European Parliament

2022 Discharge to the Commission

WRITTEN QUESTIONS TO COMMISSIONER OLIVÉR VÁRHELYI

Hearing on 26 October 2023

Questions concerning errors, fraud, audit and risk assessments

1. What measures is the Commission putting in place to ensure that in general, in conflict or unstable zones, there is an adequate control of the way in which EU funds are spent?

Commission's answer:

Operating in unstable or in conflict zones represents a great challenge, also when it comes to implement the control strategy, as standard monitoring, control and evaluation activities, as in-country project site visits by staff, cannot be conducted as usual due to security, political and in the recent past COVID-19 constraints.

To mitigate these risks and challenges and safeguard the proper use of EU funds, various mechanisms - framed by the Financial Regulation and by the relevant agreements concluded with recipients of EU funds - are implemented in order to adapt the monitoring, control and evaluation process to the volatile situations on the ground.

- In this respect, the first step is to ensure the understanding of the local context and of its evolution, through for example satellite imagery analysis on damage assessments, as well as a closer monitoring of developments or projects. Whenever a vetting report comes in, the information is triangulated with other sources, further checks are undertaken and quicker reactions are implemented as the context evolve.
- Monitoring and evaluation provisions are also included in the contracts, for example in order to request implementing partners frequent updates, analyses and risk assessments. Cross-checking of oral, written, and visual information from project partners, interlocutors and like-minded donors allow the Commission to ensure a continuous risk-based review of the contract portfolio, for example to determine if a contract should be subject to re-orientation or suspension or other controls. Contractual provisions ensure that funds may be recovered if needed.
- The Commission has indeed specific guidelines and procedures in cases of crisis, post-crisis and fragility situations setting the legal framework, how to react at programming level or decision level and at implementation level; these include suspension of the agreement by the Contracting Authority in 'cases such as crisis entailing a change of EU policy'. Also, an agreement can be terminated 'if, at any time, either Party believes that the purpose of the Agreement can no longer be effectively or appropriately performed'. Flexibility of the procedures allowed by the Financial Regulation can be applied but the level of competition when awarding contracts shall be appropriate to the specific context of each project while taking into account the urgency of the situation.

- Contractual templates are standard, including provisions on control and reporting requirements. Similarly, these contracts are subjected to the annual risk assessment to draft control / audit plans.
- Furthermore, the Commission applies result-oriented monitoring reviews and third-party monitoring missions, with independent experts. For example, in the past three years (2020-2022), sixteen Results-Oriented Monitoring (ROM) reviews were carried out on EU Trust-Fund projects in Libya. In addition, since 2020, a comprehensive Third-Party Monitoring (TPM) framework was established for EUTF interventions in Libya but also in Syria. So far, it has proved to be an effective tool to increase the understanding of local dynamics and foster timely and relevant responses to address emerging needs on the ground.
- Finally, ex-ante controls - carried out prior to contracting, payments and clearings of pre-financings - and ex-post controls - such as audits, expenditure verifications and evaluations - are still ongoing to the extent possible during and/or after implementation of the projects and if suspended they are resumed as soon as conditions allow.

These measures lead to an increased understanding of local dynamics and a quicker and better reaction to address very unstable and erratic environments, in particular when it comes to realigning ongoing projects or, in worst-case scenario, suspending or cancelling them. Without usually the Commission’s own presence on the ground, these measures have allowed the Commission to mitigate the risks and to ensure sound implementation to the extent possible taking into account operational and access constraints. Nevertheless, providing financial assistance is politically and operationally essential in the context of several of the Commission’s objectives (notably stabilisation, counterterrorism and migration) but also for the future of the concerned countries.

2. The ECA Annual Report 2022 (ECA AR 2022) states that the auditors cannot determine an overall error rate for MFF Heading 6 (Neighbourhood and the World). However, ECA states that 47% of the sample of 72 transactions that ECA audited were affected by errors. These audit results indicate that the risk of error in MFF Heading 6 is high. How can you explain that 47% of the 72 transactions looked at by ECA were affected by errors? Could you provide us with concrete examples of the kind of errors in the 34 cases and the risk they are causing? What concrete measures have you taken to lower errors? In the DG NEAR AAR 2022, DG NEAR states that they ensure that the RER does not exceed 2% by the end of the management cycle. How can DG NEAR state this when the errors found in the sample taken by ECA were so high? What concrete measures has your service taken to lower errors?

Commission's answer:

The Commission applies a corporate methodology to assess the level of risk of its segments of expenditure. The expenditure is divided into segments with different levels of risk: lower (below 2%), medium (between 2% and 2.5%) and higher (above 2.5%).

In 2022, the expenditure of the MFF heading 'Neighbourhood and the World' assessed by the Commission as "medium risk" is the segment corresponding to direct management grants only, as in previous years the residual error rate in grants was above 2% (although, it went below 2% in 2021). The other segments are assessed at lower levels of risk, as all the error rates are below the materiality level of 2%, as reported in the AMPR.

The error rates coming from the Residual error rate studies carried out by DG NEAR and DG INTPA are based on a representative sample of closed contracts, which means contracts on which all previous controls have taken place. The assessment on the risk level by the ECA is based on controls on a limited number of transactions, sampled from ongoing contracts. On these ongoing contracts, the Commission will carry out additional controls (including pre-closure and post closure audits), and make corrections if errors are found. Hence, our corrective capacity has not been exhausted when the ECA audits on payments take place. This explains the substantial difference between the residual error rates calculated by the Commission and the estimated level of risk reported by the ECA.

Half of the sampled transactions for Chapter 9 of the Annual report are under DG NEAR's remit (35 transaction). Of the 35 transactions examined by the ECA, 14 (40 %) are reported as affected by errors, but only seven of them with a potential financial impact on the amounts charged to the EU budget.

Regarding the errors reported by the ECA as expenditure not incurred (§9.8 and Box 9.1), the Commission notes that the auditors included errors due to **excess clearing**, meaning a practice where expenditure not yet incurred by the implementing partner is included in the accounts as expenditure incurred. The Commission considers these errors as temporary as they will no longer exist after the final clearings, when any over-clearing is adjusted with the final acceptance of cost. This type of error does not affect the legality and regularity of the expenditure. However, to reduce these temporary errors, the Commission has taken action, i.e. asking its partners to review their reporting templates to allow for easier identification of incurred expenditure, and will step up its efforts in this regard. The Commission keeps raising awareness also during meetings with partners.

The case reported in Box 9.1 is a clear example of an error made by the implementing agency, which reported the advance payment to the beneficiary bank as “incurred cost”. The report submitted by the agency to the competent EU Delegation showed an aggregated amount under the Investment Grant component’s budget line. Under these circumstances, the EU Delegation could not detect the error. However, as mentioned, the legality and regularity of the corresponding expenditure was not questionable at the reception and approval of the final report.

For its Chapter 9 of the Annual report, the ECA sampled also transactions under the remit of DG INTPA (17 transactions); of these, 11 are affected by quantifiable errors.
Regarding some errors in procurement, the Commission considers that these do not have a financial impact, and there will be no recovery of funds.
In one of these cases, the ECA considered as a “procurement error” the selection of an expert from a pre-approved (by the Commission) pool of experts. The expert was classified under the category "Democracy and rule of law, Gender equality, Human rights" that did not correspond to the name of the unit managing the contract (Investment climate, Private sector development, international trade). The Commission argued that it has the discretionary power to accept the expert as "fit for purpose" for the review project *Bottom UP! Promoting a sustainable cotton & garment value chain from Ethiopian cotton to European consumers* and that many components in the expert’s CV were relevant to the contract description; moreover, the selection must consider also the availability of the expert. The Commission considers that the ECA auditors interpreted very narrowly the relevant professional experience of the selected expert, as well as the scope of the project and its description. As a result, the ECA considered the days worked by the expert as non-eligible and this resulted in an error of 41,67% to which the Commission has objected.
Another example is the finding labelled by the ECA as “serious failure in secondary procurement”. This finding relates to the purchase of six water pumps in Rwanda. The winning offer did not include taxes, whereas the other offers did. The Terms of Reference prepared by the grant beneficiary contained some clerical errors, including the requirement of including VAT on an item that could be exempted by VAT, and this was considered as a clerical error by the Commission. For the ECA, this resulted in an error of 10% to which the Commission objected.

3. ECA audited a final payment for a project to deliver and install communication equipment for a government authority in Bosnia Herzegovina. The supply contract was signed with a local supplier for a total of 255,492 Euros. Upon signing, the Commission made a pre-financing payment of 102,197 Euros without first doing a risk assessment (Box 9.2 of ECA AAR 2022). However, the Commission should carry out risk assessment for pre-financing payments between 60,000 and 300,000 Euros to make sure pre-financing payments are only made without a bank guarantee if the risk is low. Why did the Commission not conduct a risk assessment? What steps have you taken to make sure risk assessments are conducted when required? What are the consequences if the required risk assessments are not conducted?

Commission's answer:

The ECA found that the Commission made a pre-financing payment without conducting the mandatory risk assessment and in absence of a bank guarantee.
The Commission agreed with this finding. However, this is considered an isolated case, as the applicable procedures are clear and accessible to the staff in the dedicated Commission's guidance, the Manual of procedures (NEAR) and the Companion (INTPA) which include the user's guide for implementation of supplies contracts.
Since the relevant controls are in place but were not correctly applied in this case, as a remedial action DG NEAR sent a reminder to the Delegations under its remit concerning the obligation for risk assessment in requesting or waiving a financial guarantee in grants.

4. ECA states in their AR 2022 that they faced delays in receiving documentation from some international organisations. In addition, access to documents provided was often limited and hampered the planning, execution and quality control of audit work. What concrete measures has DG NEAR taken to improve Commission's communication with international organisations so that higher quality information is provided in a timely manner for audits? What concrete steps have you taken to increase pressure on international organisations to respond to audit information requests? (9.14 of ECA AR 2022).

Commission's answer:

The Commission has facilitated technical discussions between the UN and ECA in 2022 and 2023 with a view to ensure mutual understanding of the constraints of all parties in relation to audit and assurance. The Commission also supports initiatives to find practical and long-term solutions on access to documents, which is systematically included in the regular dialogue with our partners and in high-level bilateral meetings.
In 2023, we resumed joint training courses with EU and UN staff, which could not be conducted in recent years due to the COVID-19 pandemic (training courses incorporated in DG INTPA's regional seminars). During each of the "Finance and Contracts Regional Seminar" in Dakar (14-17 March 2023) and in Pretoria (24-27 April 2023), a day was dedicated to a joint EU-UN training session, where the challenges on audits and controls were discussed.

The Commission has also agreed with the UN to set up Joint Reference Groups to discuss regularly audit and control issues. Two meetings of the JRG have been held so far, and preparatory meetings with the UN were organised ahead of the EU/UN FAFA meeting in Florence of June 2023.
Further discussions between ECA and the UN Controller are planned to take place in October 2023.

5. ECA found shortcomings in their missions to four EU delegations in Bosnia and Herzegovina, North Macedonia, Rwanda and Serbia (ECA AR 2022, Box 9.4). Three of these delegations fall within DG NEAR's purview. Shortcomings found related to the functioning of internal control system elements, and included poor expenditure verification and a lack of fraud prevention training. For example, an expenditure verification report was received after the final payment had been made. In the area of fraud prevention training, some staff had not received training in fraud prevention training in the past 5 years. What concrete measures are you taking to make sure that staff are better equipped when it comes to expenditure verifications? What concrete steps have you taken to make sure that staff in the operations and finance and contracts sections at all delegations in DG NEAR regions are receiving adequate and frequent anti-fraud training? Why is anti-fraud training not a priority?

Commission's answer:

Expenditure verification.
The Commission has firmly objected to the error raised by the ECA due to an expenditure verification report received by the EU Delegation after the final payment. The expenditure verifications are just one of the control elements in the Delegation's control toolkit. In line with the existing rules and guidance, final payments can be processed after the Delegation staff have performed their checks. Article 15.7 of the General Conditions of the Grant Agreement makes it clear that the expenditure verification report is not required in case the Delegation has performed the verification itself (Art. 15.7 stipulates that the expenditure verification report shall not be provided by the coordinator if the verification is directly done by the contracting authority's own staff, by the Commission or by a body authorised to do so on their behalf).
Therefore, in the case presented by the ECA, the Delegation followed the rules and respected the time frame, as stipulated in the grant agreement. The Commission has challenged the ECA finding and rejected the recommendation building on it (recommendation 9.3).

Fraud prevention.
Anti-fraud awareness is a clear priority of DG NEAR, it is also one of the objectives of the DG Anti-Fraud Strategy, notably through several tools and resources, including training, to ensure unlimited access in time and geographical area to the required information on fraud prevention. In fact, DG NEAR offers a variety of additional activities and guidance to cover fraud-related issues – including an anti-fraud network with appointed anti-fraud focal points, presentations during relevant seminars and meetings, staff notes, manual and guidance, intranet pages, surveys, newsletters, supervision missions, etc.

DG NEAR is committed to enhance the training offer and to promote attendance to trainings, as one of the tools to increase staff awareness. From this point of view, DG NEAR actively proposed, supported and welcomed the action under the new CAFS Action Plan in terms of joint training plan on anti-fraud and ethics in cooperation with OLAF, DG HR and other RELEX services, including the EEAS. As DG NEAR is a geographically dispersed service with 2/3 of staff working in 26 different Delegations or Offices in different partner countries, the organisation of joint awareness raising initiatives will therefore allow the DG to use its resources more effectively in the future.

The results produced by the ECA are based on interviews conducted with a limited sample of staff in the concerned Delegations and did not conclude that the concerned staff, considering their functions and responsibilities, were not adequately aware of fraud.

Considering the variety of available tools and resources, including trainings organised by the RELEX DGs but also by OLAF and DG BUDG, DG NEAR monitors the level of fraud awareness through staff surveys. More than 750 DG NEAR staff members participated in the last anti-fraud survey, a participation rate of more than 50%. In addition, the results showed, in general, a sound anti-fraud environment and framework in the DG. Staff awareness of anti-fraud principles, framework and procedures was shown to be adequate, with an overall percentage of correct responses of 64% to the quiz section.
In particular, staff demonstrated a very good awareness of how to react to a potential fraud (90% of correct answers) and of the standard reporting procedures (84% of correct answers). Staff was also well -aware of the need-to-know principle applicable to the information related to ongoing OLAF investigations (91% of correct answers). As a follow-up to the results of the survey, actions were taken in order to further improve awareness: staff information seminars were organised and an action plan was adopted and is being implemented, including specific measures to encourage staff to enrol to anti-fraud trainings. The implementation of the action plan will be monitored and results measured in the next survey.

6. OPSYS IT system: during ECA's visits to four sample delegations (in Bosnia and Herzegovina, North Macedonia, Rwanda and Serbia), auditors found that staff had problems with the OPSYS system which led to delays, disruption of smooth functioning, and increased resource consumption. The Annual Activity Report of DG NEAR also reported delays in the implementation of OPSYS. The OPSYS IT system was reported by staff as being unstable, did not meet expectations, and required frequent intervention by local IT staff and DIGIT. The result is that the database most likely has unreliable and outdated data, and incomplete management information. What concrete steps have you taken to improve the OPSYS system? The system meant to provide a complete overview of all projects funded by the EU in the neighbourhood region and the rest of the world. Why have the problems with the OPSYS system not been addressed yet? What are the obstacles?

Commission's answer:

The Commission is of the opinion that these difficulties did not result in unreliable data or incomplete management information. The introduction of OPSYS, which is a complex ecosystem, came with significant challenges in the transition period for EU Delegations, as there were certain technical defects, notably during the forecasting exercise and, users also needed to adapt and learn. The terminology has evolved, the business concepts have been transformed, the software suite and the user interface are different from the legacy one. We are also still transitioning from legacy systems to new corporate systems depending on contract types, which can make the IT environment more challenging for the users.

The Commission was aware of these issues during the transition period and took measures to mitigate the related risks, notably with the resolution of the most problematic flaws at the end of the process (validation of the forecast). The situation is continuously improving, including in relation to the quality of the new software put in production and support to users.

Commission services have been continuously working together to improve the situation: running data quality operations to complete/correct the data imported from legacy systems; providing more training sessions to users in EU Delegations, including on-site training sessions. To stabilise the application, correct bugs and improve interfaces between OPSYS modules, complementary financial resources have been mobilised. Finally, we have launched a User Experience/User Interface (UX/UI) project to improve the user interface and the user experience of our users within the OPSYS ecosystem.

7. The ECA AR 2022 states that when looking at budget support, the auditors examined whether the Commission had complied with the conditions governing budget support payments to partner countries and had verified that these countries met the eligibility conditions. However, ECA's regularity audit cannot cover what happens after the commission pays aid to the recipient country, since these funds merge with the other country's own budget resources. What steps are you taking in DG NEAR to find out specifically where funds are flowing to? What steps has DG NEAR taken to make sure the money does not fall into the hands of corrupt officials? Does the Commission have any knowledge about the real implementation of the projects and final recipients?

Commission's answer:

The provision of EU budget support is contingent on four eligibility criteria, which must be met to be able to benefit from this modality, at the time of design of the financial assistance, and then at any time during implementation to allow for payments. It also foresees additional performance indicators, which trigger the full or partial disbursement of the variable part of instalments. No payment is made if conditions agreed with the authorities are not met. This implies that the partner country needs to incur the initial costs to meet the agreed conditions and results before any payment is made. Budget support therefore provides an ex-ante incentive to direct domestic resources towards the agreed priorities, and an ex-post payment, if these are fulfilled. No additional condition is set for the use of funds thereafter, as conditions applied upfront.

Furthermore, the Commission systematically assesses corruption risks in partner countries and mitigates them. This includes addressing corruption in its policy dialogue, providing incentives for reforms and strengthening the capacities of control, audit or judiciary systems, as well as of civil society to hold authorities accountable. Corruption risks and government measures to tackle corruption are duly considered, when deciding on budget support, and are part of the public finance management analysis to demonstrate its relevance and credibility.

Through conditions and performance indicators, budget support promotes fiscal transparency and accountability. While there is still room for progress, it has been demonstrated (World Bank data) that countries benefiting from EU budget support have improved overtime in the control of corruption and perform better on average than other partner countries where this modality is not applied.

The legal acts and guidelines governing EU budget support as well as the financing agreements signed with partner countries include provisions to ensure that, should a major corruption case arise, the Commission puts budget support payments on hold, until the case is investigated, and corrective measures are undertaken by national authorities. Operations are then suspended and eventually terminated if needed.

8. Based on its audit results, the ECA concludes that the heading 'Neighbourhood and the world' is a high-risk area. What are the measures undertaken by the Commission to ensure correct implementation of the EU financing in countries and regions that are more problematic?

Commission's answer:

In its official replies to Chapter 9 of the ECA Annual report and in reply to question n.2 (above), the Commission has clarified the methodology for the estimation of the risk of error in its expenditure. The Commission builds assurance from many sources, using the results of multiple checks at different levels on EU expenditure (i.e., ex ante controls, monitoring, project visits, audits, verification reports, the RER study, result-oriented monitoring, audits of the Internal Audit Service).

The DG NEAR residual error rate presented in the Annual activity reports continues to be below 2% (materiality level): it was 1 % in 2022 and 1.05% in 2021. The trend over the past few years shows the robustness of our control systems.

The wealth of information provided by our internal control system and the RER studies allows us to assess the risk of error in our expenditure per segment. Based on the risk at payment, the expenditure is divided into segments with different levels of risk. In 2021 and in 2022, the expenditure of the Chapter 'Neighbourhood and the world' assessed as "medium risk" is the segment corresponding to direct management grants only. The other segments are assessed as "lower risk".

These results confirm that DG NEAR has a well-functioning internal control framework and control strategy, covering the full implementation cycle.

If the Commission's checks indicate that the implementation of a given project is risky or that the project portfolio of a given EU Delegation is implemented in a high-risk environment, the Commission can adopt additional measures to ensure the adequate protection of EU funds, such as the reinforcement of staff, supervision missions, training courses and expenditure verifications. There are also contractual provisions that ensure that funds may be recovered if needed.

Please refer also to our reply to question n.1 (above), where we provide more detail on the controls in countries which are more problematic.

9. What is the final amount distributed by the European Fund for Sustainable Development Plus in 2022? What management system is used and what is the control and audit framework for these funds?

Commission's answer:

In 2022, the EFSD+ has been deployed in the EU partner countries through the following instruments:

- **Blending contributions**, combining resources from the EU budget and EU Member States to leverage loans and other financial instruments from International Financial Institutions.
    - Under the Western Balkans Investment Framework, **EUR 1.8 billion** of blending grants was approved in 2022 as co-financing of 41 infrastructure projects such as railways, hospitals or wastewater treatment plants.
    - Under the Neighbourhood Investment Platform, the Commission approved contributions in a total amount of **EUR 241 million** filling the financial gap in eleven key infrastructure projects and/or private sector development programmes that could not be implemented without concessional financing.
    - The three regional blending facilities at DG INTPA in 2022 gave a positive opinion on 25 projects with a total EU contribution of approximately **EUR 340 million** in Sub-Saharan Africa, Latin America and the Caribbean, and Asia Pacific.

- **The EU External Action Guarantee**

    - **under the EFSD+ Investment Window 1** to support sovereign and non-commercial sub-sovereign operations of the European Investment Bank (EIB). Under this guarantee, the EIB is able to provide up to EUR 26.7bn of loans partner countries around the world (to be signed until end-2028), of which EUR 18.1 billion for enlargement and neighbourhood countries. By end-2022, the Bank signed ca **EUR 4.5 billion** of loans across 34 countries. We estimate that these loans may mobilize total investment of some EUR 16 billion.

    - **under the EFSD+ Open Architecture** to support investments with the private sector in the EU partner countries, open to all implementing partners (i.e. EIB, EBRD and Development Financing Institutions, such as AfD, KfW, etc.) In 2022, five guarantee agreements were signed with AFD, EDFI MC and EBRD amounting to **EUR 295 million** in sectors such as MSME finance, Sustainable Cities and Digital.

In addition, the Commission organised in 2022 a call for proposed investment programmes in the framework of the EFSD+ open architecture. Following a consultation with the EFSD+ operational boards in December 2022 and January 2023, EUR 8.4 billion of EFSD+ guarantee cover has been allocated *[€6bn for INTPA regions and €2.4bn for NEAR regions]*. Negotiations of a number of guarantee agreements are currently ongoing.

In terms of **management systems:** both, the **blending contributions** from the Neighbourhood Investment Platform and the **budgetary guarantees** provided under the EFSD+ are implemented in the **indirect management** mode, via **pillar-assessed financial institutions,** such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and other national European Finance Institutions (e.g. the German KfW, the Agence française de Développement, or the Dutch FMO).

The contribution agreements (for blending contributions) and the guarantee agreements (for guarantees) signed with pillar-assessed institutions establish robust control systems, which are based on an array of controls: **project visits, result-oriented monitoring, checks before payment, expenditure verifications, audits, and ex post controls.**

Furthermore, at the programming stage, the Commission closely monitors all the operations through portfolio and pipeline review meetings. The beneficiary institutions are also obliged to submit each year a complete set of **audited financial statements** of the previous calendar year. Finally, all the operations supported through the different instruments of EFSD+ are subject to the **Court of Auditors' audits** for the annual Statement of assurance.

10. Could DG NEAR provide more information regarding the 'excess clearing' and how is it that these errors, even if temporary, do not distort budgetary planning?

Commission's answer:

The **excess clearing** happens when expenditure not yet incurred by the implementing partner is included in the accounts submitted by the partner as expenditure incurred. This is not an error that affects the legality and regularity of expenditure, as clarified in the reply to question 2 (above).

The Commission considers these errors as temporary as they will no longer exist after the final clearings, when any over-clearing is adjusted with the final acceptance of cost. This type of error does not affect the legality and regularity of the expenditure. However, to reduce these temporary errors, the Commission has taken action, i.e. asking its partners to review their reporting templates to allow for easier identification of incurred expenditure, and will step up its efforts in this regard. The Commission keeps raising awareness also during meetings with partners.

The case reported in Box 9.1 is a clear example of an error made by the implementing agency, which reported the advance payment to the beneficiary bank as "incurred cost". The report submitted by the agency to the competent EU Delegation showed an aggregated amount under the Investment Grant component's budget line. Under these circumstances, the EU Delegation could not detect the error. However, as mentioned, the legality and regularity of the corresponding expenditure was not questionable at the reception and approval of the final report.

An interim clearing is an internal accounting process which is not equal to the final acceptance of the eligibility of cost (hence, without impact on the legality and regularity of the expenditure). The budgetary planning is not based on the pre-financing cleared. It is based on a forecast of payments for each and every ongoing contract and for each and every contract to be signed within a given year. The Commission performs the forecasting of payments based on a risk assessment of the likelihood of the execution of each payment. For this reason, the clearing has no influence on the availability of resources which are already committed and paid.

11. In projects where the notional approach is applied, what happens when the eligible costs do not cover the EU contribution, are they reduced proportionally or are they withdrawn altogether? Is it possible that in certain cases the eligibility criteria of several contributors coincide and that therefore part of the costs are not controlled at all but are nevertheless covered by the notional approach?

Commission's answer:

In projects where the notional approach is applied, when the eligible costs incurred by the implementing partner do not cover the EU contribution, (i.e. the amount of costs incurred that are eligible for EU financing is lower than the maximum EU contribution to the Action established in the Agreement), the final amount of EU contribution is reduced by an amount corresponding to the difference between the maximum EU contribution and the total amount of costs eligible for EU financing, by adapting the balance payment or recovering funds already paid.

In the context of such projects, the application of the notional approach is however subject to the receipt, by the Contracting Authority, of a confirmation, included in the implementing partner's final report, that an amount corresponding to the amount paid by the Contracting Authority has been used in accordance with the obligations laid down in the Agreement, and that costs which were not eligible for the EU Contribution have been covered by other donors' contributions. In this context, it is underlined that before entrusting the implementation of EU-funded Actions under indirect management to such implementing partners, the latter must undergo a so-called 'pillar-assessment', which confirms, among others, that their accounting systems provide in all material respects accurate, complete and reliable information in a timely manner, in line with the criteria set by the Commission.

Notional approach is an assumption as we do not evaluate which are the eligibility rules of the other donors to which we presume the ineligible amounts are allocated.

12. The DG NEAR Anti-Fraud Strategy was adopted in March 2021 and the AAR states that the action plan has been so far successfully implemented. Could you please provide more details on the action plan and the main achievements, challenges or actions of 2022 related to the Anti-Fraud Strategy? What are the data on fraud detection and investigations in the programmes and funds managed by DG NEAR? In its replies to the ECA, DG NEAR mentions a number of tools to raise fraud awareness among staff in EU Delegations and does not consider 100% attendance at fraud prevention training every 5 years as an objective. How does the Commission measure the awareness of staff on fraud related issues?

Commission's answer:

Action Plan of DG NEAR Anti-Fraud Strategy

The Action Plan has been developed around seven key objectives:

1. Efficient and timely follow-up of OLAF's recommendations
2. Enhanced anti-fraud management reporting
3. Raising anti-fraud awareness
4. Contribute to the implementation of actions required under the Commission Anti-Fraud Strategy (CAFS)
5. Enhanced collaboration with other services dealing with anti-fraud
6. Addressing the most significant or recurrent fraud risks
7. Supporting the national authorities and other implementing partners in building knowledge in the field of fraud prevention and detection

Specific actions - under the responsibility of DG NEAR - have been defined around the seven key objectives, such as for example revise the structure and content of the regular reporting to Senior Management and Commissioner.

The main **achievements** or **actions implemented** so far are:

- 100% of OLAF recommendations issued in 2022 have been assessed within the deadline;
- 9 outstanding OLAF recommendations have been closed in 2022, as a result of the systematic follow-up and monitoring in place, while almost 20 have been closed so far in 2023;
- several awareness-raising initiatives (training, staff seminars, conferences, staff notes and reports, newsletters, survey) have been implemented. In particular, a factsheet on anti-fraud for implementing partners was prepared and an anti-fraud staff survey saw the participation of more than 750 DG NEAR staff members;
- all actions under DG NEAR remit in the CAFS action plan have been closed and DG NEAR actively contributed to the preparation of the new action plan;
- the cooperation with other services dealing with anti-fraud has been reinforced and namely also with the EPPO, the European Public Prosecutor Office;
- DG NEAR continued to support partner countries in structural and institutional reforms to fight corruption. For example, in the framework of EU funded EU4Integrity project, OECD has published pilot monitoring reports for five countries – Armenia, Azerbaijan, Georgia, Moldova and Ukraine – participating in the Istanbul Anti-Corruption Action Plan peer review programme. These

reports assess efforts to advance anti-corruption policy reforms in each country and propose actions to strengthen the fight against high-level corruption. In addition, the regional programme with the Council of Europe, “South IV - Regional Support to Reinforce Human rights, Rule of Law and Democracy in the Southern Mediterranean" is a joint initiative between the EU and the Council of Europe over the period March 2020 - February 2022 with the objective to support democratic reforms in the Southern Mediterranean region. Regional actions address common interests and facilitate knowledge sharing and lessons learned at a collective level on a wide range of topics.

The main **challenges** remain:

- DG NEAR is committed to ensure the best use of OLAF investigative efforts. However, the full implementation of OLAF financial recommendations is sometimes limited for well-justified and documented reasons, such as:
    - the need to correct the amount recommended by OLAF in order to reflect the actual paid EU contribution (instead for example the total budget of the project);
    - insufficient/ inadequate legal justification to impose financial penalties or initiate recoveries, for example, because EU funds are not affected by the identified wrongdoings, or the irregular amounts have already been declared ineligible during project implementation.
- The implementation of OLAF recommendations is slowed down in case of payments in instalments, enforcement of recoveries in third countries, particularly in case of entities in liquidation or bankruptcy, or in case of other ongoing investigations or criminal or judicial proceedings. These are factors mostly outside the control of DG NEAR.
- DG NEAR is a geographically dispersed service with 2/3 of staff working in 26 different Delegations or Offices in different partner countries which can prove challenging in terms of the organisation of awareness raising initiatives for such a wide and dispersed population. From this point of view, DG NEAR actively proposed, supported and welcomed the action under the new CAFS Action Plan in terms of joint training plan on anti-fraud and ethics in cooperation with OLAF, DG HR and other RELEX services, including the EEAS.

Data on fraud detection and investigations in the programmes and funds managed by DG NEAR

In 2022:

- 40 cases concerning DG NEAR were opened:
    - 29 were dismissed by OLAF at the selection phase, including also because of transfer between OLAF and EPPO;
    - 11 are ongoing (no confirmation that fraud or other irregularities have been committed), 6 by EPPO and 5 by OLAF.
- 41 cases concerning DG NEAR were closed:
    - 36 were dismissed or closed by OLAF without recommendation to DG NEAR;

- 5 were closed by OLAF with recommendations, of which two have already been closed, the remaining three are being followed-up.

These figures are based on information available to DG NEAR, that can evolve (OLAF and EPPO may have opened an investigation in 2022 without notifying DG NEAR).

Fraud Staff Awareness

DG NEAR has a clear objective to continue to keep a high level of staff fraud awareness, using several tools and resources, including training, to ensure unlimited access in time and geographical area to the required information on fraud prevention.
As indicated in point 5, DG NEAR offers a variety of additional activities and guidance to cover fraud-related issues – including an anti-fraud network with appointed anti-fraud focal points, presentations during relevant seminars and meetings, staff notes, manual and guidance, intranet pages, surveys, newsletters, supervision missions, etc.

DG NEAR is also committed to enhance the training offer, in the framework also of the new CAFS Action Plan, and to promote attendance to trainings, as a tool to increase staff awareness. Structured training is only one of the options available to staff to increase their level of awareness.

The results produced by the ECA are based on interviews conducted with a limited sample of staff in the concerned Delegations and did not conclude that the concerned staff, considering their functions and responsibilities, were not adequately aware of fraud.

Considering the variety of available tools and resources, including trainings organised by the RELEX DGs but also by OLAF and DG BUDG, DG NEAR monitors the level of fraud awareness through staff surveys. More than 750 DG NEAR staff members participated in the last anti-fraud survey, a participation rate of more than 50%. In addition, the results showed, in general, a sound anti-fraud environment and framework in the DG. Staff awareness of anti-fraud principles, framework and procedures was shown to be adequate, with an overall percentage of correct responses of 64% to the quiz section.

In particular, staff demonstrated a very good awareness of how to react to a potential fraud (90% of correct answers) and of the standard reporting procedures (84% of correct answers). Staff was also well -aware of the need-to-know principle applicable to the information related to ongoing OLAF investigations (91% of correct answers). As a follow-up to the results of the survey, actions were taken in order to further improve awareness: staff information seminars were organised and an action plan was adopted and is being implemented, including specific measures to encourage staff to enrol to anti-fraud trainings. The implementation of the action plan will be monitored and results measured in the next survey.

Questions concerning Palestine

13. The ECA AR 2022 highlights an example of ineligible expenditure included in the cost claim. It concerns a project in Palestine on the sustainable use of natural resources to support Palestine's transition to a green economy. As part of this project, an incentive component was intended to support SMEs in the form of grants for 'green' projects in the areas of energy efficiency, renewable energy and pollution abatement. 190.500 Euros had been approved of and paid to a development agency, with the task to monitor the implementation of the project by the final beneficiary. How is it possible that 190.500 Euros were paid out to a development agency for a project that was never realised? Why did the beneficiary never accept the proposed financing? Why did this non-implementation go undetected by DG NEAR? ECA took only a small sampling of projects for their AR 2022, so there could be other many other undetected cases outside of the sampling. Did you take any measures to better control the development and implementation of projects in such a critical region where corruption, violence and misuse of financial means are rampant? How do you control the work and the reputation of the agencies? How do you control that funds are not misused for terrorist purposes? In the last few days, we experienced that explicitly schools or social institutions were misused for terrorist activities such as the storage of weapons, offices of Hamas terrorists etc. Are you rethinking your strategy in Palestinian regions?

Commission's answer:

Regarding the ineligible expenditure reported in the ECA Annual report, the answer is developed in our reply to question 2.

As to the safeguards in place, all contracts involving EU funding must ensure the full respect of applicable EU legislation, including accountability, transparency and sound financial management, which aim at protecting the integrity and proper functioning of the EU funds. This includes ensuring that there is no detection of subcontractors, natural persons, participants in workshops and/or trainings or recipients of financial support made to third parties subject to EU restrictive measures. Strict monitoring and control mechanisms make sure that all individuals involved in EU funded actions exclusively pursue the objectives and activities approved for EU funding. Tender procedures and calls for proposals contain clear exclusion criteria that prevent any person or entity guilty of terrorism financing or terror related offences (including inciting, aiding, abetting or attempting to commit such offences) from receiving EU funds. Clauses in grant contracts allow the EU to suspend funding at any time if the above-mentioned offences are detected. These rules make the participation of entities, individuals or groups affiliated with terrorist organisations categorically incompatible with any EU funding. If there is clear evidence that any organisation has made an inappropriate use of EU funds, reimbursement of the funds is required and the grantee may lose eligibility for EU funding. If allegations are substantiated, the EU takes appropriate measures to protect the integrity and proper use of its funds.

In view of recent events, the Commission has announced that it is launching an urgent review of the EU's assistance for Palestine. The scope and modalities of the review is under preparation.

14. In the light of the recent terrorist attacks that showed very brutal behaviour of the perpetrators towards and as well as killing of children, women, disabled people, elderly people and many more, how have you and DG NEAR responded to the continued refusal of the Palestinian Authority's Ministry of Education to rid textbooks and study cards of examples glorifying violence, terrorism and antisemitism? The issue of antisemitism in the Palestinian school curriculum and in teaching at school has not been addressed in a sufficient way, particularly in light of the recent attacks of the Palestinian terrorist group Hamas on Israel on the 7th of October. Some EU funding through DG NEAR supports the Palestinian Authority's Ministry of Education. Will DG NEAR freeze funding until the terrorist activities are stopped? What concrete steps is DG NEAR taking to guarantee that no means can be misused and that no funding will be given until all schoolbooks and study-cards containing glorifying terrorism, violence and antisemitism have been officially and truly withdrawn and destroyed to address this urgent ongoing issue?

Commission's answer:

The European Commission does not fund Palestinian textbooks.

It provides support to the salaries of teachers through the PEGASE mechanism, which relies on robust safeguards tools to screen beneficiaries against over thousand sanction lists.

The Commission remains firmly committed to promoting inclusive and quality education for the Palestinian people, including to ensuring full adherence with the UNESCO standards and norms in the field of education and in all education material. To this end, the Commission will continue its constructive engagement with the Palestinian Authority to support their curriculum reform and ensure they address any problematic issues in the Palestinian textbooks, including on the basis of the findings of the Georg Eckert Institute study, and a second study on the matter, to be financed by the Commission. We have a shared interest to ensure an education for the next generation that supports peace and co-existence.

The assessment carried out by Georg Eckert Institute for International Textbook Research provides an objective basis for the EU's engagement with the Palestinian Authority on education reforms. Based on the study, the EU has stepped up its engagement with the Palestinian Authority to ensure that further curriculum reform addresses problematic issues identified in the shortest possible timeframe.

The Commission has taken note of the approval of the by-law on the Independent Centre for Curriculum Review and the establishment of Quality Education working groups. It has also taken the note that UNESCO is providing training to the Palestinian Ministry of Education.

The Commission also took good note of the European Parliament discharge report deploring the problematic and hateful material in Palestinian school textbooks and study cards, including the budgetary authority's repeated requests to ensure that all anti-Semitic references are deleted, and examples that incite hatred and violence are removed

from textbooks and study cards, and that that financial support from the Union for the Palestinian Authority in the area of education shall be provided on the condition that textbook content is aligned with UNESCO standards.
The Commission only supports the payment of recurring expenditures under PEGASE (Mécanisme Palestino-européen d’assistance socio-économique), which includes the payment of salaries of the Palestinian Ministry of Education. It does not finance payment of salaries in the Gaza Strip.
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The Commission has no tolerance for incitement to hatred and violence, and antisemitism in all its forms. These principles are non-negotiable for the Commission. Any material that goes against them risks undermining peace and coexistence and has no place in textbooks and classrooms. In this regard, the Commission reserves the right to take appropriate measures as necessary.

15. How many projects does DG NEAR have in the Gaza strip, for what amounts and under the responsibility of which agency are they? How much of the funding in the current programming cycle has already been disbursed to the Gaza strip? How many of the projects are under indirect management in the Gaza strip, for what amount in total and under the responsibility of which agency?

Commission's answer:

The ongoing development portfolio for the Palestinians, under the Neighbourhood, Development and International Cooperation Instrument (NDICI) Regulation, is EUR 681 million between 2021 and 2023, for the Palestinian Authority, UNRWA and development projects in the West Bank and Gaza. In general terms, about one third of the funding benefitted projects in Gaza and two third in the West Bank. The EU provided EUR 271 million to UNRWA for the provision of social services to the Palestinian refugees. In addition, the EU provided support to the Palestinian Authority's recurrent expenditures, mainly the salaries and pensions of civil servants, the social allowances paid through the cash transfer programme and part of the costs of referrals to the East Jerusalem Hospitals through the PEGASE mechanism. All individual beneficiaries were screened against a robust vetting system, that allows to categorically exclude funding to individuals listed under EU restrictive measures. Development projects in both Gaza and the West Bank are implemented by international organisations, including UN agencies and EU member states' agencies, international financial institutions and civil society organisations.

Following the barbaric terrorist attacks carried out by Hamas against Israel on 7 October, the Commission announced on Monday 9 October its decision to review its financial assistance for the Palestinians. While the Commission has a robust system of safeguards in place, with additional safeguards already in place and tailored to the specific context of cooperation with the Palestinians, the current evolving situation on the ground requires an additional comprehensive review.

The objective of this review is three-fold: (i) first, it aims to ensure that no EU funding indirectly enables any terrorist organization to carry out attacks against Israel, (ii) second, it aims to ensure the full respect for EU legislation and policy as well as prevent the possible abuse of EU funding to incite hatred and violence, (iii) third, it aims to assess whether the support programmes to the Palestinians need to be adjusted or modified in view of the changing priorities and feasibility of projects foreseen. The Commission is currently developing a methodology and expects to conclude this comprehensive review as soon as possible.

16. How many projects and what kind of projects does DG NEAR have in the Palestinian authority in total, for what amounts and under the responsibility of which agency are they? How many of the projects are under indirect management, for what amount in total and under the responsibility of which agency are they? How much of the funding has already been disbursed?

Commission's answer:

The ongoing development portfolio for the Palestinians, under the NDICI regulation, is EUR 681 million between 2021 and 2023, for the Palestinian Authority, UNRWA and development projects in the West Bank and Gaza. Around 60% is for the Palestinian Authority and cooperation projects in the West Bank and Gaza Strip, while 40% is for UNRWA, namely:

- EUR 316 million from 2021 (EUR 224 million for the Palestinian Authority and cooperation projects, EUR 92 million for UNRWA)
- EUR 283 million from 2022 (EUR 186 million for the PA and cooperation projects, EUR 97 million for UNRWA) and
- EUR 82 million for UNWRA in 2023.

EUR 463 million have already been disbursed to date. This includes EUR 271 million for UNRWA, whilst the rest were payments to the Palestinian Authority and for projects in Gaza and West Bank, implemented with different partners, including international organizations and civil society organisations, MS development agencies and in cooperation with the PA.

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Questions concerning Ukraine

17. What is the total amount of payments paid to Ukraine in 2022 and what part of that amount is subject to the reservation? What is the state-of-play of the action plan concerning the reservation for Ukraine, and the undertaking of corrective and preventive measures?

Commission's answer:

In 2022, DG NEAR paid EUR 910.8 million in bilateral assistance to Ukraine, out of which EUR 698 million through Budget Support.

Due to the security risks created by ongoing war activities, which do not only affect the frontline, but the entire country due to mine risks and frequent air raids, possibilities for monitoring projects by EU Delegation staff is very limited. This justified the issuing of a Reservation.

The security situation remains critical and largely unpredictable for field visits. In the absence of field missions, progress on project implementation is mainly monitored through desk reviews and remote solutions. Moreover, EU Delegation ensures close contact with implementing partners to monitor the situation and react as quickly as possible.

As part of the corrective actions the EU Delegation plans to use external monitoring capacity through a service provider for following up on the implementation of major programmes. For instance, for the implementation of grants with municipalities aimed at providing housing solutions for Internally Displaced Persons and social infrastructure repairs, the EU signed a Contribution Agreement with NEFCO (Nordic Environment Finance Corporation) to provide assistance to municipalities as well as supervision and monitoring including on use of EU funds. This approach could then be extended to other programmes and projects, including budget support, subject to the security situation.

18. DG NEAR states that the EU Delegation to Ukraine is currently repurposing 200 million Euros worth of ongoing projects to delivering emergency assistance to meet the pressing needs of the Ukrainian population and authorities. How fast is this repurposing proceeding? What steps has your service taken to make sure you can monitor final recipients of funds in a country where a war is occurring? What concrete anti-corruption measures has DG NEAR taken to make sure the funds do not fall into the hands of corrupt individuals? What steps has DG NEAR taken to ensure that those in need receive EU funds?

Commission's answer:

In order to provide quick assistance to enhance the resilience of the Ukrainian state and its citizens, a decision was taken to repurpose part of the ongoing assistance to specific activities that could support Ukraine in maintaining its independence, alleviate some of the direct negative impact of the war, and make the country stronger to respond to the military aggression. This allowed EU assistance to reach the beneficiaries before humanitarian partners could mobilise their aid programmes.

Close to EUR 200 million of ongoing projects were successfully repurposed. Out of EUR 192 million of repurposed past bilateral assistance, EUR 140 million was already disbursed during 2022.

As far as the rule of law situation in Ukraine is concerned, the country has made progress in addressing impunity for high-level corruption since the Revolution of Dignity in 2014. The establishment of the independent specialized anti-corruption institutions, the National Anti-Corruption Bureau of Ukraine, and the Specialized Anti-Corruption Prosecution Office, followed by the creating of the Anti-Corruption Court in 2019, were instrumental in this regard. Ukraine has also adopted an ambitious Anti-Corruption Strategy and Action Plan for 2023-2025 to further advance on its anti-corruption reform agenda. Anti-corruption measures are also a part of the reforms that Ukraine has to take on its EU path.

The European Commission also continues to provide comprehensive technical assistance support to Ukraine for strengthening capacities in addressing corruption and to ensure sound public financial management and spending, including to the key anti-corruption institutions as well as the State Agency for Reconstruction, the Ministry for Communities and Territories Development and Infrastructure of Ukraine, and the State Audit Service of Ukraine.

With regard to the protection of EU funding in Ukraine, the European Anti-Fraud Office (OLAF) is tasked with conducting administrative investigations into possible cases of fraud, corruption and other illegal activities affecting the EU's financial interests, as in other areas of funding received by countries outside the EU. In this context, the European Commission will continue to ensure that OLAF can exert its mandate in practice, for example by including strong anti-fraud provisions in the relevant funding agreements and contracts. Moreover, OLAF cooperates with Ukraine's national authorities to protect EU funding, notably by providing targeted anti-fraud assistance to authorities and by supporting the accession of Ukraine to the Union Anti-Fraud

Programme - a line of EU funding aimed to provide financial support to strengthen a country's operational and technical capacity in the protection of the EU's financial interests.

19. The Ukraine Facility will deploy large amount of funds to help rebuild Ukraine. What will happen to the other NDICI financing which was programmed for Ukraine? In particular budget support? Will it be re-directed to other candidate countries in the Eastern Neighbourhood (e.g. Moldova)?

Commission's answer:

At the moment, it is not possible to provide any indication concerning partner countries' allocations for the period 2025-2027, as they will be established in the context of the mid-term review of Neighbourhood, Development and International Cooperation Instrument Global Europe (NDICI-GE) programming. Bilateral support to Ukraine currently financed under NDICI-GE will continue, including actions adopted in 2023; as soon as the Ukraine Facility will come into force, it will cover the new bilateral operations for Ukraine for the period 2024-27. It is nevertheless important to ensure that Ukraine can continue to benefit from regional, thematic, rapid response, and other forms of support under NDICI-GE, including cross-border cooperation programmes, and more generally continue to advance regional, macro-regional and cross-border cooperation and territorial development, including through the implementation of Union macro-regional strategies.

Changes to the other country envelopes will be discussed by the first quarter of 2024, and are planned to be adopted by the College by the second quarter of 2024, in order to allow a smooth implementation of the actions in 2024 onwards.

20. What controls are there in place in Ukraine and also in other unstable zones where the EU is actively deploying financial means? How can we ensure that aid reaches the intended beneficiaries but the EU Budget is still protected from fraud and other irregularities?

Commission's answer:

Funding under the management responsibility of DG NEAR follows an internal control framework, with an array of internal and external controls. For example: monitoring and evaluations, financial checks, expenditure verifications, audits.

More specifically, all actions may be subject to:
- checks carried out by the staff of the European Commission before payments are made;
- expenditure verifications carried out by independent auditors contracted by the European Commission, which focus on legality and regularity of expenditure reported;
- two types of audits by the European Court of Auditors (ECA): on expenditure, with a focus on legality and regularity of transactions; on performance, to assess whether EU funds have been effectively and efficiently used;
- investigations by the Anti-Fraud Office (OLAF) and the European Public Prosecutor Office (EPPO).

Compared to existing instruments, it is proposed that the new Ukraine Facility will equip the Commission with even more robust powers to exercise audit and control, which will be made binding through a Framework agreement with the Government of Ukraine, and which will be a pre-condition for the release of funds under the Facility. For example, it is proposed that the Commission will be able to participate as the observer and perform checks during the project cycle, including on procurement processes carried out by the Ukrainian counterparts. On its side, Ukraine will also be required to upgrade its audit and control systems to increase efficiency. It is also proposed that an independent Audit Board is envisaged to report to the Commission on possible mismanagement of EU funds.

Ensuring that Union funds are exclusively used for the intended purpose is one of the Commission's main responsibilities and a built-in feature of its control systems. The main tools concerned are ex ante controls carried out by staff on programmes and projects (which includes verification of EDES database at key steps of budget implementation and payment authorisations such as at the beginning of the process (e.g. at the evaluation stage in the case of a procurement procedure), before the award, before the signature of the contract or agreement, before any payment, during implementation of a contract i.e. before taking a decision on authorising subcontracting or before proceeding with an addendum), audits and verifications by external service providers (during and/or after implementation) of reported costs, monitoring by operational officers throughout the implementation cycle and in case of development cooperation, results-oriented monitoring (ROM) system. Contractual provisions ensure that funds may be recovered if needed.

In addition, entrusted entities and beneficiary/partner countries implementing EU funds under indirect management also have an obligation to consult the EDES[1] database.

If suspicions of fraud arise, the Commission applies a zero-tolerance policy and ensures that all allegations are duly transmitted to OLAF for assessment. Depending on the established offences, OLAF addresses recommendations to the relevant Commission service for actions to take that may be of financial, administrative, disciplinary and/or judicial nature. Subsequently, the responsible Authorising Officer determines the final amounts to recover and implements the necessary actions to protect EU's financial interests, including on other projects/ contracts or at systemic/ horizontal level, if the internal processes and controls need to be reinforced.

[1] EDES stands for Early Detection and Exclusion System, the system established by the Commission in 2016 to reinforce the protection of the Union's financial interests against unreliable natural or legal persons, including public entities, or a group of such persons, (who offer to supply products, execute works or provide services or supply immovable property), in order to ensure sound financial management and help in achieving transparency.

Questions concerning horizontal issues

21. In particular in the context of the Russian illegal and unprovoked invasion of Ukraine, does the Commission intend to continue financing projects in neighbouring countries that continue to support, even indirectly, the regime in Moscow (e.g. Serbia)? Does the Commission agree that in such cases, funding should be re-purposed to other third countries?

Commission's answer:

The Commission implements EU financial assistance according to applicable legal framework, including the Financial Regulation and the legislation for specific external financing instruments, such as the Instrument for Pre-accession Assistance (IPA) III.

The EU implements strict financial control to all external financial assistance implemented in direct management or indirect management by beneficiary country or with international organisations, together with continuous monitoring, audit and evaluation of financial assistance, to ensure that EU funding benefits intended end-beneficiaries.

Where EU funding is provided in form of budget support, i.e. direct financial transfers to the national treasury of partner countries, these transfers are conditional on policy dialogue, performance assessment, and capacity building. In addition, the EU addresses risks for corruption and fraud through assistance to internal control, audit and anti-corruption institutions and judicial bodies. The EU also supports civil society organisations for their participation and oversight in the budgetary processes.

When it comes to EU financial assistance to Serbia, EU funds support fundamentally citizens and businesses in the Western Balkans region and indeed reforms needed to continue progressing on the EU path. The EU is Serbia's main political and, by far, economic partner. During these unprecedented times, it is the EU's essential interest to support the stability of the Western Balkans and to keep the region on the EU path. This is not possible without Serbia. The Commission is therefore committed to continue to support the gradual integration of the whole Western Balkans into the EU Single Market, including through the significant support made available under the Economic and Investment Plan for the Western Balkans.

22. As it stands now, the ceilings of Heading 6 are virtually exhausted (or very limited). This is why the MFF review proposal to increase ceilings in Heading 6 is so important. Can you tell us how the limited flexibility and margins in H6 affected the financing programmes in your portfolio as well as the overall activity of the EU in the Neighbourhood? To what extent the activity of the EU in the Neighbourhood will be affected if the MFF review and the increase of appropriations in Heading 6 do not take place?

Commission's answer:

Since the EU budget is negotiated under Multiannual Financial Frameworks (MFF) every seven years, there are some flexibilities built into the budget to deal with emerging challenges and new priorities. For example, annual budgets are usually put at a lower level to leave a margin in case of such unforeseen needs. Furthermore, NDICI-GE has an Emerging Challenges and Priorities Cushion, consisting of unallocated funds of EUR 9.31 billion, which could top-up any budget line of NDICI-GE.

However, particularly in the case of the Neighbourhood, there have been a staggering number of crises and new priorities since the start of this MFF.

The COVID-19 crisis has weighed heavily on all activities of the EU. However, while some other headings benefited from reinforcements from the new NextGenerationEU resource, Heading 6 received no such strengthening. Given the volatility of many countries in the Neighbourhood, a pandemic of such scale had serious repercussions that needed to be addressed by the margin of Heading 6 . Moreover, Neighbourhood countries were impacted heavily by surging inflation and the unparalleled level of unforeseen needs, ranging from natural catastrophes (such as the earthquake in Türkiye and Syria), through the increased level of new conflicts (among others, the Russian aggression against Ukraine) to significantly higher needs related to migration.

These crises have had its impact on the flexibilities of the EU budget. The margin in Heading 6 has been completely exhausted in the first three years of the MFF. As a result, for the remainder of the MFF, the annual ceilings of the budget lines cannot be further increased by using the margin. In addition, also the NDICI Cushion has been largely allocated in the first three years of the MFF to respond to the unforeseen needs described above such as the COVID-19 crisis, Syrian Refugee packages and support to Ukraine in response to the Russian war of aggression. In the first three years of the MFF, already 79% of the Cushion has been allocated of the EUR 9.31 billion budget.

Given the depletion of the Heading 6 margin and the limited availabilities left under the NDICI Cushion, the proposed increase of the ceilings in Heading 6 under the MFF review is needed. If the MFF review for Heading 6 does not take place, it will significantly hamper the Commission's ability to take on emerging challenges and support countries in our Neighbourhood. It would entail significant backtracking on the EU's commitments, for example compromising our help to Ukraine, and inability to tackle priorities affecting both countries in the neighbourhood and EU Member States, for example migration.

23. What steps has the Commission taken to prevent funds from falling into the hands of terrorist organisations and groups that propagate anti women's rights?

Commission's answer:

The EU is committed to the fight against terrorism and strongly opposes any incitement to violence and hatred, including radical anti-women's rights propaganda. This is incompatible with our values and principles and the EU regulatory framework comprises of a wide range of legal provisions and tools to ensure that EU funds do not end up benefitting organisations that incite terrorism or radicalisation.

Firstly, the Commission implements the Early Detection and Exclusion System (Article 137 Financial Regulation). Funds awarded are subject to the absence of any exclusion grounds as defined in the Financial Regulation. The System provides for the exclusion from Union financing of persons or entities guilty of terrorist financing, terrorism offences or offences linked to terrorist activities based on a final judgment. This includes actions such as inciting, aiding, abetting or attempting to commit terrorist offences.

In addition, all entities implementing EU funds are subject to compliance with EU restrictive measures (EURM), stemming from Article 215 of the Treaty on the functioning of the European Union. They are enacted through Council decisions allowing the targeting of governments of non-EU countries, companies, groups, organisations, or individuals and they prevent the listed entities from receiving EU funding. The compliance with EU restrictive measures is ensured at the level of implementing entities through contractual provisions: when negotiating financial agreements with implementing partners, the European Commission systematically includes clauses to effectively ensure that no EU funds or economic resources can be made available, directly or indirectly to, or for the benefit of, persons or entities subject to EU restrictive measures. The screening of persons and entities is made at different levels of the award process, including through a flagging mechanism embedded in the accounting system of the Commission. This helps ensure that entities subject to EU restrictive measures (subcontractors, natural persons, participants in workshops and/or trainings or recipients of financial support made to third parties) are effectively excluded from the EU funding.

Lastly, safeguarding the proper use of EU funds is further ensured by various mechanisms (e.g. suspension of contract or payments and contract termination) framed by the Financial Regulation and relevant agreements concluded with recipients of EU funds. All contracts involving EU funding must ensure the full respect of applicable EU legislation, including accountability, transparency and sound financial management, and aims at protecting the integrity and proper functioning of the EU funds. Strict monitoring and control mechanisms make sure that all individuals involved in EU funded actions exclusively pursue the objectives and activities approved for EU funding. These rules make the participation of entities, individuals or groups affiliated with terrorist organisations categorically incompatible with any EU funding. It is also important to recall that the Commission applies the Human Rights-Based Approach to its financial assistance, from identification to implementation of actions. This includes application of the ‘do no harm’ approach from a human rights and gender equality perspective. This tool also allows the Commission to put on hold any EU intervention presenting serious concerns over fundamental values.

24. An important aspect of EU funding in the neighbourhood region is visibility. However, many projects funded by the EU in the neighbourhood region end up not having labelling, plaques or other indicators showing that EU funds enabled the projects. For example, an EU-funded project in Jordan, Project "InJo 4.0" had no indication of being a recipient of EU funding on the building where the project offices are. The EU renovated the building for 120,000 Euros specifically for use for the project. What is DG NEAR doing in regards to this particular project to ensure that the EU is recognised and labelled as a donor? What concrete measures are you taking for projects in the neighbourhood region in general to make sure that EU funding is mentioned, recognised and correctly displayed? Why is visibility of EU funding not more of a priority? In addition to physical plaques and signs, what steps has DG NEAR taken to increase the digital visibility of EU-funded projects?

Commission's answer:

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work. The EU ensures that all projects fulfil their obligations in terms of communication and visibility. All communication and visibility material is checked and validated by the EU team responsible for the project.

The INJO 4.0 project is no exception. A communication and visibility plan was submitted and approved. Their website (https://injo4.org/) and facebook page (https://m.facebook.com/InJo4.0?__tn__=C#_=_) clearly mention EU funding. All videos, promotion material, and procurement processes indicate EU funding. The referred Centre of Excellence displays EU support in two locations, at the entrance of the renovated building's premises and in the reception area inside the building where final beneficiaries (students, ICT experts, industry experts) can also clearly see the references to EU support. This particular project has been very recently monitored (early October) and the Results Oriented Monitoring expert didn't signal any particular concern in terms of visibility and communication.

More broadly, the obligation to ensure EU visibility applies regardless of whether the actions concerned are implemented by the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. A reference to the relevant contractual obligations is included in the respective financing agreement, procurement and grant contracts, and delegation agreements. Implementing partners have the obligation to display the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. Visibility of EU funding continues to be a priority, and implementing partners must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions*. Moreover, implementing partners must keep the Commission and EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before implementation. In the case of non-compliance with visibility or strategic communication obligations, recipients of EU funding may be subject to a suspension of payment or a reduction of the EU's financial contribution, in accordance with the relevant provisions of the respective contract or agreement.

Any actions related to communication and visibility should be coordinated with the strategic communication actions of the EU Delegations, to ensure coherence of narrative and message, as well as horizontal strategic communication. This also applies to digital communication, where the use of Delegation means and channels beyond those of the implementing partner contributes to increase digital visibility of EU funded projects. As an example of the reach of Delegations channels, in 2022, statistics for "EU in Jordan" combining Facebook, Instagram and Twitter were the following: posts: 829; engagement as in Likes, reactions and shares: 36,600 people; and reach and impressions: 3,207,570 people. "EU in Jordan's" Facebook page currently has 129.000 followers; the X account (formerly known as Twitter) 27.300 followers and the Instagram page 8,700 followers.

25. Could concrete examples be provided for the partnership with EIB and other financial institutions for implementation of the financial assistance provided by DG NEAR and the achievement of the EU priorities in neighbourhood countries?

Commission's answer:

All the investments supported by the EU via blending and/or guarantees contribute to set in motion the Economic and lnvestment Plans, which support the EU's relations with the Western Balkans; Southern Neighbourhood and Eastern Neighbourhood countries, aiming to spur the long-term economic recovery of these regions, support a green and digital transition and foster regional integration and convergence with the EU.

NIP: One example of the blending support provided through the **Neighbourhood Investment Platform** is the contribution made through Kreditanstalt für Wiederaufbau (KfW) to the **European Fund for Southeast Europe (EFSE)**, an institution that has played a major role in MSME financing in enlargement countries for almost two decades. EUR 1.1 million sub-loans have been provided to Micro and Small Enterprises (MSE) and households in the Western Balkans, Türkiye and the Eastern Neighbourhood region as of 2022. By providing long-term financing to end-borrowers, the fund supported more than 2 million jobs in MSMEs. Furthermore, due to easier access to loans for housing modernisation measures, a sustainable improvement in housing quality could be achieved in the beneficiary countries.

Another example is the "**Deep and Comprehensive Free Trade Area (DCFTA) Facility**" implemented by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The Facility aims to improve access to finance for small and medium-sized enterprises in **Georgia, Moldova and Ukraine** to support them reaping the full benefits of the DCFTAs which also contributes to the implementation of the Economic and Investment Plan for the Eastern Neighbourhood. The DCFTA Facility offers a combination of guarantee and technical assistance for local banks with grants and advisory services for local SMEs. This Facility was originally launched in 2015 and has been followed up with actions better known as the "SME Competitiveness Programme" (EBRD, several phases) and the "EU4Business Guarantee" (EIB).

EFSD+ Investment Window 1: The following two projects represent good examples of the type of sovereign investments that the EU is supporting through the External Action Guarantee via the EFSD+ Investment Window 1:

- **AQABA-AMMAN WATER DESALINATION AND CONVEYANCE Project (Jordan)** – This ambitious project aims at financing the development of seawater abstraction, desalination and water conveyance infrastructure in Jordan. The Project thus aims at reducing the deficit in the country's crucial water resources by providing a safe and reliable freshwater supply for Amman and other governorates in Jordan ultimately benefitting the entire population of the country. Total Project Investment Costs are estimated at USD 2.7 billion and the EIB's contribution is comprised by an EIB sovereign loan (USD 350 million covered by the EU Guarantee under the EFSD+ Investment Window 1) and a project finance loan to the foreseen project company (USD 150 million). This project is a good example of a Team Europe initiative where a number of IFIs and key partners will complement the financing (e.g., French Development Agency, the European Bank for Reconstruction and Development, German Government via KfW, Spain, Italy, Dutch Government agency, United States Agency for International Development.) The project also benefits from a NIP grant of EUR 50 million.

- **STRENGTHENING TUNISIA FOOD RESILIENCE Framework Loan (Tunisia)** – The objective of this project is to strengthen the resilience of Tunisian's food supply system by increasing the storage capacity for wheat in modern silos, preserving the quality and hygiene of stored cereals. The project thus responds to the dramatic grain supply shock and the trade distortions caused by the Russian invasion of Ukraine. Total Project Investment Costs are estimated at EUR 550 million, of which the EIB loan signed in December 2022 amounts to EUR 150m. The following IFIs will finance the rest: World Bank (EUR 120m), the European Bank for Reconstruction and Development (EUR 150m) and the African Development Bank (EUR 130m). An investment grant of EUR 15m from the EU Neighbourhood Investment Platform (NIP) will also support the implementation of the project.

EFSD+ Open Architecture: A good example is the support provided in AZERBAIJAN through Aztelecom, a state-owned entity, which provides fixed telecommunication and internet service in Azerbaijan. The EU support is provided via an EBRD loan in the amount of EUR 46.7 million, which is covered by the EFSD+ guarantee (EUR 4.46 million of guarantee cover). With its financing, Aztelekom will provide fast-speed fixed broadband coverage to approximately 281,050 households in regions of outside of Baku which is contributing to the Flagship 2 (digital connectivity) in Azerbaijan related to supporting the digital transport corridor as defined in the Economic and Investment Plan.

26. How does DG NEAR contribute to the objectives of the European Green Deal, in particular in the area of energy?

Commission's answer:

In its external action, DG NEAR has been aligning its support to our partner countries with the European Green Deal's objectives. In particular, we support enlargement countries in aligning their policies and regulations to the EU acquis supporting the green transition. We also support investments in key sectors supporting the green transition, this includes energy, climate, water, environment, transport, agriculture and industry.

On energy, DG NEAR has mobilized more than EUR 5 billion for the energy sector since 2021, this includes investments in energy efficiency, renewable energy, hydrogen and energy interconnections.

This is done through different financial instruments, traditional grants, blended grants and guarantees. These financial instruments are translated into technical assistance to support key reforms in the energy sector and to develop pre-feasibility and feasibility studies; blended grants to support energy infrastructure investments and guarantees to de-risk investments in the energy sector.

An example: we have mobilised more than EUR 150 million for the trans Balkan corridor which will be key for the establishment of a regional power network connecting the electricity systems of Bosnia and Herzegovina, Montenegro, and Serbia with the EU.