup>rd</sup> pillar of the JTM; I3): EU funding is managed directly by the Commission.

# EXECUTIVE SUMMARY

## A. Key results and progress towards achieving the Commission's general objectives and department's specific objectives

This annual activity report is a management report of the Director-General of REGIO to the College of Commissioners. Annual activity reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties <sup>(1)</sup>.

Over the last decades, cohesion policy has invested in reducing the disparities among Member States and their regions and in the structural transformation of their economies. Thanks to cohesion policy's specific features such as multiannual programming, place-based approaches, multi-level governance and interregional cooperation, the supported investments bring strong European added value, while respecting the principle of subsidiarity.

2023 was again challenging in the aftermath of the multiple crises of the past years. Cohesion policy continued to be the convergence engine of the EU and the stabilising force contributing to Europe's response to the crises. Without cohesion policy, the already existing disparities would have been further exacerbated. After COVID-19, almost all regions returned to their pre-pandemic GDP. The **extraordinary measures** taken by the Commission and the **flexibility** were crucial and to the benefit of the regions, cities and ultimately to the European citizen. EUR 24 billion of emergency support was made available under the Coronavirus Response Investment Initiative(+) or CRII(+), EUR 1.7 billion under Cohesion's Action for Refugees in Europe (CARE) and Flexible Assistance to Territories (FAST-CARE) and EUR 4 billion under Supporting Affordable Energy (SAFE). At the same time, REGIO did not lose sight of the long-term transformation purpose of its policy, which remained its main focus and continued to insist on compliance with all applicable rules.

The **2014-2020 programmes** had until the end of 2023 to deliver the remaining investments and are preparing for **closure**. The 2014-2020 **absorption rate** in terms of net payments for the European Regional and Development Fund (ERDF) and the Cohesion Fund (CF) reached **91.7%** and is even higher than in the previous period at the same time (88.9%). The one-year extension of the closure deadlines by the Regulation establishing the **Strategic Technologies for Europe Platform** (STEP) should further decrease the decommitment risk and ease the administrative capacity needs at closure, while ensuring Member States carry out robust controls before certifying the last set of accounts and confirm the regularity of expenditure for previous years as well, when necessary. **STEP** will also allow for cohesion policy support to reduce strategic dependencies across EU regions and to promote take up of critical technologies. The closure documents including the last set of accounts shall be submitted by February 2026.

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<sup>(1)</sup> Article 17(1) of the Treaty on European Union.

Despite the late start, the **2021-2027 programmes** are now up and running. All Member States have launched calls for projects. REGIO worked hand in hand with the Member States and regions to help speed up implementation. The total payments from the Commission to the Member States amount to **EUR 14.6 billion** <sup>(2)</sup> as of April 2024.

REGIO again achieved full budgetary execution, thanks to a very effective mobilisation across the DG in the last weeks of the year.

In December 2023, the amended Commission proposal for a European Parliament and Council Regulation on **Facilitating Cross-Border Solutions** was adopted by the College paving the way to have in place a mechanism to resolve legal and administrative obstacles in cross-border contexts.

At the initiative of Commissioner Ferreira, in January 2023 the Commission established the **Group of high-level specialists on the future of cohesion policy**, which reflected on how to maximise the effectiveness of the policy with a view to tackling the multiple challenges of territorial and social cohesion through regional long-term sustainable growth and fair digital and green transition. The group published its strategic conclusions and recommendations in February 2024. Shortly after, the Commission adopted the **9th Cohesion Report** in March 2024 providing not only analytics on the state of play on cohesion in the Union but also issues for reflection on the future cohesion policy.

The coordination between cohesion policy and the **Recovery and Resilience Facility (RRF)** continued in the past year. REGIO supported ECFIN and RECOVER in ensuring that complementarity and synergies between cohesion policy and the RRF materialise during implementation and in addressing the issues related to risks of fraud, corruption, conflicts of interest and double funding.

REGIO continued to reinforce its contribution to the **European Semester**. One of the Country-specific recommendations of the 2023 semester cycle recommended to accelerate the implementation of the RRF and cohesion policy programmes. REGIO also published a Staff Working Document (SWD) on “Regional Trends for Growth and Convergence in the European Union” providing an analysis of the main regional disparities and drivers for productivity and competitiveness, making the case for a reinforced regional dimension of the European Semester.

In 2023, **over EUR 750 million** of EUSF assistance was provided following devastating floods in Italy, Belgium and Germany and the drought in Romania.

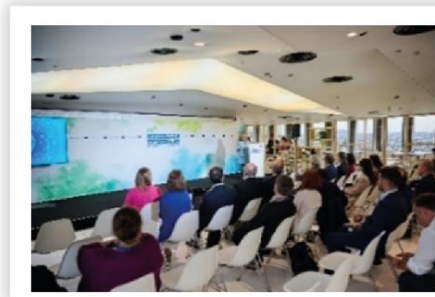
REGIO undertook external **communication actions** at various levels, aimed at European citizens to showcase the contribution of cohesion policy to the delivery of the Commission’s political priorities. Two flagship communication events were organised. The 21<sup>st</sup> edition of the **EU Regions Week**, the largest EU annual event dedicated to regions, cities and European cohesion gathered 12,000 participants in October. The 5<sup>th</sup> **Cities Forum** on the topic ‘Together for green and just cities’ was held in Torino in March with more than 1,300 participants.

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<sup>(2)</sup> ERDF, CF and JTF



## EXTERNAL COMMUNICATION ACTIONS



REGIO also undertook external **communication actions** aimed at European citizens to showcase the contribution of cohesion policy in the delivery of the Commission's political priorities, including several high-level events with the participation of Commissioner Ferreira. For example, the 5<sup>th</sup> **Cities Forum** on the topic 'Together for green and just cities' was held in Torino in March. It engaged 99 speakers from NGOs, EU programmes, and academia and more than 1,300 participants. Seven **#EUinmyregion** local campaigns and six **#EUinmyschool** partnerships were organised. **Kohesio**, the EU cohesion projects database had 1.4 million page visits. REGIO received over 250 applications for the **Youth4Regions** project for aspiring journalists. The 21 **Smart regions** TV episodes of 2023 reached 11.6 million people. Trainings for communication officers were followed by over 2,500 persons. The 2023 edition of **RegioStars** attracted a record number of applications and the six winners were announced in November in Ostrava, Czechia, with the attendance of Commissioner Ferreira. The 21<sup>st</sup> edition of the **EU Regions Week**, the largest EU annual event dedicated to regions, cities and European cohesion in October gathered 12,000 participants (physically and online) and scored a 93% satisfaction rate. The **Annual Interreg event** took place in October in Santiago de Compostela and was also attended by Commissioner Ferreira. In addition, the ENI CBC **Interreg NEXT annual conference** on the cooperation with neighbouring countries on EU external borders was held in October. In the same month, the **International Urban and Regional Cooperation (IURC) annual event** allowed to showcase and exchange on experiences and cooperation. REGIO also communicated via traditional and social media on the **flexibilities in the use of cohesion funding** to support refugees, EU governments and regions directly impacted by Russia's war of aggression against Ukraine. The **EU Week of Macro regional Strategies** took place in April in Brussels, also in the presence of Commissioner Ferreira.

## B. Key performance indicators

Progress continued on key policy performance indicators (KPI) <sup>(3)</sup>. REGIO's online [Open data platform](#) <sup>(4)</sup> offers data on implementation of cohesion investments, reported by Member States. ERDF, CF, JTM and BAR specific performance data can be found in the platform and in the respective **Programme Performance Statements**. REGIO has defined the below KPIs in its Strategic Plan 2020-2024.

### Note on the interpretation of targets and achievements (KPI charts below)

Performance information is transmitted by Member States once per year in the 2014-2020 Annual Implementation Reports (AIR). The KPI data presented below relates to the end of 2022. 2023 data will be submitted to the Commission by the end of May 2024.

**Reported achievements** (left side of the bar charts): when implemented, the actual achievements are reported to the Commission.

**Forecasted achievements** (right side of the bar charts): select projects which will deliver at the latest by end of the period (2023).

**Target** (vertical line): the programmes set targets to deliver on by the end of the programming period.

**KPI 1** – The proportion of **climate-related over total spending** <sup>(5)</sup> is close to 20%.

<b>General Objective 1 – A European Green Deal</b>	
<b>Specific Objective 1.1 – Investments in a climate-neutral, clean and circular economy for regions and cities to reach sustainability</b>	
<b>KPI 1</b> Proportion of climate related investments over total ERDF/CF allocation <sup>(6)</sup> <i>Source: REGIO Climate tracking</i>	<b>19.6%</b> (2023) Target 2024: 20%

**KPI 2** - The number of **enterprises receiving support** is above its target of 2.2 million.

<b>General objective 2 – A Europe fit for the digital age</b>									
<b>Specific Objective 2.2 – Innovative and smart economic transformation across the EU</b>									
<b>KPI 2</b> Number of enterprises receiving support <i>Source: 2014-2020 common indicator 1</i>	<table border="1"> <thead> <tr> <th></th> <th>End-2021</th> <th>End-2022</th> <th>TARGET</th> </tr> </thead> <tbody> <tr> <td></td> <td>2,054,213</td> <td>2,490,551</td> <td>2,200,000</td> </tr> </tbody> </table>		End-2021	End-2022	TARGET		2,054,213	2,490,551	2,200,000
	End-2021	End-2022	TARGET						
	2,054,213	2,490,551	2,200,000						

**KPI 3** – Investments in **health and social care, education, skills and housing** progressed by 15%.

<b>General objective 3 – An economy that works for people</b>									
<b>Specific Objective 3.4 – Investments in health and social care, education, skills and housing to help address demographic change and social and territorial inequalities and to enhance quality of life</b>									
<b>KPI 3</b> Population covered by improved health services <i>Source: 2014-2020 common indicator 36</i>	<table border="1"> <thead> <tr> <th></th> <th>End-2021</th> <th>End-2022</th> <th>TARGET</th> </tr> </thead> <tbody> <tr> <td></td> <td>59,572,948</td> <td>68,525,492</td> <td>72,198,441</td> </tr> </tbody> </table>		End-2021	End-2022	TARGET		59,572,948	68,525,492	72,198,441
	End-2021	End-2022	TARGET						
	59,572,948	68,525,492	72,198,441						

<sup>(3)</sup> Reported achievements linked to CF and ERDF programmes.

<sup>(4)</sup> Figures are constantly updated and may differ from the ones in this report.

<sup>(5)</sup> Decided amounts 2014-2020

<sup>(6)</sup> Envelope for climate-related selected projects (EUR 57 billion) in % of total ERDF (incl. REACT-EU) and CF resources decided (EUR 291 billion).



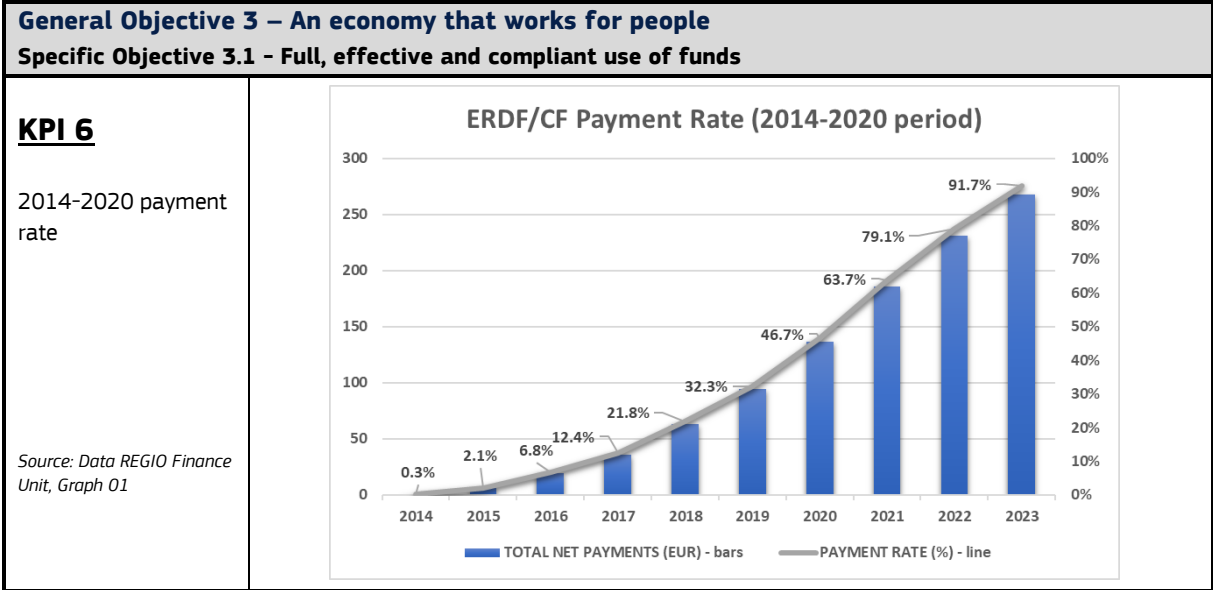
**KPI 4** - The number of additional **households with broadband access** increased by 5%.

General objective 2 – A Europe fit for the digital age	
Specific Objective 2.2 – Innovative and smart economic transformation across the EU	
<p><b>KPI 4</b></p> <p>Additional households with broadband access</p> <p>Source: 2014-2020 common indicator 10</p>	<p>TARGET</p>

**KPI 5 - The residual total error rate for 2014-2020 programmes in shared management is material, at 2.1%** but with a maximum of 3.0% due to possible further risks under investigation by REGIO and a prudent assessment for programmes for which Member States' audit results were subject to Commission desk reviews only. REGIO will identify the programmes where the level of irregularities remains material, apply additional corrections and ensure a residual risk below 2% for all programmes (risk at closure – after all corrective actions will be implemented - estimated at 1.3%).

General objective 7 – Modernising the administration		
Sound financial management		
<p><b>KPI 5</b></p> <p>Residual total error rate in shared management (2014-2020) <sup>(7)</sup></p> <p>Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2021-2022 (programmes 2014-2020)</p>	<p><b>Target</b></p>	<p><b>Latest confirmed results AAR 2023</b></p>
	<p>&lt; 2%</p>	<p><b>2.1%</b> <b>up to 3.0%</b> (max. risk)</p>
<p>Estimated risk at closure (2014-2020) <sup>(8)</sup></p> <p>Source: See section 2 of this report on the calculation</p>	<p>&lt;2%</p>	<p><b>1.3%</b></p>

**KPI 6** – The **payment rate** <sup>(9)</sup> for 2014-2020 programmes has further increased in 2023. The payment rate stands at 91.7% at end-2023.



<sup>(7)</sup> = estimated risk at payment  
<sup>(8)</sup> Estimated risk at closure for 2014-2020 ERDF/CF programmes = residual total error rate - necessary financial corrections to bring every remaining programme residual total error rate down to 2%  
<sup>(9)</sup> Total net payments (all pre-financing + interim payments, after recoveries)



## C. Key conclusions on internal control and financial management

In line with the Commission's Internal Control Framework, REGIO has assessed its internal control systems during the reporting year and has concluded that they are effective, and the internal control components and principles are present and functioning well overall. However, some improvements are needed as deficiencies were identified related to control principle 1, notably as regards ethics and anti-fraud awareness; principle 3, in relation to the satisfaction of staff with their managers; and principle 5 on accountability of individuals. Remedial measures are an intensified focus on ethics and anti-fraud awareness in the newcomers training and setting-up individual objectives for staff by their managers in the Commission's Internal HR system. Refer to section 2.3 for further details.

In addition, REGIO has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Refer to section 2 of this AAR for further details.

For each programme under shared management <sup>(10)</sup>, REGIO carried out an individual assessment of the effectiveness of the management and control systems and of the legality and regularity of expenditure in the accounts accepted in the reporting year. This approach allows **to report a differentiated situation on the assurance obtained and individual risk rates confirmed for each programme** by identifying which programmes function well, which still present deficiencies and what type of remedial actions are needed, and for which programmes further financial corrections are necessary or likely based on possible additional risks under assessment.

Based on a review of all available audit results and a programme-by-programme analysis, REGIO concludes that:

All **2007-2013 programmes** are closed or pre-closed except one ERDF one. For pre-closed programmes, the contested expenditure under correction procedures launched by the Commission or in litigation at national level is under control and will not be reimbursed as long as no final decision is taken.

For the **2014-2020 programmes**

- REGIO has robust audit evidence showing **a differentiated situation for its 319 programmes** <sup>(11)</sup>: the confirmed individual residual error rate (at this stage of the audit cycle) is below materiality for 271 programmes, but still above for 48, despite the different control layers and corrections applied at Member States' level. For these programmes REGIO will apply additional financial corrections so that ultimately the 'risk at closure' for all 2014-2020 programmes is below 2%.

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<sup>(10)</sup> 99.5% of the relevant expenditure in the reporting year.

<sup>(11)</sup> Including 15 ENI-CBC Programmes

- Based on this, the residual total error rate (risk at payment - KPI 5) is **2.1%** for the 2023 expenditure for shared management, at this stage of the control cycle <sup>(12)</sup>, **with a maximum of 3.0%** due to further risks under analysis. Therefore, material irregularities remain in the expenditure certified to the Commission for ERDF/CF in the accounts accepted in 2023. The increase compared to last year (1.9%-2.7%) is mainly due to the impact of two programmes with high amounts certified (4.4% of total certified expenditure in the year) and deficiencies found in management verifications (significantly increased individual error rates for these two programmes compared to previous year).
- Currently, the estimated '**risk at closure**' is **1.3%**. For all previous accounting years, based on the additional audit work and additional financial corrections requested by the Commission and accepted by the concerned programme authorities, the risk at closure is confirmed to be below 2%, as per the estimate. This reflects cohesion policy's multiannual corrective capacity mechanism.
- Moreover, based on all available audit results, REGIO has reasonable assurance that the management and control systems function (sufficiently) well for **297 ERDC/CF programmes** (7% on absolute terms) but present serious deficiencies for 21 programmes (representing 10% of expenditure certified in the 2022-2023 accounts). The situation is thus positive for 93% of programmes where errors were prevented or detected through the effective functioning of existing management and control systems. Some errors however remain undetected at Member State level for programmes with weaknesses. These occurred mainly in managing authorities (MAs) or their intermediate bodies (IBs, deficiencies in management verifications, the first level controls) and in **eight audit authorities (AAs) or their control bodies** (second level of controls) in charge of auditing 3.9% of ERDF/CF expenditure, for which identified weaknesses question the reliability of the reported audit results. Annexes 7C and 7D present these programmes and authorities.

For the **2021-2027 programmes**, REGIO reimbursed expenditure in 2023 to 27 programmes, for which it assessed that management and control systems functioned effectively. The risk of underlying transactions (flat rate when no audit result was yet available) was under 5% in all cases and therefore covered by the 5% payment retention foreseen in the CPR. The risk at payment <sup>(13)</sup> for 2021-2027 programmes is estimated at 0.26%. Deficiencies identified in the functioning of 2014-2020 management and control systems carried over in the 2021-2027 period <sup>(14)</sup> are closely monitored until the obtention of complete audit opinions and error rates in 2025. Letters of corrective measures and need for special attention were sent to seven programmes.

Based on its anti-fraud strategy, REGIO applies **a zero tolerance to fraud and corruption**. It verifies the functioning of anti-fraud measures (programmes under closer monitoring and action plan in 6 cases) and measures to prevent conflicts of interest in the programmes it supports and takes conservatory measures (payments interruption) each

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<sup>(12)</sup> National and European Commission audits carried out, audit conclusions finalised or under contradictory and resulting financial corrections applied at national level in some cases.

<sup>(13)</sup> For the first year, in the absence of confirmed audit results, the risk at payment is calculated based on the reportable error rate weighted by the relevant expenditure.

<sup>(14)</sup> Independently from whether expenditure was already declared and paid in 2023 or not.

time fraud suspicions are reported / are under investigation (active cooperation with OLAF and EPPO, see section 2.1.1 b).

In conclusion, REGIO management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and tools are in place to apply additional financial corrections to protect the EU budget during the multi-annual programming period, as needed. This also includes direct and indirect management modes.

The Director-General, in her capacity of Authorising Officer by Delegation, has signed the **Declaration of Assurance**, albeit **qualified by two reservations**:

1. a reservation concerning management and control systems of the **2014-2020** period for **38 ERDF/CF programmes** (in 16 Member States, and the UK), of which 9 ETC.
2. a reservation concerning management and control systems of the **2021-2027** period for **5 ERDF/CF/JTF programmes** (in 4 Member States).

Improvements are necessary concerning the programmes at stake, namely in the effective functioning of their management and control systems, at the level of MAs or their IBs or of the AAs, and in the corrective capacity of certain programmes. The following actions are being taken in this respect: for each of the deficiencies identified, REGIO requires remedial actions to improve the functioning of the (part of the) system with a view to prevent irregularities from reoccurring and requested additional financial corrections for past expenditure declared, including to bring the level of residual error to below 2%, where necessary, to protect the EU budget. Reservations in this report are made in line with applicable criteria (presented in Annex 5) and are only lifted once sufficient corrective measures have been taken (72% of reservations are lifted in less than two years following active corrective measures put in place). Refer to section 2.1 for further details.

## **D. Provision of information to the Commissioner**

In the context of the regular meetings during the year between REGIO and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Ferreira, responsible for Cohesion and Reforms.

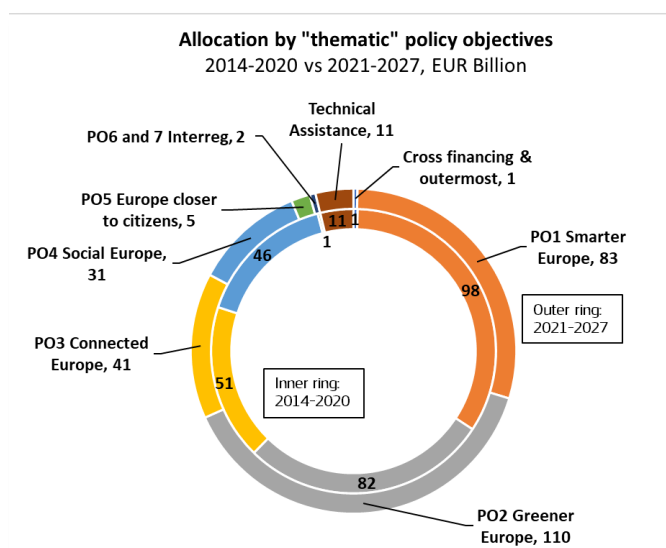
# 1. KEY RESULTS AND PROGRESS TOWARDS ACHIEVING THE COMMISSION'S GENERAL OBJECTIVES AND SPECIFIC OBJECTIVES OF THE DEPARTMENT

## 1.1. Achieving the priorities - delivering cohesion

Cohesion policy **reduces the economic and social disparities** by investing in infrastructure, innovation, education, and other key areas. The policy helps less developed regions directly and all other regions indirectly to reap the benefits and economies of scale created by the Single Market and by international competition.

During the two last decades, EU regions have achieved remarkable convergence. Member States who joined the EU in 2004 have seen, on average, their **GDP per capita increasing from 52% of the EU average in 2004 to nearly 80% in 2021**. At the same time their unemployment rate has dropped from 12.8% to 4.4%.

All regions benefit from cohesion policy. Every euro spent in the 2014–2020 period is estimated to generate a return of **almost EUR 3 in the form of additional EU GDP** <sup>(15)</sup>. According to model simulations, GDP per capita of less developed regions is higher by more than 3% in 2023 thanks to the 2014-2020 programmes. Yet, less developed regions are not the only beneficiaries of the policy. Economic and social impacts cover all the EU, including more developed regions, as a result of the strong positive spillovers generated by the programmes implemented in less developed regions.



Cohesion policy continued throughout 2023 to contribute to the Commission's priorities through investments in key policy areas. 2023 was the final year of implementation for the 2014-2020 programmes. In parallel, 2021-2027 investments have started.

REGIO manages the total available EU envelope allocated under the ERDF, Interreg and CF in 2014-2020 programmes which amounts to more than EUR **291 billion** (including the additional REACT-EU financing in 2021-2022). In the 2021-2027

period the allocation to ERDF, Interreg, CF and JTF is EUR **284 billion**. <sup>(16)</sup>

<sup>(15)</sup> Model simulations for the 2014-2020 ex-post evaluation. Exactly EUR 2.9, 15 years after end of period.

<sup>(16)</sup> EU contributions only

The implementation of the **2014-2020 programmes** progressed well. Payments of EUR **44.5 billion** were made during 2023 and as a result, the payment rate reached **91.7%** of the combined ERDF and CF allocation. The extension of the closure deadlines by one year by the Regulation establishing Strategic Technologies for Europe Platform (STEP) will further decrease decommitment, ease the administrative needs at closure and ensure the robustness of checks to be applied to the last accounts and expenditure of previous accounting years.

REGIO continued its **assessment of performance** of the 291 ERDF and CF funded 2014-2020 programmes through the Annual Implementation Reports, including the check on the plausibility and consistency of data. Based on the overall assessment of programmes, 75% were assessed as good or acceptable; 59 were placed under close monitoring, with corrective actions decreasing the risks.

As regards **reliability of performance data** <sup>(17)</sup>, any deficiencies are closely followed up and can lead to a suspension of interim payments. No such procedure was launched in 2023. AAs carry out system audits on key requirement 6 and audit the reliability of indicators as part of representative samples of operations. The Commission tests these verified indicators during its re-performance audits. As of 2019 the AAs systematically report these results in the annual control reports. The 2014-2020 Closure guidelines contain obligations with regard to performance data reliability at closure and the related reporting expected in the AAs' final annual control reports.

Despite the late start, all 287 REGIO-led ERDF, CF and JTF funded **2021-2027 programmes** are now fully up and running. All Member States have launched calls for projects. REGIO worked with the Member States and regions to help take implementation forward. The total payments from the Commission to the Member States amount to EUR **14.6 billion** as of April 2024.

The **Performance Action Plan for 2021-2027** builds upon the previous strategy with the aim to enhance the performance culture in shared management and addresses the reliability of performance data specifically. Additionally, the frequency of reporting has increased to twice a year and Member States submit their financial data five times a year.

In January, the **Group of high-level specialists on the future of cohesion policy** was established, to reflect on how to maximise the policy to tackle the challenges of cohesion and supporting a fair digital and green transition and regional recovery and growth. The group published its strategic conclusions and recommendations in February 2024.

## **1.2. Response to crisis and unprecedented situations**

The **Coronavirus Response Investment Initiative** CRII(+) helped to overcome the impact of the COVID-19 pandemic. Member States were given several flexibilities to adapt their programmes, resulting in the redirection of close to EUR **24 billion** of cohesion policy funds. To bridge the gap between initial crisis response and longer-term recovery, the Commission reinforced the existing 2014-2020 cohesion policy programmes with EUR **50.6**

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<sup>(17)</sup> Also refer to [“Criteria for a strengthened common control approach on the reliability of performance information on EU financial programmes”](#)

**billion** (in current prices) of **REACT-EU** resources from the NextGenerationEU. In less than two years, the full amount has been used to reinforce cohesion policy programmes, of which almost EUR 30 billion through ERDF.

The **FAST-CARE** initiative played a crucial role in helping Slovakia to tackle the humanitarian crisis and suffering arising from the consequences of Russia's war of aggression against Ukraine. More than EUR 300 million has been activated to help with the reception and housing of war refugees. The initiative covered the costs of transport services, psychological and medical help. Moreover, Ukrainian pupils received vouchers to purchase IT equipment to speed up their integration into the Slovak education system.

To help deal with refugees fleeing Russia's war of aggression against Ukraine, the Commission has proposed the **Cohesion's Action for Refugees in Europe (CARE)** allowing more flexibility, more liquidity and simplified procedures. It was soon reinforced by CARE (+) which disbursed additional liquidity to the Member States from the REACT-EU funds and **Flexible Assistance to Territories (FAST-CARE)** focusing on administrative simplifications, increased flexibility and increased pre-financing. The additional liquidity amounts to about EUR **13.6 billion**, while concrete measures worth around EUR **1.7 billion** have so far been mobilised for accommodation, healthcare,

employment orientation, medical, social and psychological support.

In addition, the Commission continued to tackle the energy crisis resulting from Russia's war of aggression against Ukraine through amendments to the 2014-2020 cohesion policy framework - **Supporting Affordable Energy (SAFE)** - in the context of REPowerEU. The Regulation entered into force on 1 March 2023. SAFE has so far released around EUR **4 billion** in 11 Member States to support vulnerable households and SMEs affected by energy price increases as well as short-time work and equivalent schemes, with 100% EU co-financing.

REGIO leads the implementation of the **European Union Solidarity Fund (EUSF)**, granting financial assistance to Member States and accession countries in the event of major natural disasters. REGIO paid over EUR **750 million** for the floods in Italy, Belgium and Germany and the drought in Romania. The Commission also received a new application from Türkiye related to the earthquakes of February, from Italy following the floods in the Emilia Romagna region in May, from Slovenia and Austria regarding floods in August and from Greece related to the floods in September.

The **Brexit Adjustment Reserve** (EUR 5.5 billion in current prices) is a temporary instrument aiming to provide support to Member States to alleviate the challenges of Brexit. In 2023 the disbursement of the third instalment of pre-financing was made to 24 Member States. 23 Member States used the possibility of transfers from BAR to the REPowerEU chapter of RRF and submitted requests reaching EUR 2.1bn.



## 1.3. General objectives

### 1.3.1. General objective 1: A European Green Deal



REGIO manages one of the biggest EU investment sources for Europe's ambitious energy and climate policies, supporting regions and cities to reach the targets of climate neutrality and circular economy by 2050 and contributing to a just transition, also in line with the objectives of the EU's Recovery plan.

Investments in **climate action** are expected to represent EUR **58 billion** in 2014-2020 programmes. During 2021-2027, the amount dedicated to a greener Europe, doubles to EUR **127 billion** illustrating the importance attached to the European Green Deal. Of this, a significant proportion (EUR 44 billion) will be dedicated to the energy transition. Additionally, a total EUR 3.4 billion investments in green technologies will be delivered by ERDF and JTF to promote energy efficient households, affordable clean energy and a more sustainable use of water resources. They will also increase resilience to adverse impacts of climate change and will facilitate the transition to the circular economy.

The ERDF-financed [OFIDIA2 project](#) is helping to save property and lives threatened by an increasing number of forest fires in the Mediterranean region's hot and dry summer months. A network of high-definition cameras, sensors and weather stations connected to control rooms covers 100 hectares of forest in Apulia. In Greece, cameras, drones and two off-road vehicles watch over more than 15,000 km<sup>2</sup> of forest in Epirus.

#### **Impact of the policy**

- *2014-2020: some 14 million people are gaining access to new or improved water supply. Around 70% of the beneficiaries live in Romania, Greece, Portugal, Bulgaria and Czechia.*
- *2014-2020: an additional 19 million people are benefiting from new or improved wastewater treatment. Nearly 60% of the targeted beneficiaries live in Spain, Italy and Poland.*
- *2021-2027: REGIO will continue to support projects in wastewater treatment to cover over 13 million additional people. Investments will provide additional recycling capacity for more than 11 million tonnes of waste.*



REGIO contributed with commitments on new initiatives such as technical assistance for regional energy agencies ([Cohesion for Transitions Community of Practice](#)). ERDF and CF provide significant EU funding to **energy efficiency** and renewable energy. In 2014-2020 about EUR 30 billion are invested into the energy transition. For 2021-2027 about EUR 43 billion will be invested.

REGIO contributed to the design and implementation of actions of the **New European Bauhaus (NEB)**. 24 Partnership Agreements and 225 programmes across all Member States now include commitments to the NEB. By the end of 2023, a total of EUR **148 million** is envisaged in calls for the NEB under 2021-2027 programmes. REGIO organised the **NEB Prizes** in June 2023, recognising exemplary projects and fresh ideas reflecting the NEB values.

In addition, with a budget of EUR **65 million**, the projects from the first Innovative Action call of the European Urban Initiative serve as NEB demonstrators to drive positive change in local communities and beyond. In addition, REGIO designed tools and tailored assistance to facilitate the mainstreaming of the NEB. Technical assistance was offered to 20 local authorities to develop NEB projects.

The [Pelgulinna state gymnasium](#) in Tallinn was opened in September 2023. The building followed the principles of sustainable architecture, inclusiveness and aesthetics in line with the New European Bauhaus and the main building material used was local wood. The school has capacity for around 330 pupils. The ERDF provided EUR 28 million in funding (the total budget was EUR 33 million).

ERDF and CF support to the renovation of buildings will continue to be a key priority, in particular as regards the energy efficiency in buildings.

#### **Impact of the policy**

- *2014-2020: energy savings of 6,300 GWh/year in supported public buildings. These savings are equivalent to the annual consumption of around 500,000 households.*
- *2021-2027: ERDF and CF will continue to support projects in the area of renewable energy capacity by nearly 9,600 MW.*

[Brăila suspension bridge](#) in Romania connects the Black Sea ports and the Danube delta with the rest of the country and with the wider Trans-European Transport Network. Cohesion policy funds contributed EUR 363 million to this project. It is expected to cut travel time by around 50 minutes and to be used by around 11,400 vehicles a day.

CF and ERDF modernise European **Network Infrastructures in Transport and Energy** systems, creating a more connected Europe and adapting it to new challenges for sustainable and smart mobility and energy supply. EUR **67 billion** are allocated to 2014-2020 programmes to address these priorities. The 2021-2027 programmes will invest up to EUR **53 billion** in a more connected Europe plus EUR **7 billion** in smart energy systems.

#### **Impact of the policy**

- *2014-2020: some 5,000 km of new, reconstructed or upgraded rail track are being delivered across Europe, of which 65% in Poland, Spain, Italy and Hungary.*
- *2021-2027: green investments will continue to boost a climate-friendly mobility with better railway connections, sustainable urban mobility and new cycling infrastructures. investments will also support the REPowerEU objectives, including decarbonisation and energy transition through energy saving, development of renewable energies, energy storage, hydrogen or green infrastructures.*

2023 saw the launch of REGIO's new Smart Specialisation Strategy (**S3**) **Community of Practice** (CoP), bringing together policy makers and practitioners to strengthen regional innovation and economic development through smart specialisation. The [Barcelona S3 Forum](#) welcomed 400 participants.

REGIO ensures a just transition towards climate neutrality in Member States and regions. The **Just Transition Fund** (JTF) will invest EUR **19.2 billion** in territories most affected by the transition based on the 70 Territorial Just Transition Plans (TJTP) covering territories in 96 regions. The last TJTP (Bulgaria) was adopted in 2023. The investments are aimed at reskilling and retraining of workers, creation of new jobs, diversification of local economies and revitalisation of former mining sites.

The **Just Transition Platform (JTP)** continues to provide support to JTF territories through a single access point and helpdesk for stakeholders, technical and advisory

support, the establishment of project and expert databases and the organisation of two events a year. The JTP has provided support to nine JTF regions in six Member States and seven JTPeers exchanges took place in nine regions.

The third pillar of the Just Transition Mechanism, **Public Sector Loan Facility**, addresses the socio-economic challenges of the transition to climate neutrality. REGIO is responsible for the grant component, delegating the implementation to the European Climate, Infrastructure and Environment Executive Agency (CINEA). The European Investment Bank (EIB) is responsible for the loan component and provides advisory services via the InvestEU Advisory Hub to applicants. Projects have been selected for funding in economic diversification, sustainable mobility, energy efficiency, culture and tourism.

In January 2023, the **Cohesion for Transitions (C4T)** Community of Practice was launched, helping local authorities, regions and Member States in implementing investments under Policy Objective 2 “A greener, low carbon transitioning towards a net zero carbon economy” of the 2021-2027 period.

### 1.3.2. General objective 2: A Europe fit for the digital age

Cohesion policy bridges the digital divide, focusing on territories without high-speed connectivity, where digitalisation lags behind and access to public services is difficult. Investments in research and innovation, digitalisation, digital connectivity, competitiveness of SMEs and skills for smart specialisation will be crucial for Member States to stay competitive.

The ERDF has provided support to the CYENS Centre of Excellence in Nicosia, Cyprus. The Centre is an integrator of academic research and industrial innovation with the aim of promoting sustainable scientific, technological and economic growth. It supports innovative start-ups in interactive media, intelligent systems, emerging technologies and art and technology.

More than EUR **16 billion** was invested in digitalisation through the 2014-2020 programmes. Investments in 2021-2027 will help reap the benefits of digitalisation via 144 national and regional programmes with investments reaching nearly EUR **20 billion** supporting the **digital transition**. Over 80% will be dedicated to digital services and digitalisation of businesses. Support to high-speed digital connectivity infrastructures is planned by 15 Member States. Additional support on digital infrastructures is envisaged via the Recovery and Resilience Facility (RRF).

#### **Impact of the policy**

- *2014-2020: an additional 11 million households are getting access to broadband of at least 30 Mbps, of which a majority are in Spain, Italy and Poland.*
- *2021-2027: ERDF and CF will help to provide over 3.1 million additional dwellings and almost 360,000 enterprises with broadband of very high capacity.*

REGIO (in partnership with AGRI and CNECT) runs the **European Broadband Competence Offices (BCO) Network and Support Facility** helping regional and local authorities in designing and implementing broadband connectivity projects, in particular in areas with market failures. Workshops and seminars were held together with CNECT in support of European Digital Innovation Hubs (EDIHs).

**Smart specialisation strategies (S3)** mobilise the innovation potential of EU regions. The **Interregional Innovation Investments (I3) Instrument** connects regions and

addresses the innovation divide, while contributing to the development of new European value chains. Three I3 calls were launched and closely coordinated with DG RTD and the Horizon Europe programme, developing synergies between policies and instruments.

**Thematic Smart Specialisation Platforms** on industrial modernisation, energy and agri-food continued to promote and support some 30 interregional S3 partnerships which connect regions with shared smart specialisation priorities. A platform on blue economy was further developed in 2023, with new partnerships on circular smart aquaculture and Maritime Sustainable Blue Bioeconomy.

The regional Italian ERDF-Sicily programme has contributed EUR 7.5 million to supporting the research infrastructure for the [Mediterranean Institute for Transplantation and Advanced Specialised Therapies](#) (ISMETT), a transplant centre and hospital. SMETT is also involved in research to provide patients with the most advanced therapies for end-stage organ failure.

By the end of 2023, close to EUR **62 billion** were set to be invested from 2014-2020 programmes to strengthen **research, technological development and innovation**. Additional EUR **54 billion** will be dedicated to the policy objective of a smarter Europe in the 2021-2027 programmes.

#### **Impact of the policy**

- *2014-2020: investment in research & innovation is a central objective of ERDF investments: 95,000 researchers are gaining access to improved research infrastructure.*
- *2021-2027: ERDF and CF will continue this trend with a target of creating improved infrastructure for 83,000 researchers annually.*



The ERDF aims at supporting the life cycle of **enterprises** to increase their productivity and competitiveness. To mitigate the impacts of the COVID-19 crisis, SMEs have benefitted from ERDF support to working capital with a combined value of nearly EUR 8.7 billion.

Over EUR **61 billion** from 2014-2020 programmes are being invested in improving the **business environment and entrepreneurship**, while the 2021-2027 period will inject a total EUR **36.5 billion** in **growth and competitiveness**.

#### **Impact of the policy**

- *2014-2020: almost 2.4 million enterprises (mainly SMEs) were targeted for support.*
- *2014-2020: the ERDF investments are planned to generate around 380,000 new jobs. More than 80% are expected in SMEs.*
- *2014-2020: around 230,000 new enterprises are receiving ERDF support to start or grow their business.*
- *2021-2027: ERDF and CF will further support at least 780,000 enterprises.*

The [Sustainable Bottom Line 2.0](#) project received EUR 1.8 million to help SMEs in Denmark with green and circular business development. 80 enterprises developed green and circular business models leading to energy and resource efficiency, improved competitiveness, and enhanced growth potential.

EUR **25.1 billion** of the ERDF and CF allocation for the 2014-2020 period (9%) is invested, with a leverage of four, in projects via loans, guarantees and equity investments funded under **financial instruments** (FI), primarily for SMEs. The FI-compass workplan was implemented and the FI-Campus was held in March.

### 1.3.3. General objective 3: An economy that works for people



REGIO contributes to building a future-proof economy that works for people and delivers stability, jobs, growth and investment. Implementation and delivery of cohesion policy programmes is key to a balanced and fair economic recovery following the recent crises, ensuring long-term development and leaving no person and no region behind.

#### Territorial and urban activities

REGIO promotes integrated territorial approaches in urban and non-urban areas under ERDF and CF programmes. The policy objective 'a **Europe Closer to citizens**' offers support to investment strategies of regions, cities, rural and local communities. More than 2,500 **integrated territorial and local strategies** are planned.



Over the past two decades, cohesion policy provided continuous support to sustainable urban development. In 2021-2027, **cities** are directly responsible for designing and implementing investments for over EUR **36 billion** (increase compared to EUR **21 billion** in 2014-2020 period) based on **sustainable urban development strategies**. Many times, they go beyond the municipal boundaries to overcome fragmentation and ensure a more coordinated action between cities and their adjacent territories.

#### Impact of the policy

- *2014-2020: more than 46 million people live in areas with integrated urban development strategies, over half in France, Germany and Romania. In France and Romania, 23% and 27% respectively of the population are benefiting from these strategies.*
- *2021-2027: 380,000 people will benefit from the inclusion of marginalised populations, mostly in Italy.*

**Urban Innovative Actions (UIA)** allow the Commission in 2014-2020 period to directly support cities to test new solutions to urban challenges with a budget of EUR **372 million**, implemented via indirect management. By the end of 2023, 81 actions were completed.

The implementation of the novel **European Urban Initiative (EUI)** with an initial budget of EUR **450 million** is also advancing well. Launched in 2022, it aims to favour innovation and experimentation, to facilitate exchange of experience and good practices, to provide a single-entry point to EU initiatives and opportunities, and to support administrative capacity. The first call for innovative proposals on the New European Bauhaus was completed in



June 2023, with 14 winners from 21 Member states. The second call closed in October 2023 and generated strong interest with 112 applications from 21 Member States. Several activities were also organised to increase capacity building, a new knowledge sharing and community platform – Portico for sustainable urban development in the EU, was launched in October 2023, and a network of urban contact points has been established across Member States.

REGIO also coordinated the implementation of the **Urban Agenda** for the EU. This is a multi-level working method that aims to better involve cities in the design and implementation of EU and national policies. Two new partnerships on Food and on Cities of Equality were set up in 2023 in addition to two ongoing on Greening cities and on Sustainable tourism.

La Réunion has set up a system of **photovoltaic vouchers** to enable solar installations in private households. The ERDF contributed EUR 5.7 million (almost 85% of the project's budget). The project reduces the carbon footprint and develops a local model of green electricity generation.

REGIO co-leads the delivery of the Communication on a **Long-Term Vision for the EU's Rural Areas (LTVRA)**. Work on the rural toolkit on access to, and combination of EU funding for rural areas was carried out in 2023 in cooperation with JRC. The rural community platform was launched to discuss the future of rural areas.

REGIO steered the implementation of the strategy for the **outermost regions**. REGIO ensured that the outermost regions' specificities were reflected in 25 legislative proposals, decisions, policy initiatives and work programmes, across the Commission and its services. Dialogue with the outermost regions was strengthened, bringing together Commission services and regional administrations to discuss concrete actions. REGIO also created a dedicated advisory tool for the outermost regions, fostered exchanges on climate action and on culture, organised workshops on EU programmes and launched a study on access to basic needs in these regions.

### Cooperation across borders

The four **EU Macro-regional strategies (MRS)** facilitate cooperation across regions and address common challenges faced by defined geographical areas. The Adriatic-Ionian Strategy launched a revision exercise to reflect the enlargement agenda for the Western Balkans.

In December, the Commission adopted an amended proposal for a new **Regulation on Facilitating Cross-Border Solutions** to resolve legal and administrative obstacles in a cross-border context. The new proposal takes account of the concerns and recommendations made by the Parliament and Council, while maintaining its original focus of resolving obstacles that hamper the lives of cross-border communities.

Reducing legal and administrative obstacles created by borders is also supported under the Interreg-specific **Better cooperation governance** objective chosen by **80%** of 2021-2027 Interreg programmes.

#### Impact of the policy

- *By end 2023, 166 pilot projects were supported by the Border Focal Point's flagship project "b-solutions". Border obstacle cases were prepared to give wider visibility to border barriers and to provide inspiration for solving bottlenecks along borders in the EU.*

The **Interreg Volunteer Youth** initiative reached over 890 volunteers since 2017.

### Contribution to social, migration and gender issues

The policy objective "**A more social and inclusive Europe implementing the European Pillar of Social Rights**" provides for investments in health, social care, education, training, skills, employability and housing. The 2021-2027 programmes aim to invest EUR **28.5 billion** in these areas. The amount programmed in 2014-2020 was more than EUR **30 billion**, complementing the activities financed by the European Social Fund (ESF).

The transnational [SUMBA](#) project helped city planners and authorities in the Baltic Sea region to boost sustainable urban mobility through tools that help to assess, plan, and integrate intermodal mobility into the transport plans and policies of their cities and municipalities.

#### Impact of the policy

- *2014-2020: more than 102 million people are obtaining access to improved health services, of which more than half are in Spain and Poland.*
- *2021-2027 will support 60 million more people per year in increasing the capacity of health care facilities, mostly in Spain, Poland and Greece.*

A vocational rehabilitation unit has been set up in Krosno, Poland. The unit is managed by the Polish Association for People with Intellectual Disability. The project has improved the employment prospects of 26 people with moderate and severe mental disabilities. Two new departments were created: a handicraft store and a sweet shop.

Regarding equality, all but one of the 19 external actions of the 2023 equality mainstreaming work plan were achieved. In line with the EU [Gender Equality Strategy](#) for 2020-2025, REGIO subscribed to the integration of gender in cohesion policy supported actions. 2021-2027 Partnership Agreements and programmes were screened to ensure that non-discrimination, [gender equality](#) and accessibility for persons with disabilities are

taken into account and inclusive growth priorities were supported.

### Support to Member States

Good governance is crucial for economic development and requires efficient and effective **administrative capacity** to implement investment projects. REGIO promoted the development of roadmaps to strengthen administrative capacity. By the end of 2023, 15 Member States had finalised such roadmaps. REGIO also continued to support its [Peer2Peer Communities](#) and [TAIEX-REGIO Peer2Peer](#) exchanges of best practices. In 2023, 1,300 participants joined such events.



There was an increasing number of requests for advisory services through **JASPERS** in 2023, driven by the deadlines for major projects submissions and modifications, but also increasing demand by JASPERS' beneficiaries for upstream, horizontal, and technical capacity building to support the implementation of the 2021-2027 period. The number of climate-focussed assignments kept growing and JASPERS continued providing support for the implementation of the JTF.

REGIO also continued to promote the use of **Simplified cost options** (SCOs) and **Financing not linked to Costs** (FNLC) by offering support to Member States in designing, verifying and submitting their SCO/FNLC methodologies within the 2021-2027 programmes: 145 SCO methodologies in 14 Member States (and Interreg) and five FNLC schemes in four Member States, covering respectively EUR 6.6 billion and EUR 1.2 billion, are now part of the 2021-2027 programmes. These are in addition to the off-the-shelf flat rates and SCO offered in the CPR and applied by MAs towards beneficiaries.

In early 2023, the Commission adopted a **Communication on Harnessing Talent in Europe's regions** highlighting the challenges for territorial cohesion stemming from demographic decline. It identifies regions failing to develop the right talents to mitigate the impact of a shrinking working age population and are at risk of falling into the talent development trap. To further support these regions, the **Talent Booster Mechanism** (TBM), based on eight pillars, was put in place, offering tailor made solutions for various regions building on existing EU Funds and initiatives. In this context, the **Harnessing Talent Platform** was officially launched at a dedicated event in November 2023. This newly formed knowledge-building and experience-exchange platform will support regions in addressing the consequences of demographic change.

REGIO's ex post **evaluation** for the 2014-2020 period will be completed in 2025. REGIO finalised the evaluation of e-cohesion and launched the mid-term evaluation of the ERDF, CF and JTF for the 2021-2027 period. The Evaluation Helpdesk continued to provide support to Member States and MAs.

### **Complementarity with other investments**

The coordination between cohesion policy and the **Recovery and Resilience Facility** continued to feature prominently in the past year, given the substantial support the Facility provides to reforms and investments. REGIO contributed to the Recovery and Resilience Plans (RRP) implementation in all Member States, working closely with SG RECOVER and ECFIN. Cooperation between the respective Commission audit services in charge of auditing the implementation of RRP and cohesion policy programmes was reinforced with the signature of a memorandum of understanding.

REGIO continued to reinforce its contribution to the **European Semester**. One of the Country-specific recommendations of the 2023 semester cycle recommended to accelerate

#### **Transnational Network activities**

- 3 meetings (more than 100 representatives of managing and audit authorities from all 27 MS for each meeting)
- 4 multi-country workshops (Czechia, Romania, Spain, Cyprus)
- 2 case reports on risk-based management verifications

#### **Commission activities**

- more than 20 bilateral meetings with Member States and 3 SCO/FNLC workshop for national authorities (Bulgaria, Spain Italy))

the implementation of the RRF and cohesion policy programmes. REGIO also published a Staff Working Document (SWD) on “Regional Trends for Growth and Convergence in the European Union” providing an analysis of the main regional disparities and drivers for productivity and competitiveness, making the case for a reinforced regional dimension of the European Semester.

**Structural reforms** underpin investments and make them more effective. REGIO reflected on priority reform areas in May 2023. This served as input for REFORM’s meetings with Member States preparing the launch of the annual call for the Technical Support Instrument. REGIO reviewed over 400 requests under the call.

As of end 2023, 86% of the **thematic enabling conditions** of adopted ERDF, CF and ESF+ programmes were assessed as fulfilled.

All Member States fulfilled **horizontal enabling conditions** at the time of the adoption of the programmes, except Hungary and Poland. **Poland** submitted their revised self-assessment of the horizontal enabling condition on the EU Charter of Fundamental Rights (the Charter HEC) in January 2024. Subsequently, the Commission confirmed Poland’s fulfilment of the Charter HEC as regards the arrangements in place to ensure compliance with the Charter for all Funds and programmes. As regards **Hungary** the Commission in December 2023 concluded that the country now fulfilled the Charter as concerns judicial independence and access to EUR 10.2 billion of cohesion policy funds was as a result unblocked. Hungary therefore started to send in payment claims. The Charter HEC remains unfulfilled regarding the provisions of Hungary’s law prohibiting access to content that portrays homosexuality or sex change for persons under the age of 18, serious risks to academic freedom and the right to asylum, contributing (with other thematic enabling conditions not fulfilled) to another EUR 11 billion of funds that cannot be reimbursed to Hungary. As regards specific measures to protect the Union budget against breaches of the principle of **rule of law** (general regime of conditionality), the Commission considered in its Decision in December 2023 that Hungary had not addressed the breaches. EUR 6.3 billion of cohesion policy commitment credits remain suspended.

#### 1.3.4. General objective 4: A stronger Europe in the world



The objective of REGIO’s action in third countries is to contribute to the strategic objectives and priorities of the EU by strengthening its role through policy dialogues and the cooperation with EU strategic partners: (1) accession countries via IPA and NDICI funding combined with ERDF, (2) other neighbouring countries via NDICI and ERDF funded programmes, (3) the neighbours of the EU outermost regions and (4) EU strategic partners via the International Urban and Regional Cooperation (IURC) programme.

REGIO has streamlined its contribution to the **EU enlargement process** in coordination with EEAS and NEAR. As Ukraine, Georgia and Moldova were granted candidate status, REGIO has provided assessments on the capacity of these countries to uphold their obligations.

The Commission suspended cooperation with **Russia** and **Belarus** and adopted a regulation to allow the 2014-2020 ENI CBC disrupted programmes to continue implementation without these two countries.

Similarly, the Commission cancelled 2021-2027 programmes with Russia and Belarus and redeployed their allocations to existing internal cooperation programmes (ERDF) and to external cooperation programmes involving Ukraine and Moldova (NDICI). The 2021-2027 **Interreg NEXT** programmes not affected by Russia's war of aggression against Ukraine received reinforcements from the cancelled programmes. In addition, Ukraine and Moldova were added as new partners in Interreg Europe and URBACT. One Interreg programme in the Southern neighbourhood was affected by the tensions in the Middle East, with limited impact in 2023.

In 2023, REGIO continued work on the possible integration of NDICI funds from the regional Sub-Sahara programme into 2021-2027 **outermost regions' cooperation programmes**, whose aim is to progress towards a better combination between ERDF and NDICI/OAD <sup>(18)</sup> funds. The importance of taking outermost regions into account in the fight against sargasso seaweed and disaster preparedness in the Caribbean area was recognised by the final Declaration of the EU-CELAC Summit in July 2023. Partnerships between Interreg programme MAs, EU Delegations and third countries have been reinforced in all the cooperation areas (Caribbean, Indian Ocean, west Africa) thanks to the establishment of regular meetings and contacts.

The **International City Partnerships** (ICP) pilot project was successfully implemented with cities from Asia, Canada and South Africa, thought networks on circular economy, energy transition, air quality and inclusion of migrants and refugees. A pilot project allowed to cooperate with new cities in Korea, Singapore and Taiwan.

REGIO accelerated the delivery of the **UN New Urban Agenda** (NUA). In July, REGIO represented the Commission in New York to report on the implementation of Sustainable Development Goal 11 (Sustainable cities and communities) highlighting the role of cohesion policy's urban dimension. REGIO also participated in the **COP 28 Ministerial meeting on urbanisation and climate** change organised by UN Habitat.

REGIO continued its **work on urban development in the G7 context** by contributing to the drafting of the ministerial communiqué under the G7 Japanese Presidency. REGIO intervened on the EU perspective on sustainable and climate-neutral, inclusive and digital cities as well as on cooperation with Ukraine.

In the framework of the **Union for the Mediterranean** (UfM), REGIO co-organised the 3<sup>rd</sup> Union for the Mediterranean Ministerial meeting on sustainable urban development in May in Zagreb. A Ministerial declaration was endorsed.

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<sup>(18)</sup> Neighbourhood, Development and International Cooperation Instrument / Overseas Association Decision

## 2. INTERNAL CONTROL AND FINANCIAL MANAGEMENT

Assurance is provided on the basis of information on the efficiency and effectiveness of internal control systems and governance processes. REGIO management monitors the functioning of the internal control systems on a continuous basis and carries out an objective examination with internal and external auditors. The results are documented and reported to the Director-General.

The following reports / documentation have been considered: the annual reports by Authorising Officers by Sub-Delegation (AOSD); the reports on control results from managing and audit authorities in the Member States (assurance packages, annual control reports and audit opinions received by 15 February/1 March) as well as the results of the Commission activities to supervise these authorities (the audit reports of the Joint audit Directorate for Cohesion, DAC, following (mainly risk-based) on-the-spot verifications and ex post supervision and controls through exhaustive desk reviews of all available audit results); the results of internal control and risk monitoring at DG level; the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Article 92(3) of the FR); opinion, observations and recommendations reported by the Internal Audit Service; observations and recommendations reported by the European Court of Auditors (ECA); information received from the European Anti-Fraud Office (OLAF), including follow-up given by the authorising officers by sub-delegation to final case reports.

A systematic analysis of the available evidence provides sufficient guarantees as to the completeness and reliability of the information reported and results in the full coverage of the budget delegated to the Director-General of REGIO.

### 2.1 Control results

This section reports on the control results used by management to support the assurance on the achievement of the internal control objectives (ICO) <sup>(19)</sup>. REGIO's assurance building and materiality criteria are outlined in Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems. Annex 8 contains further details on the assessment of the effectiveness of the internal control systems.

In line with the 2018 Financial Regulation, REGIO's assessment for the new reporting requirement is as follows: no cases of "confirmation of instructions" (new FR Art 92.3); no cases of financing not linked to costs (new FR Art 125.3); no Financial Framework Partnerships >4 years (new FR Art 130.4); no cases of flat-rates >7% for indirect costs (new FR Art 181.6); no cases of "Derogations from the principle of non-retroactivity of grants pursuant to Article 193 FR" (new FR Art. 193.2).

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<sup>(19)</sup> 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2).

## Overview table of payments in 2023 (amounts in EUR million)

Activities <sup>(20)</sup> (Funds)	Management mode	Payments made	% of total
<b>2021-2027 programmes</b> (ERDF, CF, JTF, IPA, NDICI)	shared	4,816.96	10.4%
<b>2014-2020 programmes</b> (ERDF, CF, ENI, IPA)	shared	39,783.53	86.1%
<b>2007-2013 programmes</b> (ERDF, CF, IPA)	shared (+ indirect IPA)	203.76	0.5%
<b>2000-2006 programmes</b> (ERDF, CF)	shared	0.24	0.0%
<b>Brexit Adjustment Reserve</b>	shared	249.54	0.6%
<b>EUSF</b>	shared	949.89	2.2%
<b>European Urban Initiative</b>	indirect	44.16	0.1%
<b>Urban Innovative Actions</b>	indirect	22.32	0.05%
<b>Pilot projects and preparatory actions</b>	direct	2.74	0.01%
<b>Administrative support and technical assistance</b>	indirect	50.28	0.1%
<b>Administrative support and technical assistance</b>	direct	62.43	0.1%
<b>Total</b>		<b>46,232.73</b>	<b>100%</b>

### 2.1.1 Effectiveness of controls

#### a) Legality and regularity of the transactions

##### 1) Control objective

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

The benefits resulting from the controls are further described in Annex 6 under column “Cost-Effectiveness indicators”. Annex 7A provides further details about the control architecture applicable to the funds under shared management and in particular cohesion policy funds. A **glossary** to explain the concepts most commonly used in this report is comprised in Annex 7R.

The **assurance model** and the conclusions on the legality and regularity of expenditure other Funds and other management modes is described in Annexes 7L, 7M and 7N.

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<sup>(20)</sup> These can be seen as the main ‘assurance building blocks’.

## 2) Assessment of the control results

### **Shared management 2021-2027: assurance building process**

The assurance building process for 2021-2027 is similar to 2014-2020 since the legal framework is also largely carried over, as described in Annexes 6 and 7A.

A specific feature of the 2021-2027 period is the need for Member States to **comply with a set of thematic and horizontal enabling conditions**. The possibility to reimburse expenditure to Member States in each specific area and programme at the start of the period and throughout its implementation is conditioned by the continued compliance with these enabling conditions. At the end of 2023, around 86% of the applicable thematic enabling conditions were assessed as fulfilled for adopted ERDF, CF and ESF+ programmes. 17% of the allocation for Jobs and Growth cannot be reimbursed due to the remaining unfulfilled thematic enabling conditions. In addition, until it assessed the horizontal enabling condition related to compliance with the Charter of Fundamental rights as fulfilled, the Commission was not able to process interim payments in 2023 for Polish and Hungarian programmes (with the exception of technical assistance or operations contributing to the fulfilment of the enabling conditions). For the updated situation of **Polish and Hungarian programmes**, see details in section 1.3.3.

#### **Impact of programmes annual accounts (2022-2023)**

EUR 265 million certified in  
annual accounts submitted

For the 2021-2027 programmes, in 2023 REGIO reimbursed expenditure to 27 programmes. It received assurance packages including annual accounts and positive (unqualified) audit opinions for 7 of them. For the other programmes with expenditure paid in 2023, based on limited audit results (at this stage), management and

control systems are assessed to function effectively to ensure the risk in underlying transactions <sup>(21)</sup> to be under 5% in all cases (and therefore covered by the 5% payment retention foreseen in the CPR). The risk at payment is estimated to be at 0.26%.

Deficiencies or possible deficiencies in the functioning of these 2021-2027 management and control systems based on predecessor programmes (independently from whether expenditure was already declared and paid in 2023 or not) will continue to be closely monitored until the obtention of complete audit opinions and error rates in 2025 (letters of corrective measures were sent to seven programmes <sup>(22)</sup>, including to programmes for which no expenditure was yet declared in 2023). Reservations (including 4 reputational ones) were disclosed for five programmes in four Member States (BE, EL, IT, HU).

### **Shared management 2014-2020: assurance building process**

The graph below illustrates the assurance building process for programme accounts submitted and accepted in 2023, as a result of the complete audit cycle reported in the 2023 AAR. The process is described in detail in Annex 7A.

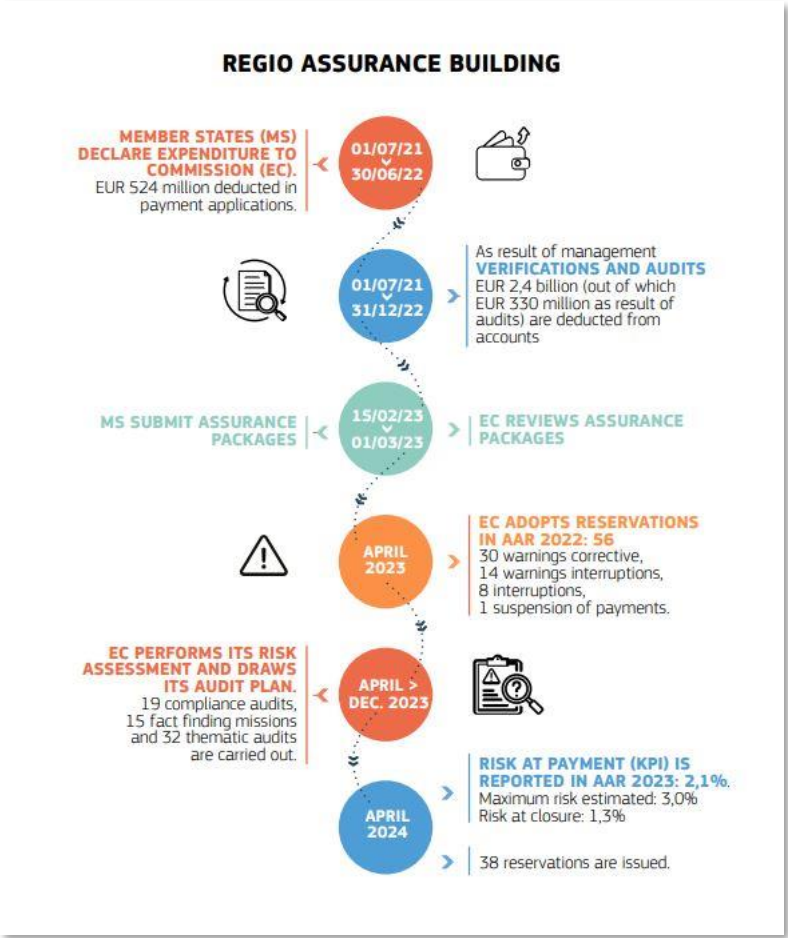
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<sup>(21)</sup> Estimated based on the predecessor 2014-2020 programme or at flat rate when no audit result was yet available.

<sup>(22)</sup> DE – Brandenburg, FR - Guadeloupe ERDF-ESF+ 2021-2027, HU - Technologies and Applications for Competitiveness programme, PL - Funds for Smart Economy 2021-2027, PL - European Funds for Kujawy and Pomorze, TC - Mozambique Channel, TC – Caribbean,



**Assurance building process for ERDF/CF programme accounts submitted and accepted in 2023 (annual accounts 2021-2022)**



**The residual total error rate for 2014-2020 expenditure (KPI 5) for ESI Funds is robust and gives a fair view**

**RTER: 2021-2022 accounts**

(before impact of financial instruments advances)

- **319 ERDF/CF, IPA and ENI programmes** in total
- **307 accounts** with expenditure
- **271 programmes** with RTER <=2%
- **48 programmes** with RTER >2%

**KPI 5: 2.1%, max. 3.0%**

REGIO carries out systematic desk reviews to assess the situation for **each programme** and accounts accepted in the reporting year. It discloses **individual error rates for each programme** (see box) at this stage of its annual audit cycle; these error rates are based on Member States' reporting in the annual control reports assessed in 2023, that are confirmed (including with necessary adjustments), where contradictory procedures are completed, or adjusted on the basis of audit review and results at this stage of the audit cycle (see next section for details).

REGIO also aggregates programme error rates to report a total, weighted average error rate for ERDF/CF. This is the key performance indicator on legality and regularity (KPI 5). It is calculated for the previous (2021-2022) accounting year based on the results of the desk reviews by the DAC combined with results from its on-the spot audits and from the ECA, when available, and after neutralising the impact of



advances paid for financial instruments in line with the ECA's 2016 recommendation <sup>(23)</sup>, and with prudent adjustments when necessary. It is the best estimate for the risk on expenditure in the reporting year. For the present report, **KPI 5** <sup>(24)</sup> is **2.1%** with an estimated prudent **maximum of 3.0%** to take account of potential additional risks, estimated using flat rates for each individual programme depending on their specific situation. The maximum value of KPI 5 also includes a conservative approach when only desk review was carried out or when additional audit work is still required under ongoing contradictory procedures; and also taking account of previous years' audit results pointing to possible remaining risks. This KPI 5 and its estimated maximum value reflect a **robust, reasonable and fair estimate of the overall risk at payment for all programmes taken together, following the programme-by-programme analysis**. The increase in the KPI and the maximum risk is mainly due to an important increase in the confirmed error rates for two programmes with deficiencies in management verifications. These programmes have an important relative weight in the global error rate due to the high amounts certified (4.4% of total certified expenditure).

It is therefore concluded on the basis of this range for KPI 5 that, overall, **for ERDF/CF, a material level of irregular expenditure remains in the accepted accounts** despite the control layers and corrections already applied at Member State's level. Indeed, for **48 programmes in 10 Member States and ETC, the Directorate General concluded that the individual residual total error rate is still above 2%** (see below). For these programmes, as well as for any other risks that may materialise and increase further the error rate following the signature of this AAR, REGIO will request additional corrective actions (additional work or financial corrections) to ensure that the error rate is confirmed below 2% for each and every programme and overall for the Funds by the end of the closure and legality/regularity process for the programming period (see above chart for the whole process).

The list of confirmed total error rates and total residual error rates by programme, as well as the Commission opinion on the functioning of each management and control system, are disclosed in Annex 7B.

#### **A differentiated situation: identifying and correcting programmes at risk**

REGIO bases its assurance on audit results obtained from programme authorities every year for each programme and complements such audit information **by its own audits**. This allows to calculate KPI 5 (see above), to report on the assurance obtained whether systems functioned effectively during the reporting year for each programme and to issue the necessary reservations when this was not the case.

Following the reception of the **assurance packages by 1 March 2023** (accounts from the accounting year 2021-2022 accepted in 2023), the DAC auditors carried out a **desk review of the Annual Control Reports (ACRs)** and assessed the reported total and

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<sup>(23)</sup> Advances paid into financial instruments are included in the declared expenditure, which, in line with Article 127 of the Common Provisions Regulation, form the basis for the samples of audit authorities. On this basis, the confirmed residual total error rate is 2%, hence advance payments to financial instruments have a negligible impact on the confirmed residual error rate (0.1 percentage points). In its recommendation n° 2 a) in the 2016 Annual Report (paragraph 6.40).

<sup>(24)</sup> See Annex 7A for details on KPI 5 and its calculation.

residual error rates and audit opinions against all cumulative audit information at its disposal <sup>(25)</sup>.

Subsequently, for programmes/AAs for which specific risks have been identified during this process, the DAC carried out in 2023 and early 2024 34 **on-the-spot compliance audits**

and fact-finding missions to re-perform the work done by the concerned AAs (see box). For details on the DAC audits performed, see Annex 7F.

#### Desk review of audit results received from AAs in 2023

305 system audits

Error rates reported in ACRs covering

- 5,974 (parts of) operations audited through statistical (88%) or non-statistical samples (in relation to total certified expenditure)

- 10% of total expenditure audited

In 2023, REGIO reviewed the work of audit authorities through 34 audits covering 36 ERDF/CF assurance packages (92 programmes):

- a. 19 compliance audits covering 21 assurance packages and 36 ERDF/CF mono- or multi-fund programmes in nine Member States)
- b. 15 fact-finding covering 15 assurance packages and 56 programmes, including limited re-performance work
- c. 32 system audits in 18 Member States and the UK covering MAs and their IBs in 35 programmes in various areas considered for ERDF/CF to be risky

As a result of its ERDF/CF **compliance audits**, the DAC identified further irregularities to the ones detected by AAs in 13 assurance packages covering 27 programmes. This led to a re-calculated residual risk above 2% in **five cases**. The frequency of additional errors not detected by the AAs (in one third of audited assurance packages) has however limited impact on the recalculated error rates for the concerned programmes and does not fundamentally question the reliability of the AAs work for ERDF/CF programmes, with the exception of the five cases mentioned above.

At programme level, for the accounts accepted in 2023, REGIO confirmed a **residual total error rate below materiality for 271 programmes** (85%, including in some cases adjustments without a material impact), and above materiality for **48 programmes** (15%) as the result of **REGIO's re-calculation or re-assessment at flat rate** in all but one case <sup>(26)</sup>. For seven cases (covering 23 programmes due to 17 programmes grouped under a single sample <sup>(27)</sup>), REGIO prudently considered in the re-calculation ECA preliminary findings identifying errors with financial impact and for which the contradictory procedure is still ongoing. For one programme in PL, the material recalculated residual total error rate has led REGIO to conclude on deficiencies at the level of the control body. For the remaining programmes, the recalculation is due to individual errors identified by DAC desk or on spot audit work which do not put in question the overall reliance the Directorate General can put on the work of the concerned AAs.

These results (complemented by risk-based system audits carried out by the DAC) show **weaknesses in the management verifications** carried out by MAs to prevent and detect irregularities in first instance. But they also demonstrate **weaknesses in the work of a limited number of AAs** which failed to detect all irregularities: REGIO requested **improvements for 8 AAs** out of the 81 ERDF/CF AAs, **in charge of auditing 4%** of ERDF/CF allocations (see Annex 7D).

<sup>(25)</sup> The desk review of all received annual control reports and audit opinions takes also into account the cumulative knowledge and previous audit work carried out on the AA and programmes concerned.

<sup>(26)</sup> Interreg Austria-Czech Republic (due to the cartel issue on the part of the programme)

<sup>(27)</sup> 17 Greek programmes covered by a single annual control report.

REGIO also used these results to assess the need for adjustments to the reportable error rates for the next **accounting year 2022-2023** (assurance packages received by 1 March 2024) and for issuing additional reservations in the 2023 AAR, where necessary.

Following its assessment of the 2024 assurance packages, REGIO concludes as of mid-April 2024 that all **accounts can be accepted** <sup>(28)</sup>. Moreover, the DAC assessed the reported total and residual error rates and audit opinions against all cumulative audit information at its disposal in view of deciding on reservations qualifying the assurance declaration in the AAR.

Regarding the latest (2024) assurance packages <sup>(29)</sup>, for 103 programmes the AAs reported a total error rate<sup>30</sup> above 2% and the programme authorities applied financial corrections in 85 cases to bring the residual risk below or equal to 2%. **For the remaining 18 programmes, the accounts are still affected by material residual total error rates** and REGIO will request programme authorities to apply additional financial corrections upon finalisation of the assessment and resulting contradictory procedures. These programmes are put under reservation as the relevant expenditure in the reporting year is materially affected (see Annex 9), in line with the materiality criteria foreseen in Annex 5.

#### 2022-2023 accounting year

**318** programmes in total

**308 accounts** with expenditure (ERDF, CF, IPA, ENI)

#### Unjustified emergency public procedures in Spain

A DAC audit identified an extensive use of unjustified emergency public procedures in one region in Spain, following the COVID-19. Following a required action plan to re-verify the legality of the procedures used in all regions, Spain accepted to apply financial corrections to address this systemic issue, where necessary. Part of such corrections for **EUR 15.5 million** was already applied in one region.

As in previous years, AAs and the Commission auditors paid particular attention to the **risks linked to COVID-19 related expenditure** (flexibilities introduced with the CRII/CRII+ amendments, in particular the unjustified use of emergency public procurement procedures, additional REACT-EU funds under NGEU), **the risks of double funding the same expenditure from different funds, and the risk of conflicts of interest.**

These risks materialised in some cases. REGIO paid attention in its desk reviews of annual control reports whether such risks were audited and identified by AAs and whether appropriate corrective measures were taken.

Based on its assessment of all available audit information from the Member States and EU audits at the date of this report, REGIO can conclude by mid-April 2024 that **management and control systems**:

- **function well or sufficiently well for 297 ERDF/CF** programmes (93%), a constant increase compared to previous years, representing 90% of expenditure under

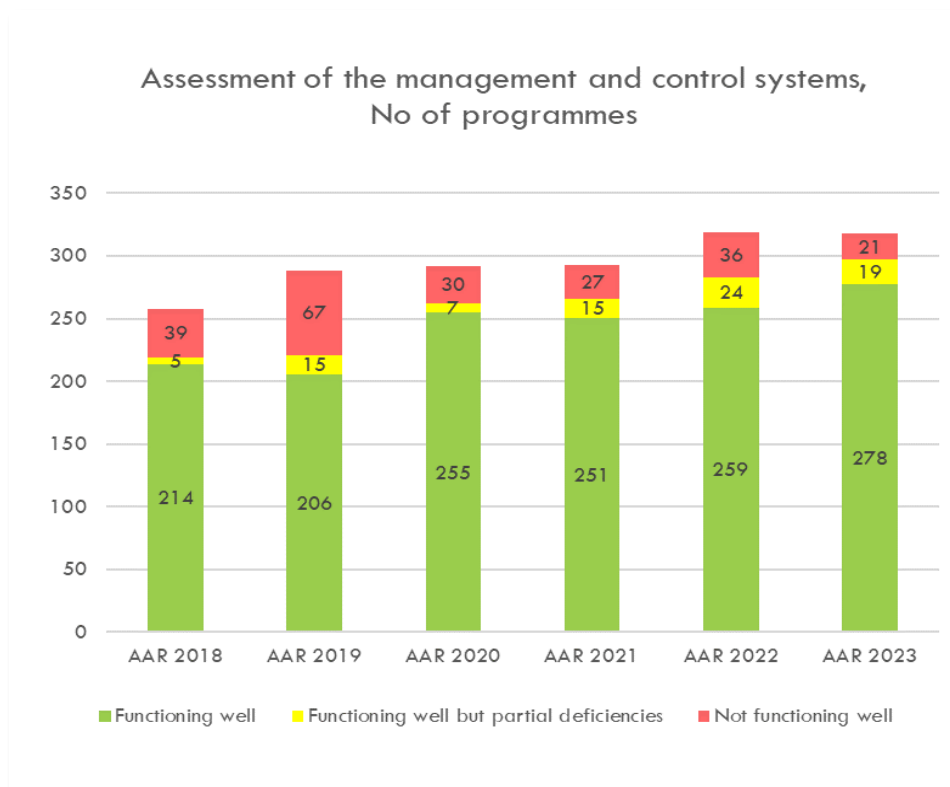
<sup>(28)</sup> Acceptance of the accounts is independent from the review of the legality and regularity of expenditure, followed up separately, in line with Article 139(5) CPR.

<sup>(29)</sup> Either as reported by the AA or following adjustment by the DAC auditors based on the desk review and before audits were carried out on the spot, and therefore considered as 'reportable' for this AAR; for five programmes assurance packages were submitted after 1 March.

<sup>(30)</sup> A measurement of the effectiveness of management and control systems

assessment <sup>(31)</sup>. This provides assurance that the underlying transactions and expenditure declared in these accounts, as well as expenditure further declared by these programmes in 2023 under the on-going accounting year 2022-2023, are not affected by a risk of material level of irregularities.

- **present serious deficiencies for 21 programmes** (7%), representing 10% of expenditure certified in the 2021-2022 accounts. For these programmes, the management and control system works only partially and substantial improvements are needed and were requested.



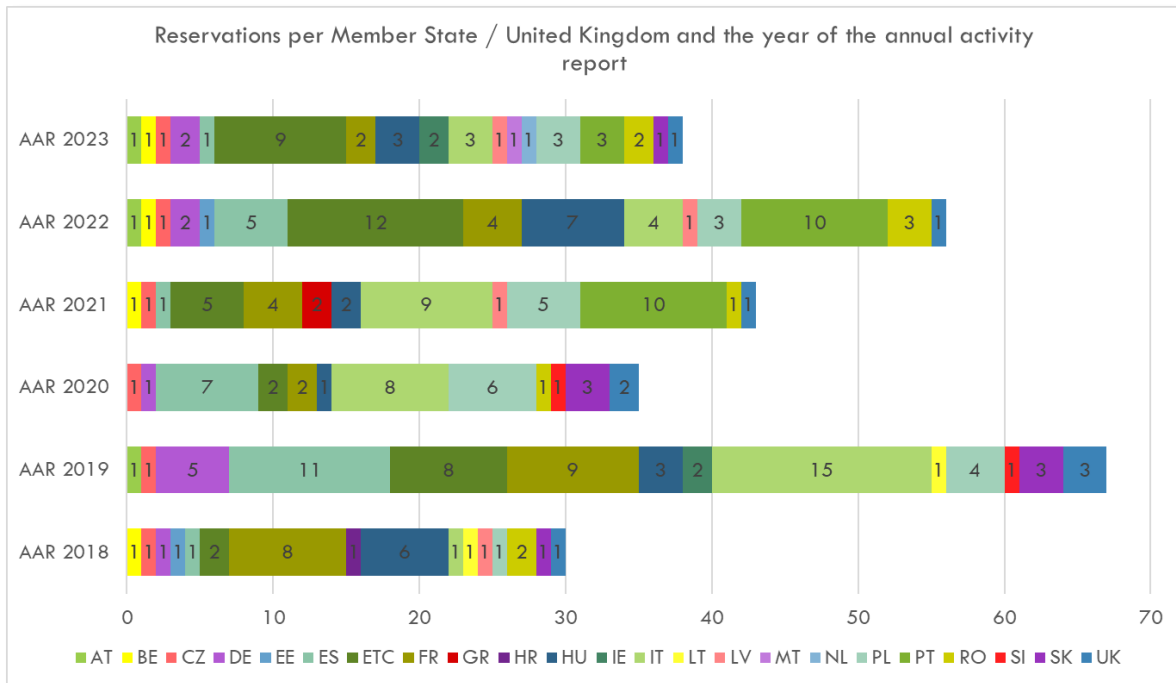
In line with the materiality criteria, **REGIO issues reservations** for all programmes or part of programmes for which the management and control system is not functioning sufficiently well <sup>(32)</sup>, and with a risk for the EU budget estimated above the 10% payment retention for 2014-2020 <sup>(33)</sup>. For those programmes which the risk of irregular expenditure is covered by the 10% retention no reservations are issued. In this AAR, **38 programmes** from the 2014-2020 period are in reservation <sup>(34)</sup>. The cumulative reasons for reservations are: 17 cases of significant deficiencies in the functioning of the management and control system (including twelve cases of a residual error rate was above the materiality level of 2% and one case of suspicions of corruption involving programme authorities officials or part of the system), 18 cases where a residual error rate was above the materiality level of 2% and 5 cases of suspicions of fraud involving programme authorities officials or part of the system.

<sup>(31)</sup> This share of expenditure includes 19 programmes with only partial deficiencies, as shown in the graph.

<sup>(32)</sup> Category 3 and 4, see definition in Annex 5.

<sup>(33)</sup> Criteria for reservations are explained in Annex 5.

<sup>(34)</sup> Of which 11 ETC programmes and one ENI-CBC, see Annex 9.



Reservations are only lifted once programme authorities have taken sufficient corrective measures. The fact that **72% of REGIO reservations are lifted in less than two years shows the effectiveness of corrective measures in place.**

In addition, as a result of its audits, REGIO also **systematically transmits suspicions of fraud to OLAF and monitors the cases when investigations are open** (see section b) ‘Fraud prevention, detection, and correction’ pp. 40-41 below and Annex 70).

**To conclude, REGIO has the tools to analyse the individual situation of each programme and to report in the AAR the specific, individual weaknesses identified** (see Annex 7B for the situation of all programmes, 7C for a list of programmes with identified serious deficiencies and 7D for a list of AAs with serious improvements needed).

**The multi-annual corrective capacity to bring the risk at closure < 2%**

**Impact of programmes annual accounts (2022-2023)**

1. EUR 44.5 billion certified in annual accounts submitted
2. **EUR 1.9 billion ERDF/CF contribution** prudently withdrawn from accounts (temporarily or definitively based on managing authorities’ work and follow up to EC requests for corrections)
3. Including **EUR 255 million ERDF/CF** contribution at least as definitive **corrections** (audit authorities’ work)

**Programme authorities withdraw important amounts from the programme accounts each year**

when they detect irregularities or when doubts arise on expenditure previously declared during the year. In the accounts received in 2024 for 2014-2020

programmes, **EUR 1.9 billion of EU contribution have been withdrawn.** Some of these deductions are prudent, temporary withdrawals pending further verifications <sup>(35)</sup>. Part of

<sup>(35)</sup> REGIO cannot establish an estimate since the regulatory basis does not require Member States to provide separate figures in the accounts, apart for definitive corrections stemming from audits.

these temporary withdrawals may be re-declared (and subject to audits by AAs who were requested to carefully monitor and report in their annual control reports the follow-up given to such temporary withdrawals) once the MAs have ascertained the regularity of the expenditure; otherwise, the withdrawn expenditure becomes a definitive correction. Definitive implemented corrections are the result of management verifications, audits by AAs (EUR 256 million of EU contribution) or follow-up to accepted findings from Commission and ECA audits or OLAF investigations.

This considerable corrective capacity of Member States reflects the deterrent effect of the legal provision on possible net financial corrections if Member States do not detect, report and correct serious irregularities in first instance. Therefore, despite the strict criteria foreseen in the legal framework for the Commission to implement net financial corrections causing the absence of such Commission decision so far, **the mere existence of this legal provision has in practice increased the corrective actions by Member States**, thus reducing the need for the Commission to step in.

#### Germany/Saxony – Public procurement irregularities in a major project

While auditing the public procurement procedure for a major acquisition in Germany (30 trams), DAC auditors identified several severe breaches. The contracting authority applied non-equal treatment of candidates in the tender procedure, lack of transparency as well as an extension of the scope of the contract during and after the negotiations. The programme authorities accepted a 25% correction on the ERDF funding (almost EUR 100 million). The checks on public procurement in this regional programme were also further strengthened, based on lessons learnt.

**In addition to the Member States' corrective capacity**, if the Commission detects system deficiencies at the level of managing or AAs or confirms an error rate above 10% for a programme <sup>(36)</sup>, **REGIO uses the regulatory tools** at its disposal to **protect the EU budget** by stopping its payments (interruptions, suspensions, see details in Annex 7G) and requests **remedial actions: financial corrections** for

declared expenditure, in the on-going or previous accounting years if needed (for corrections applied in 2023, see Annex 7H) and **measures to improve the functioning of the management and control systems** and authorities with a view to prevent future irregularities <sup>(37)</sup>. REGIO does not resume payments until it has audit evidence that the systems were improved and/or appropriate financial corrections applied.

REGIO will monitor these proceedings and action plans as long as necessary, until the **closure of the 2014-2020 programmes and after. Legality and regularity** proceedings may continue after the payment of the final balance of the last accounting year, given that assurance on the legality and regularity can only be confirmed once REGIO has assurance that the estimated residual total error rate (RTER) per programme does not exceed 2% for each accounting year and that all identified irregularities and risks were appropriately addressed by the programme authorities. This may entail compliance audits on expenditure of the last accounting year and/or following-up on any open issues such as prior payment interruptions, suspensions or financial corrections, stemming from previous audit work.

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<sup>(36)</sup> or 5% in 2021-2027

<sup>(37)</sup> This includes the follow-up to agreed ECA findings on individual operations, which may point to the need for system improvements for the audited programmes. See in particular ECA recommendations in their 2021 and previous Annual Reports, which are systematically followed up (see ECA section below).



At this stage, since the beginning of the 2014-2020 period, **REGIO's corrective capacity amounts in total to EUR 783.3 million of additional corrections** (EU contributions) <sup>(38)</sup>.

Where REGIO re-calculates a residual total error rate above 2% for a programme, it **requests additional corrective actions, including financial corrections** to bring the programme's residual risk below 2%, following due contradictory procedures (right of defence). For the accounting year 2022-2023 under review, REGIO estimates that once the required additional financial corrections will have been applied, the **risk at closure** will come **down to 1.3%**, well below materiality. Since the start of the programming period, for previous AARs, additional **corrections of EUR 300.6 million cumulatively** (in EU contribution) were accepted or accepted and implemented to bring the residual risks of the concerned programmes below 2% (see table with applied corrections for each accounting year in Annex 7H).

REGIO can thus report that, following corrective measures and additional financial corrections effectively accepted / implemented following previous annual activity reports, **the risk at closure is now effectively below 2% for all previous accounting years** based on evidence, as it was estimated in previous years' annual activity reports. **The Commission's multiannual corrective capacity mechanism is therefore effective.**

See Annex 7G for further details on the number of payments interrupted, warning letters sent, suspension procedures opened and Annex 7H for the financial corrections in 2023.

### **Actions taken in 2023 to improve the programme authorities' administrative capacity and effectiveness of management and control systems**

Each year, REGIO (the DAC in particular) undertakes several actions to improve the effectiveness of management and control systems in reducing the error rate (see more details and examples for 2023 in Annex 7E; see also part 1, page 22):

- **Supporting the MAs and AAs to improve their administrative capacities** through guidance, targeted support, continuous training and professional development, and transnational networks to simplify procedures and avoid gold-plating.
- **Promotion of less error-prone SCO and FNLC** by providing assistance and support to programme authorities to prepare and assess the SCOs and FNLCs in 2021-2027 programmes as well as to understand the requirements in terms of control (see section 1.3.3). SCOs facilitate access to funding particularly for small beneficiaries by reducing the

**Sharing audit know-how:** The DAC shared and discussed with AAs and MAs its audit findings in November 2023. They demonstrated an insufficient detection capacity in programme authorities who could thus benefit to improve their understanding of rules, audit and control work and capacity.

In 2023, to further support the work of AAs and MAs for the 2021-2027 period, the Commission issued and shared five methodological notes on: risk-based management verifications; assessment of the management and control systems; preparation, submission, examination and audit of accounts; annual control reports, audit opinions and treatment of errors. These tools will help programme authorities in their work and will provide a harmonised methodology and framework allowing comparing and using reported audit results and opinions.

<sup>(38)</sup> Financial corrections accepted by the Member States for the 2014-20 period, as a result of REGIO audits (EUR 698.7 million), follow up to ECA audit findings (EUR 28.4 million) and to OLAF investigations (EUR 56.2 million); details are available in annex 7H.



administrative burden of implementation as well as of audits and verifications and also help reduce the error rate.

- Providing the **data mining and risk-scoring tool Arachne to Member States** free of charge, which enhances the capacity to detect irregularities, fraud suspicions or possible conflicts of interest. REGIO and EMPL further promoted the tool's use in 2023 among reluctant Member States and developed additional functionalities (e.g. linked to the new data on beneficial owners available for 2021-2027 programmes).

#### **Tackling the non-detection of errors by some audit authorities**

When DAC identifies errors not detected by an audit authority, it carries out an assessment to verify if the non-detection is punctual or due to a more systemic issue (lack of appropriate checks, gap in the audit approach or wrong interpretation of the applicable rules). Recommendations to strengthen or correct its approach are addressed to the concerned MAs or AAs and dedicated work sessions are organised, as needed. For example, non-detected errors in the areas of public procurement (cartel in AT, emergency procedures in ES), State aid (SK), retrospective projects (IT), conflicts of interests (PL) were reported in 2023 or continued to be addressed and led to implementation of corrective measures, including financial corrections.

- **Continuous monitoring and analysis of the root causes of errors** that remained un-detected by MAs and/or AAs, with the results of this analysis feeding back the annual risk assessment for selecting programmes in view of subsequent risk-based audits. REGIO also **encourages AAs to report back and discuss with MAs the un-detected errors** to improve their preventive and detective capacity, e.g. by putting in place further guidance or trainings.

More details on the most common irregularities reported in 2023 by AAs (i.e., not detected by MAs) and by REGIO (i.e.

additional errors not detected by AAs and MAs) are presented in Annex 7I, in accordance with the common typology of errors agreed and shared between the Commission and the Member States.

### **Other management modes and other Funds assurance building process**

The assurance building processes and the control results for ENI-CBC, EUSF, direct and indirect management are described in detail in Annexes 7L, 7M and 7N respectively.

#### *3) Overview of REGIO's risk profile*

The risk profile for shared management 2014-2020 (ERDF, CF, IPA and ENI) in line with corporate criteria is medium, taking into consideration the maximum risk. However, the individual programmes have different risk profiles: i.e. programmes with reported error rates below 2%, programmes with an error rate between 2% and 5% and a few programmes with a relatively high error rate reported or confirmed above 5% (see Annex 7B). For shared management 2021-2027 and other management modes the risk profile is very low.

#### *4) Table: Estimated risk at payment and at closure*

Based on all the above, REGIO presents in the following Table an estimation of the risk at payment and risk at closure for the expenditure managed during the reporting year:

**Table: Estimated risk at payment and at closure <sup>(39)</sup> (amounts in EUR million, EU contributions)**

The full detailed version of the table is provided in Annex 9.

**Table X : Estimated risk at payment and at closure (amounts in EUR mios)**

DG REGIO	Payments made	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
	m EUR	m EUR	m EUR	%	m EUR	%	m EUR	%
2021-2027	4 816.96	1 744.85	4.61	0.26%	0.09	0.00%	4.52	0.26%
European Urban Initiative	44.16	0.00	0.00	0.55%	0.00	0.00%	0.00	0.00%
2014-2020	39 783.53	40 786.53	1 221.98	3.00%	699.99	1.72%	521.99	1.28%
Urban Innovative Actions	22.32	57.76	0.29	0.50%	0.00	0.00%	0.29	0.50%
2007-2013	172.73	345.47	0.79	0.23%	0.00	0.00%	0.79	0.23%
2007-2013	31.03	31.03	0.16	0.50%	0.00	0.00%	0.16	0.50%
pre-2006	0.24	0.24	0.00	0.50%	0.00	0.00%	0.00	0.50%
EUSF	949.89	448.38	1.88	0.42%	0.00	0.00%	1.88	0.42%
Brexit Adjustment Reserve	296.43	0.00	0.00	0.50%	0.00	0.00%	0.00	0.00%
Pilot projects and preparatory actions	2.74	2.03	0.04	1.89%	0.00	0.00%	0.04	1.89%
Administrative support and technical assistance	50.28	34.50	0.17	0.50%	0.00	0.00%	0.17	0.50%
Administrative support and technical assistance	62.43	61.50	0.00	0.00%	0.00	0.00%	0.00	0.00%
<b>DG total</b>	<b>46 232.73</b>	<b>43 512.29</b>	<b>1 229.92</b>	<b>2.83%</b>	<b>700.08</b>	<b>1.61%</b>	<b>529.84</b>	<b>1.22%</b>

The estimated overall risk at payment for 2023 expenditure, 1.97% – 2.83%, is the AOD's best conservative estimate of the amount of relevant expenditure during the year that was not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years, corresponding to the conservatively estimated future corrections for 2023 expenditure, 0.75% - 1.61%.

The difference between those two results is the estimated overall risk at closure<sup>(40)</sup>, 1.22%. This is a very similar level compared to 2022 (1.29%).

For an overview at Commission level, the departments' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

### 5) Preventive and corrective measures

As regards the corrections carried out in 2023, REGIO has in place an effective mechanism for correcting errors, through ex-post controls, resulting in preventive and corrective measures, amounting to EUR 1,389.5 million and EUR 528.8 million respectively. Member States play an important role in this corrective mechanism and part of the benefit stems from their actions. See table below for details:

<sup>(39)</sup> The full detailed version of the table is provided in Annex 9.

<sup>(40)</sup> This is the AOD's best, conservative estimation of the expenditure authorised during the year that would remain not in conformity of applicable regulatory and contractual provisions by the end of implementation of the programme.

(EU contributions)	Preventive Measures (mio EUR)	Corrective measures (mio EUR)
<b>Implemented by the Member States</b>	<b>1,389.5</b>	<b>528.8</b>
<b>of which from Member States controls</b>	<b>1,389.5</b>	<b>509.5</b>
- ERDF /CF 2014-2020	1,389.5	509.5
<b>of which from EU controls <sup>(41)</sup></b>	<b>0 <sup>(42)</sup></b>	<b>19.3</b>
- ERDF / CF 2014-2020	0	19.3
<b>Implemented by the Commission</b>	<b>0</b>	<b>114.5</b>
<b>of which from Member States controls</b>	<b>0</b>	<b>0</b>
<b>of which from EU controls</b>	<b>0</b>	<b>114.5</b>
ERDF / CF 2007-2013 and previous periods	0	114.5
<b>REGIO total</b>	<b>1,389.5</b>	<b>643.3</b>

### **b) Fraud prevention, detection and correction**

REGIO, EMPL and MARE have in place a Joint Anti-Fraud Strategy (JAFS) covering 2020-2025. The JAFS is based on the methodology provided by OLAF and fully aligned with the objectives of the Commission's 2019 over-arching Commission Anti-fraud Strategy (CAFS). REGIO also contributed to the revision of the 2023-2026 Action Plan attached to the CAFS, taking into consideration the new emerging risks. The implementation of the JAFS is monitored and reported to management annually (see Annex 70 for more details).

In line with auditing standards, audits must be vigilant to indications of possible frauds and report accordingly to investigative bodies but are not designed nor equipped to investigate fraud. This requires specific investigative procedures and powers. In 2023 REGIO put in place actions under the CAFS and the JAFS to further improve the effective functioning of anti-fraud measures and fraud detection in the programmes (including in relation to the CRII(+)) and REACT-EU crisis response measures to mitigate the socio-economic impact of the pandemic). More specifically, key anti-fraud measures carried out during the year with the help of OLAF aimed to:

- Review and improve the Arachne risk scoring tool. Continue to promote its use among Member State authorities.
- Provide technical assistance to Member States through various spending programmes, including the EU Anti-Fraud Programme.
- Encourage Member States to put in place national anti-fraud strategies, provide advice and support in this respect and, where appropriate and possible, reinforce Member States' obligations throughout the anti-fraud cycle.
- Continuously promote the better documentation in audit work (check lists) and report (in annual control reports) on the actions taken by auditors to identify fraud red flags.

<sup>(41)</sup> Accepted by Member States as a result of Commission controls and audits (additional corrections to ensure a risk at closure below 2% not included), OLAF investigations or ECA audits.

<sup>(42)</sup> Expenditure not declared in first instance in payments claims by the Member States as a result of Commission supervisory role ("ex ante corrections") are not reflected in this table. Such ex-ante corrections quantify important amounts and protect the EU budget.

- Encourage programme authorities to better report irregularities in IMS, for further analysis.
- Promote integrity pacts for safeguarding EU funds against fraud and corruption.
- Closely and regularly follow up with Member States OLAF's financial recommendations (more details in Annex 70). During 2023, REGIO completed the follow-up and closed 17 OLAF final case reports, recovering EUR 24.8 million (recovery rate of 92%).
- Closely monitor and swiftly take precautionary measures to protect the EU budget (such as targeted payment interruptions) each time information comes to REGIO's attention that a possible fraud or corruption case is being investigated.
- Develop cooperation with EPPO services to improve the level of information available to the DG so that it can take the required precautionary measures to protect the EU budget and provide the required information, when investigations are open.

#### **Allegations of fraud under different crisis response instruments in Spain and Portugal**

After being informed about judicial investigations concerning illegal directly-awarded public contracts during the COVID-19 pandemic in **Spain**, and opened investigations for suspicions of fraud in obtaining public grants, laundering and abuse of power in **Portugal**, the Commission immediately contacted the national authorities to investigate whether and which EU funds were involved in the contracts under investigation, requested measures to protect the EU budget (withdrawal of concerned expenditure) and sent information on the matter to OLAF. The Commission closely monitors these cases in cooperation with the programme authorities.

In addition, REGIO continued to carry out targeted thematic audits to verify the effective implementation of mitigating actions by Member States to **prevent conflicts of interest** in the implementation of programmes considered at risk. More details on the audits carried out and their results can be found in Annex 70.

Based on the available information about the effective functioning of Key Requirement 7 ('effective and proportionate anti-fraud measures'), **REGIO has reasonable assurance that the anti-fraud measures in place for cohesion policy are overall effective** (except for four ERDF programmes <sup>(43)</sup> out of 318 where KR7 was assessed as not functioning sufficiently and remedial actions were requested from the authorities to enhance the design and efficiency of their anti-fraud measures and policy).

### ***c) Safeguarding of assets and information***

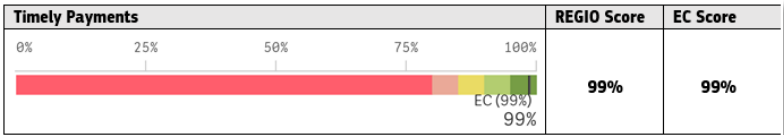
REGIO manages IT applications worth some EUR 14.4 million (see Annex 3, table 4): **SFC**, an interface between Member States and the Commission for the management of structural funds; and **MyWorkplace**, the workflow system supporting all decisional, financial and audit procedures. Key control objectives are that these assets are appropriately accounted for and safeguarded, that information is protected, and that related weaknesses, errors, irregularities and losses are detected and addressed. Controls are put in place to verify if the cost-centre is correctly encoded and using its IT applications and to verify if the

<sup>(43)</sup> ES Asturias, FR Guadeloupe, PL Smart growth OP (in relation to conflict of interests not properly detected and handled), ETC Caribbean

applications entered the production phase. Once in production a linear depreciation over ten years is applied. Assets owned by REGIO follow the international accounting rules and the closure guidelines established by the Commission accounting officer. The control objectives are fully met.

### 2.1.2 Efficiency of controls

REGIO has assessed the efficiency of its control systems through the main indicator on timely payments.



The rate of timely payments is at commission average (99%). 3,979 payments were made in 2023. For the amounts of the payments

by management mode, see the table in section 2.1 above. REGIO considers its controls to be efficient, the above indicator as well as all other indicator results (see Annex 4) being at a (very) **satisfactory level**. Refer to section 3.4 for an example to improve economy and efficiency of financial and non-financial management.

### 2.1.3 Economy of controls

The 2023 overall annual cost of controls for REGIO is estimated at **0.22%** (EUR 103 million) <sup>(44)</sup> of total payments, increasing by 24% compared to 2022 (0.18%) <sup>(45)</sup>. This is mainly due to the large decrease in total payments (-20% vs last year) and the increase of staff costs (almost +3% for civil servants). Most staff costs included in the calculation correspond to supervisory and control activities by geographical and audit units.

The cost of control under **shared management** alone was **0.21%** (EUR 95 million). In relation to the cost of controls in Member States, a [study](#) concluded that **2.2%** <sup>(46)</sup> of the total eligible costs for ERDF is spent on administrative tasks by programme authorities, compared to an overall 4% for ESIF in general: ERDF and CF have the lowest administrative costs for managing and controlling per million Euros of eligible funding. The estimated annual overall REGIO costs amount to **2.1%** (EUR 3.2 million) of total payments of the year for **indirect** and **7.38%** (EUR 4.8 million) for **direct management mode**. See Annex 7 for more details on cost of controls.

<sup>(44)</sup> Ex-ante and ex-post combined. Excludes evaluation activities.

<sup>(45)</sup> Staff in geographical desks (controls in design, implementation and monitoring); audit (assessment of management and control systems in Member States, including the Commission's ex-post audits); service providers to geographical desks (competence centres and units responsible for financial instruments); finance; legal affairs and IT systems; the cost of IT tools (development/maintenance) supporting control activities and the costs related to outsourced audit work.

<sup>(46)</sup> EUR 22,600 per EUR 1,000,000 of eligible funding

## 2.1.4 Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, REGIO has assessed the effectiveness, efficiency and economy of its control system and reached a **positive conclusion on the cost-effectiveness of the controls** for which it is responsible. The control environment, strategy and costs remained stable during the reporting year compared to the previous year, as described in the previous chapters.

## 2.2 Audit observations and recommendations

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

### *a) European Court of Auditors*

For its **Statement of Assurance** concerning cohesion policy (REGIO and EMPL funds together) **in its annual report**, ECA focuses on the audit work already performed at national level to establish the level of error in declared accounts, before the Commission could complete its own audit work described above. The Statement of Assurance for 2023 is on-going. Only partial preliminary results were received at the date of signature of this report that are under contradictory procedure with ECA (and were taken into account in our assessment as indicated in section 2.1 above). The adversarial process is foreseen after the publication of REGIO's 2023 annual activity report. REGIO therefore refers in this section to the previous, available 2022 annual report of ECA.

For its 2022 annual report, ECA reviewed 35 assurance packages, 34 for 2014-2020 programmes (concerning the 2020-2021 accounts received and approved in 2022), and one 2007-2013 closure. AAs had already audited the 226 transactions ECA sampled and had reported 58 quantifiable errors, which mainly concerned ineligible costs and infringements of internal market rules (public procurement). The ECA identified and quantified 48 additional errors that it considered had not been detected by the AAs. Taking account of the errors previously found by the AAs and corrections already applied (EUR 458 million for both programming periods), **the ECA estimated its level of error for cohesion policy to be 6.7%** (compared to 4.1% in 2021, 3.5% in 2020, 4.4% in 2019 and 5.0% in 2018).

The Commission took note of the increase in the error rate estimated by the ECA this year, compared to a relatively stable level of error reported for the last five years. The Commission attributed the difference with the ECA reported error rate to the fact that the ECA reports errors related to any breach of applicable rules. However, for programme authorities and the Commission to impose financial corrections, an error must be an irregularity within the sense of Article 2(36) of the Common Provision Regulation (CPR). Not all errors reported by the ECA fall into this category. It has therefore led the Commission to disagree on 18 out of the 48 errors reported and quantified by the ECA, for which it has



assessed that it would not have legal ground to impose financial corrections (15 cases), or higher corrections than those already applied (5 cases). In addition, different audit methodologies applied by the Commission and the ECA, due their respective roles and mandates, as well as difference in relation to the quantification of some errors, also explain that the error rates cannot be directly compared.

The Commission is duly following up all (30) cases where it agrees with ECA and has a legal basis to take action and will request additional financial corrections. The Commission will also recommend remedial actions to the concerned programme authorities to further improve the management and control systems, as necessary.

**REGIO also systematically follows up the accepted ECA recommendations** issued in the Annual Reports. The Commission accepted all the recommendations issued in the 2022 ECA annual report (related to mitigation measures for recurring errors, major project notifications, thematic audits on conflicts of interest, targeted checks on financial corrections for multi-annual operations during closure, reliability of self-declarations, enhancing fraud risk awareness to ensure a more effective reporting on suspected fraud), except one part of the last recommendation aiming at advancing the date for the deployment of the single integrated data mining and risk scoring tool from 2028 to 2025, as this will be ultimately decided by the co-legislators (Commission's proposal to recast the Financial Regulation under debate when the recommendation was issued). See Annex 7P for further details on the ECA's annual report for 2022 and the results and recommendations of **other ECA audits and special reports** involving cohesion policy and its funding.

### ***b) Internal Audit Service (IAS)***

In its contribution to the 2023 REGIO AAR, the IAS concludes, based on the work between 2019-2023, that **the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations** <sup>(47)</sup>, which will be addressed in line with the agreed action plans.

In September 2023, the audit on preparedness for closing the 2014-2020 programming period of the ESIF was concluded. The IAS acknowledged the ongoing efforts of REGIO, EMPL and MARE to define and prepare the 2014-2020 closure exercise. Nevertheless, the IAS noted two very important weaknesses regarding: (1) the internal planning of the closure exercise (the DGs prepared a roadmap and will monitor the development of the related IT tools); (2) the financial settlement at closure (the DGs will define what closure involves in terms of legality and regularity and the different steps and responsibilities to complete the related procedure; the concept of 'risk at closure' is also clarified in the present AAR).

The IAS also finalised its audit on the Joint Audit Directorate for Cohesion (DAC) at the beginning of 2024. It concluded that the DAC has adequate management and control systems to implement its mandate effectively, but that there remain very important issues regarding its organisational structure, its IT tools and monitoring and reporting activities, that could impact its operational efficiency. As part of the action plan, REGIO and EMPL will

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<sup>(47)</sup> See Annex 7Q

further align their procedures impacting the DAC, discuss the possibilities to further improve HR processes and aim to jointly develop efficient and comprehensive IT tools.

REGIO was also involved in the IAS review of the Commission's risk at payment (action plan accepted by the IAS in February 2024). On the very important recommendation regarding the documentation of the analysis and (internal) reporting of the root causes of errors and differences in relation to ECA findings, REGIO/DAC will strengthen the existing analysis to identify the causes for all ECA findings (not only the ones related to diverging views).

Two IAS audits started in 2023 and will be finalised in 2024: the audit on the effectiveness of REGIO's internal control systems for managing the EU Solidarity Fund, and the audit on the design of the Joint Audit Strategy and procedures for the review of assurance packages and audits for 2021-2027.

In view of the ongoing implementation of actions to address the IAS recommendations, the residual risk related to very important recommendations by IAS **does not affect in a material way the achievement of the internal control objectives, and therefore the assurance provided in this AAR.**

## **2.3 Assessment of the effectiveness of internal control systems**

The Commission has adopted an Internal Control Framework based on international good practices, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement. REGIO uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates. See Annex 8 for more detail.

In line with the Commission's Internal Control Framework, REGIO has assessed its internal control system during the reporting year and has concluded that it is effective, and the components and principles are present and functioning well overall, but some improvements are needed as deficiencies were identified related to control **Principles 1** (on ethics and anti-fraud training), **3** (on staff satisfaction with managers) and **5** (job descriptions and objectives of individuals). Remedial measures are being implemented, including an intensified focus on ethics and anti-fraud awareness in the newcomers training and setting-up individual objectives for staff by their managers in the Commission's Internal HR system.

The identified deficiencies as well as IAS's very important recommendations and ECA's observations and have not affected in a material way the functioning of REGIO's internal control system during the reporting year.

## **2.4 Conclusions on the assurance**

For **shared management**, the risk "at payment" is calculated by applying the residual total error rate of the previous accounting year (2021-2022 in this AAR) as confirmed by the

Commission once the control cycle was completed, including with some results still in contradictory procedure, (KPI 5), to the "relevant expenditure" of the Commission reporting year. The risk "at closure" indicates the remaining risk to the 2023 relevant expenditure once the Commission will have applied the necessary additional financial corrections to bring the total residual error rates for all programmes down to 2%. By using the confirmed residual total error rate for accounting year 2021-2022 by programme as detailed in Annex 7B, REGIO identified for which programmes additional financial correction are required upon finalisation of the ongoing audit contradictory procedures.

For the **2014-2020** period under shared management, the estimated risk at payment linked to the 2023 relevant expenditure is calculated at **2.1% - 3.0%** (KPI 5) taking into account the financial corrections already made and taking a prudent approach for the maximum risk due to possible additional risks that are still undetected <sup>(48)</sup>.

For the **2021-2027** period under shared management, the estimated risk at payment is calculated at **0.26%**.

In conclusion, based on the elements reported above, **management has reasonable assurance** that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in her capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance albeit qualified by **two reservations**:

Reservation Title	Financial Impact (in m EUR)		Residual error rate 2023	Evolution
	2022	2023		
ERDF/CF management and control systems for <b>38 programmes of the 2014-2020 period</b> (16 Member States and the UK) of which <b>9 ETC</b>	213.3	142.8 <sup>(49)</sup>	See individual programmes Annex 7B	Maintained
ERDF/CF management and control systems for <b>5 programmes of the 2021-2027 period</b> , in 4 Member States.	–	0 <sup>(50)</sup>	See individual programmes Annex 7K	New

<sup>(48)</sup> There are 48 programmes at this stage that point to a confirmed residual total error rate 2021-2022 above 2% and the need for additional corrections, despite all controls at national level. REGIO will carry out additional financial corrections following contradictory procedures.

<sup>(48)</sup> Partial financial reservations use rates applied to the error rate and relevant expenditure: see Annex 9C.

<sup>(50)</sup> None of the 2021-2027 reservations have financial implications.

## 2.5 Declaration of Assurance and reservations

*I, the undersigned,*

*Director-General of Regional and Urban Policy*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view <sup>(51)</sup>.*

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

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

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

*However, the following reservations should be noted (more details are provided in Annex 9):*

*- a reservation concerning ERDF/CF management and control systems for 38 programmes of the 2014-2020 period (in 16 Member States and the UK), of which 9 ETC programmes);*

*- a reservation concerning ERDF/CF management and control systems for 5 programmes of the 2021-2027 period (in 4 Member States).*

*Themis Christophidou*

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<sup>(51)</sup> Here, true and fair means a reliable, complete and correct view on the state of affairs in the DG.

## 3. MODERNISING THE ADMINISTRATION

### 3.1 Human resource management

REGIO continuously streamlines its working methods, monitors and optimises the allocation of its workforce to deliver on REGIO priorities and improves its efficiency by establishing measurable targets and delivering results.

The third **REGIO Equality Mainstreaming Work Plan** of January 2023 includes internal actions on staff equality and external actions mainstreaming equality in cohesion policy. 19 internal and 18 external actions have been achieved.

In 2023, REGIO launched a survey on the implementation of the "**REGIO Charter for a smart, equal and inclusive workplace**" signed by Senior and Middle Management in 2022, which reflects the Commission's new Strategy, the work on equality and diversity and the new ways of working. The results of the survey will feed into the REGIO Equality Mainstreaming Work plan 2024.

Almost 300 colleagues and over 120 newcomers benefited from trainings included in the 2023 **REGIO Training Plan**. The Plan addresses the needs of the staff and allows for various means of formal and informal learning i.e., e-learning, communities of practice, peer learning, on-the-job learning, or knowledge sharing. The Plan includes trainings on ethics, e-learning or on the L&D Toolkit that provides for a smoother integration into REGIO.

**Mobility** continued to offer new job opportunities for colleagues in the same position for over five years, with the objective of encouraging staff to develop new skills and competences and to allow REGIO to benefit from better sharing of experiences.

In REGIO, **internal communication** plays a key role in developing a sense of purpose and European commitment among staff.

- The MyRegio intranet site, which will be replaced by a new DG Hub, provides easy access to corporate and REGIO news and updates, IT guidance and well-being tips.
- Internal communication initiatives include the 2023 Speak Up Staff Survey, BE WELL (Fit@work), Support Ukraine, Volunteering Week and European Week of Sports or the weekly REGIO Bulletin newsletter.
- Under the "**Stories from the regions**" initiative, 14 new episodes were produced in-house, published on REGIO's intranet and shared on social networks.
- REGIO maintained its participation in the Commission's internal communication networks and integrated REGIO's top news in the [MyIntracomm page](#).

### 3.2 Digital transformation and information management

#### *Digital transformation*

During 2023, the development of the two flagship information systems, **MyWorkplace and SFC2021** <sup>(52)</sup>, for the 2021-2027 period continued, in collaboration with several DGs. As a result of further developments of MyWorkplace, SFC2021 and the Business Reporting platform, the average implementation of the **EC Digital Strategy**'s core principles reached the maximum score. The table below showcases some examples of the implementation of the Strategy.

Objective of the Commission's Digital Strategy	REGIO's implementation in 2023
<b>1. Foster a digital culture</b>	<p>REGIO invested in the migration of SharePoint on premise sites to SharePoint online as well as in experimenting and innovating with new technologies (AI or Machine Learning):</p> <ul style="list-style-type: none"> <li>- Three predictive <u>AI pilots</u> were delivered or updated</li> <li>- In the context of the Commission's collaboration strategy and single integrated framework for collaboration <sup>(53)</sup>, REGIO started the migration of its 254 sites to <u>SharePoint online</u> with 94% of the standard collaborative sites already migrated.</li> <li>- The Risk Assessment Tool for DAC was converted from Excel to a <u>modern digital solution</u>.</li> <li>- REGIO onboarded <u>two new corporate systems</u>: MIRA and OMS</li> <li>- REGIO is considering setting up an environment to <u>test AI-powered language processing</u> services with internal data.</li> </ul>
<b>2. Digital-ready EU policymaking</b>	<p>REGIO continued raising awareness within the DG by promoting training on digital-ready policy making.</p>
<b>3. Empower business-driven digital transformation</b>	<ul style="list-style-type: none"> <li>- REGIO is the sole centralised provider of a common <u>business reporting system</u> to all Shared management DGs and BUDG, which is also used for the Cohesion Open Data Portal. Common or specific reports or significant revisions were provided.</li> <li>- <u>New processes</u> were deployed in MyWorkplace following business' owners needs.</li> <li>- The SFC2014 BO IT system covering the 2014-2020 period has remained subject to <u>additional developments</u>, including 2014-2020 closure.</li> </ul>
<b>4. Ensure a seamless digital landscape</b>	<p>In relation to the migration from ABAC to <u>SUMMA</u>, despite the efforts, the definition of business requirements, redesign of financial processes or migration of data still remained unsolved making integration with local systems impossible. The Supervisory Board postponed the go-live of SUMMA until January 2025 and a Memorandum of Understanding (MoU) was agreed between BUDG and REGIO outlining their joint responsibilities to adapt SUMMA and SFC to ensure business continuity at SUMMA's entry into production.</p> <p>The former workflow system, <u>WAVE</u>, will stay operational at least until end-2027 with its maintenance performed as usual.</p>
<b>5. Sustain a green, secure and resilient infrastructure</b>	<p>REGIO will continue to ensure an optimal implementation and reporting on its IT security compliance, through a regular update of its IT security plans and IT security controls.</p>

REGIO is a member of the Information Technology and Cybersecurity Board (ITCB) and the Extended IT Investments team (ITIT) representing the Shared Management DGs' family (AGRI, EMPL, MARE and REFORM) as well as participation in the Information Management Steering Board (IMSB). REGIO's mandates in the ITCB and IMSB were renewed. REGIO is also represented in the Cloud Council.

<sup>(52)</sup> Electronic data exchange system for all official exchanges of information between Member States and the Commission concerning the Cohesion Funds management

<sup>(53)</sup> Migration of REGIO's collab sites in the context of the Single Integrated Framework for Collaboration - Document endorsed by the Board of Directors - [Ares\(2023\)2227255](#)



## ***Sharing of information and knowledge***

**RegioWiki** is a key enabler and source for collaboration and knowledge sharing. The creation of the RegioWiki Extranet extends the possibility to consult the 2021-2027 legislation and related Questions and Answers to external stakeholders. In 2023, REGIO continued to update RegioWiki with legislative amendments and Q&As.

**Kohesio**, the public platform for visibility and transparency of cohesion policy funded projects, was further updated. In 2023, Kohesio won the Ombudsman award for Good Administration in the category “Open Administration”. It covers data from all Member States and is now available in all 24 EU languages. Today, Kohesio contains over 1.9 million projects and 600,000 beneficiaries supported by the ERDF, CF, and ESF including Interreg. It complements the official reporting from the MAs and allows for analysis of specific policy questions, such as the EU support for net-zero industry, semiconductors, equality, super-computers, rural areas, sustainable tourism and blue-economy.

## ***Document management***

The filing plans for the 2021-2027 period were updated in the testing environment (Ares-NomCom Acceptance) to allow testing of automatic registration in Ares. To ensure understanding and proper implementation of e-Domec rules across REGIO, hands-on trainings and presentations were provided to colleagues in 2023. REGIO encourages users to create, use and store information in digital format. REGIO also continued to provide services to REFORM in line with the Memorandum of Understanding on shared services.

## ***Data protection***

REGIO continued implementing the Data Protection Action Plan to comply with the Data Protection Regulation <sup>(54)</sup> taking the following steps:

- Keep updated records in the Data Protection Management System (DPMS) ensuring compliance with data protection principles;
- Organisation of awareness raising activities with participation of 400 staff: general and specific training;
- Ensure access to information, guidance and templates on REGIO Wiki.

The REGIO Data Protection Coordinator (DPC) is responsible for the implementation of data protection rules in the Cabinet of Commissioner Ferreira, offers support and trainings to the data protection contact point of REFORM in the framework of shared services, liaises with the Commission’s Data Protection Officer and participates in DPC network meetings. Since 2020, REGIO has provided data protection training to over 70 % of its staff.

## **3.3 Sound environmental management**

### ***Greener flagship conferences/events***

REGIO is embracing practices to minimise the environmental impact of flagship conferences and events in line with the EU Eco-Management and Audit Scheme (**EMAS**). Event

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<sup>(54)</sup> (EU) 2018/1725

organisers and partners are encouraged to use sustainable materials before and during events. For instance, the European Week of Regions and Cities is a **paperless and plastic free event**, that uses recycled and re-usable local materials to build the stands. To offset some 83 tons of the 2022 Week's CO<sub>2</sub> emissions, REGIO planted 553 trees in 2023. In addition, REGIO also encouraged EMAS to develop a compensation scheme at corporate level to offset the generated carbon emissions.

### ***Missions/Transport***

After COVID-19, there was a need to reconnect with partners at national and regional level in shared management. For necessary missions, the generated carbon emissions were limited as much as possible and alternatives were promoted, such as shared transport or train<sup>(55)</sup>. Nonetheless, REGIO aimed to replace missions, where relevant and possible, by **video-conferencing**. In addition, REGIO further promoted the use of public transport or **soft mobility** to reach events or come to work. **Telework** is facilitated Commission-wide, helping reduce emissions from staff commutes.

### ***Resources and waste***

The increased use of collaborative tools combined with telework has led to a reduction in printed pages. Similarly, **electronic publications** are the default. In addition, REGIO further promoted the application of **green public procurement principles** in tender specifications, selection and award criteria.

## **3.4 Example of economy and efficiency**

### ***Joint Audit Directorate for Cohesion***

The Joint Audit Directorate for Cohesion (DAC) was created in 2021 aiming to merge REGIO and EMPL audit capabilities. DAC is the first-ever Joint Directorate (with crossed resources for its units) under the oversight of two Directors-General. Through pooled synergies between audit teams, increased efficiencies in audit processes, training, support and tools, the DAC is a single audit interlocutor for internal and external stakeholders. Its mission is to contribute to the assurance of both REGIO and EMPL on the proper use of the Union funds assigned under their responsibility and in line with applicable rules, to ensure the legality and regularity of the underlying transactions. With a stable audit force, the DAC is responsible for auditing funds of both Directorates General under shared management, namely programmes under cohesion policy including new instruments and funding (CRII+, REACT-EU, SAFE, CARE) and other instruments (EUSF, EGF, BAR), as well as under indirect and direct management. The majority of audit-related processes carried out by DAC are centrally managed by the MAPAR IT tool. With this tool, a joint coordination unit and quality supervision at Director's level, audit activities are more easily monitored and standardised. The use of MAPAR has been extended to HOME and MARE in 2023, ensuring further centralisation of audit-related processes in DGs implementing funds under the CPR.

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<sup>(55)</sup> This action would/will facilitate offsetting the carbon footprint linked to missions; however, it would require changes in the current corporate financial rules (the current mission guide only allows staff to take the train if this is cheaper than any other transport means).