

**Date and Time:** Monday 9 September 2024 17:48:00 CEST

**Job Number:** 233036295

**Documents (100)**

1. [*Register of Commission documents: WORKING DOCUMENT on the European Court of Auditors’ Special Report No 16/2017 (2016 Discharge): “Rural Development Programming: less complexity and more focus on results needed” Document date: 2018-01-23 CONT\_DT(2018)615449 Working documents*](https://advance.lexis.com/api/document?id=urn:contentItem:5RJN-M081-JDG9-Y281-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

**Search Terms:** rural and strategic or rural and interventions or rural and performance or rural and indicators or strategic and interventions or strategic and performance or strategic and indicators or interventions and performance or interventions and indicators or performance and indicators

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

2. [*The African Union to launch the Africa Agriculture Transformation Scorecard; towards achieving agricultural transformation*](https://advance.lexis.com/api/document?id=urn:contentItem:5RGX-Y821-JDG9-Y3J3-00000-00&idtype=PID&context=1516831)

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3. [*-Europa-Rural Development: new planning process too long and complex, say EU Auditors*](https://advance.lexis.com/api/document?id=urn:contentItem:5PYM-KHC1-F0K1-N2Y8-00000-00&idtype=PID&context=1516831)

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4. [*COMMISSION IMPLEMENTING REGULATION (EU) 2018/276 of 23 February 2018 amending Implementing Regulation (EU) No 215/2014 with regard to changes to the determination of milestones and targets for output indicators in the performance framework for the European Structural and Investment Funds*](https://advance.lexis.com/api/document?id=urn:contentItem:5RRR-NPX1-F0YC-N1RV-00000-00&idtype=PID&context=1516831)

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5. [*Council of the European Union: Communication on "The Future of Food and Farming" - Draft Council conclusions ST 6660 2018 REV 1*](https://advance.lexis.com/api/document?id=urn:contentItem:5S2R-9JV1-F0YC-N2RC-00000-00&idtype=PID&context=1516831)

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6. [*Register of Commission documents: Commission Implementing Decision adopting a Multiannual Indicative Programme between the European Union and Bolivia for the period 2017-2020 MIP Document date: 2017-07-03 COM -AC\_DR(2017)D052001-01(ANN01) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PDW-MHD1-JDG9-Y376-00000-00&idtype=PID&context=1516831)

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7. [*Register of Commission documents:to the Commission Implementing Decision adopting a Single Support Framework for European Union support to the Republic of Moldova for the period 2017-2020 Document date: 2017-08-09 COM-AC\_DR(2017)D051945-03 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PPC-1X01-F0YC-N445-00000-00&idtype=PID&context=1516831)

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8. [*Register of Commission documents:Annex to Commission Implementing Decision adopting an Annual Action Programme - Part 1, for Montenegro for the year 2017, EUR 13 511 103 Document date: 2017-06-27 COM-AC\_DR(2017)D051890-01 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5P8C-YRC1-JDG9-Y49G-00000-00&idtype=PID&context=1516831)

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9. [*Council of the European Union:COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS The Future of Food and Farming ST 14977 2017 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5R89-XVM1-JDG9-Y2M0-00000-00&idtype=PID&context=1516831)

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10. [*Register of Commission documents: Draft Commission Implementing Decision on the Annual Action Plan 2017 and 2018 part I for Bolivia Document date: 2017-07-04 COM-AC\_DR(2017)D052019-01(ANN01) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PDW-MHD1-JDG9-Y372-00000-00&idtype=PID&context=1516831)

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11. [*Gender Equality in Land Rights, Ownership Vital to Realizing 2030 Agenda, Women’s Commission Hears amid Calls for Data Collection on Tenure Security*](https://advance.lexis.com/api/document?id=urn:contentItem:5RX7-CHT1-JDG9-Y17R-00000-00&idtype=PID&context=1516831)

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12. [*Register of Commission documents: Updated version of the 2017-2020 Single Support Framework for EU support to Armenia Document date: 2017-09-26 COM-AC\_DR(2017)D052102-03 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MHW1-JDG9-Y0HV-00000-00&idtype=PID&context=1516831)

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13. [*Register of Commission documents:DRAFT REPORT on the Future of Food and Farming Document date: 2018-02-20 AGRI\_PR(2018)618154 Draft reports*](https://advance.lexis.com/api/document?id=urn:contentItem:5RRR-NPX1-F0YC-N2J3-00000-00&idtype=PID&context=1516831)

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14. [*Causes and effects of wine tourism development in organizational context: The case of Alentejo, Portugal*](https://advance.lexis.com/api/document?id=urn:contentItem:6BM4-FYP1-JBMY-H06W-00000-00&idtype=PID&context=1516831)

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15. [*FEDERAL REGISTER: Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2018 Pages 46289 - 46297 [FR DOC # 2017-21448]*](https://advance.lexis.com/api/document?id=urn:contentItem:5PN7-THJ1-F0YC-N50H-00000-00&idtype=PID&context=1516831)

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16. [*FEDERAL REGISTER: Applications for New Awards; Promise Neighborhoods Program Pages 33881 - 33894 [FR DOC # 2017-15359]*](https://advance.lexis.com/api/document?id=urn:contentItem:5P2W-7F71-JDG9-Y1X0-00000-00&idtype=PID&context=1516831)

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17. [*Council of the European Union:Commission staff working document: Summary of Executive summaries Internal audit engagements finalised by the IAS in 2016 Accompanying the document Report from the Commission to the European Parliament and the Council Annual report to the Discharge Authority on Internal audits carried out in 2016 (Art 99(5) of the Financial Regulation) ST 12267 2017 ADD 1*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-FF01-JDG9-Y3H1-00000-00&idtype=PID&context=1516831)

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18. [*Register of Commission documents: Jordan SSF-SUM EN: Commission Implementing Decision adopting a Single Support Framework for European Union support to Jordan for the period 2017-2020 Document date: 2017-09-26 COM-AC\_DR(2017)D053176-01(ANN01) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MHW1-JDG9-Y0JW-00000-00&idtype=PID&context=1516831)

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19. [*Register of Commission documents:Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The Future of Food and Farming Document date: 2018-05-08 AGRI\_AM(2018)622077 Amendments to draft opinions*](https://advance.lexis.com/api/document?id=urn:contentItem:5SD5-7131-JDG9-Y03R-00000-00&idtype=PID&context=1516831)

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20. [*Register of Commission documents: Region Annex 6 Enhancing the Capacity of AHA Centre Document date: 2017-07-28 COM-AC\_DR(2017)D051788-02(ANN06) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PKK-HMD1-F0YC-N3JT-00000-00&idtype=PID&context=1516831)

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21. [*Register of Commission documents: RAP East2017-part 1-SUM EN: Commission Implementing Decision on the Neighbourhood East Regional Action Programme 2017 Part I (including 1 action on budget 2018 and 2019), to be financed from the general budget of the European Union Document date: 2017-09-26 COM-AC\_DR(2017)D053173-01(ANN03) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MHW1-JDG9-Y0JD-00000-00&idtype=PID&context=1516831)

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22. [*Register of Commission documents:Annex to Commission Implementing Decision adopting an Annual Action Programme for Albania for the year 2017, EUR 61 200 000 Document date: 2017-09-04 COM-AC\_DR(2017)D052804-01 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PV5-VR61-F0YC-N1JP-00000-00&idtype=PID&context=1516831)

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23. [*Reinsurance in China Market Analysis 2017 (By Segment, Key Players and Applications) and Forecasts To 2020*](https://advance.lexis.com/api/document?id=urn:contentItem:5P0S-3H11-F0K1-N4HX-00000-00&idtype=PID&context=1516831)

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24. [*Credit for Agricultural Households in India : Growing Inequities*](https://advance.lexis.com/api/document?id=urn:contentItem:6BH2-VXY1-JBMY-H404-00000-00&idtype=PID&context=1516831)

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25. [*Register of Commission documents: Annex 4 Viet Nam Trade-Related Assistance (ARISE Plus Viet Nam ) Document date: 2017-07-28 COM-AC\_DR(2017)D051788-02(ANN04) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PKK-HMD1-F0YC-N3K0-00000-00&idtype=PID&context=1516831)

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26. [*Rural entrepreneurship and transformation: the role of learnerships*](https://advance.lexis.com/api/document?id=urn:contentItem:5YJX-P231-DY4C-F0KF-00000-00&idtype=PID&context=1516831)

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27. [*Cadogan Petroleum Annual Financial Report -6-*](https://advance.lexis.com/api/document?id=urn:contentItem:5S68-YJT1-F0CC-S27H-00000-00&idtype=PID&context=1516831)

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28. [*Register of Commission documents: Challenges for EU cohesion policy: Issues in the forthcoming post-2020 reform Document date: 2018-02-16 EPRS\_BRI(2018)614703 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5RRR-NPX1-F0YC-N21P-00000-00&idtype=PID&context=1516831)

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29. [*Register of Commission documents: REPORT on building blocks for a post-2020 EU cohesion policy Document date: 2017-05-24 P8\_A(2017)0202 Reports*](https://advance.lexis.com/api/document?id=urn:contentItem:5P51-RRP1-F0YC-N4P9-00000-00&idtype=PID&context=1516831)

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30. [*Register of Commission documents:Annex to Commission Implementing Decision adopting an Annual Action Programme for Montenegro for the year 2017 Part 2, EUR 15 million Document date: 2017-09-04 COM-AC\_DR(2017)D052806-01 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PV5-VR61-F0YC-N1JF-00000-00&idtype=PID&context=1516831)

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31. [*CocoaAction has brought companies together - but is it making a difference?*](https://advance.lexis.com/api/document?id=urn:contentItem:5R19-XWR1-JC6M-X29K-00000-00&idtype=PID&context=1516831)

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32. [*Register of Commission documents: Palestine 2017 AAP-AD2: Commission Implementing Decision on the Annual Action Programme 2017 in favour of Palestine to be financed from the general budget of the Union Document date: 2017-09-27 COM-AC\_DR(2017)D053178-01(ANN01) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MHW1-JDG9-Y0JN-00000-00&idtype=PID&context=1516831)

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33. [*Council of the European Union: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 99/2013 on the European statistical programme 2013-17, by extending it to 2020 PE 29 2017 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5PXR-N021-F0YC-N3MF-00000-00&idtype=PID&context=1516831)

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34. [*Register of Commission documents: PROVISIONAL AGREEMENT RESULTING FROM INTERINSTITUTIONAL NEGOTIATIONS Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 99/2013 of the European Parliament and of the Council on the European statistical programme 2013-17, by extending it to 2018-2020 Document date: 2017-06-15 ECON\_AG(2017)607923*](https://advance.lexis.com/api/document?id=urn:contentItem:5P2N-7J01-JDG9-Y1C0-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

**Search Terms:** rural and strategic or rural and interventions or rural and performance or rural and indicators or strategic and interventions or strategic and performance or strategic and indicators or interventions and performance or interventions and indicators or performance and indicators

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

35. [*Council of the European Union: COMMISSION STAFF WORKING DOCUMENT Roma integration indicators scoreboard (2011-2016) Accompanying the document Communication to the European Parliament and the Council Midterm review of the EU framework for national Roma integration strategies ST 11801 2017 ADD 1*](https://advance.lexis.com/api/document?id=urn:contentItem:5PXR-N021-F0YC-N3K7-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

36. [*Empowering women and stimulating development at bottom of pyramid through micro-entrepreneurship*](https://advance.lexis.com/api/document?id=urn:contentItem:5V6X-0HW1-JB00-30D9-00000-00&idtype=PID&context=1516831)

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37. [*FEDERAL REGISTER: Inviting Applications for Rural Cooperative Development Grants Pages 24726 - 24735 [FR DOC # 2018-11482]*](https://advance.lexis.com/api/document?id=urn:contentItem:5SFK-8TH1-F0YC-N44F-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

38. [*Rating upgraded/reaffirmed for pass through certificates (PTCs) under two micro loan securitisation transactions originated by Belstar Investment and Finance Private Limited (Belstar)*](https://advance.lexis.com/api/document?id=urn:contentItem:5S72-MS71-F19S-P2WF-00000-00&idtype=PID&context=1516831)

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39. [*Ratings assigned to pass through certificates (PTCs) issued under a Micro loan receivables securitisation transaction originated by Belstar Investment and Finance Private Limited (Belstar)*](https://advance.lexis.com/api/document?id=urn:contentItem:5RDD-M5T1-JDVR-025D-00000-00&idtype=PID&context=1516831)

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40. [*Population and attendance growth provide opportunities for Egypt 's education sector*](https://advance.lexis.com/api/document?id=urn:contentItem:5WS6-C4X1-DXYV-74HG-00000-00&idtype=PID&context=1516831)

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41. [*Bank of China reports 2017 interm results*](https://advance.lexis.com/api/document?id=urn:contentItem:5RGT-0TW1-JC0X-H0GW-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

42. [*Committee on the Rights of the Child considers report of Panama*](https://advance.lexis.com/api/document?id=urn:contentItem:5RFG-21P1-F0YC-N3H5-00000-00&idtype=PID&context=1516831)

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43. [*Register of Commission documents: Commission staff working document Empowering Development: Implementation of the new European Consensus on Development in energy cooperation Document date: 2017-12-15 COM\_SWD(2017)0482 SEC documents*](https://advance.lexis.com/api/document?id=urn:contentItem:5R96-RG01-JDG9-Y416-00000-00&idtype=PID&context=1516831)

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44. [*Farming for the next generation*](https://advance.lexis.com/api/document?id=urn:contentItem:5RB9-6X31-F12F-F48J-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

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45. [*Register of Commission documents:REPORT on the deployment of cohesion policy instruments by regions to address demographic change Document date: 2017-10-23 P8\_A(2017)0329 Reports*](https://advance.lexis.com/api/document?id=urn:contentItem:5R5J-9J41-JDG9-Y34F-00000-00&idtype=PID&context=1516831)

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46. [*P8\_TA(2015)0384 Cohesion policy and review of the Europe 2020 strategy European Parliament resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy (2014/2246(INI))*](https://advance.lexis.com/api/document?id=urn:contentItem:5PT4-N491-F0YC-N4X9-00000-00&idtype=PID&context=1516831)

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47. [*Register of Commission documents: Draft opinion The future of food and farming Document date: 2018-04-09 BUDG\_AM(2018)619402 Amendments to draft opinions*](https://advance.lexis.com/api/document?id=urn:contentItem:5S5N-W8W1-JDG9-Y4J4-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

48. [*ICRA assigns provisional ratings to pass through certificates (PTCs) issued under a micro loan securitisation transaction originated by Belstar Investment and Finance Private Limited*](https://advance.lexis.com/api/document?id=urn:contentItem:5RW6-PJT1-JDVR-01FW-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

49. [*Stakeholder collaboration: A means to the success of rural tourism destinations? A critical evaluation of the existence of stakeholder collaboration within the Mournes , Northern Ireland*](https://advance.lexis.com/api/document?id=urn:contentItem:6BM4-FYP1-JBMY-H065-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

50. [*Register of Commission documents: Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions My region, My Europe, Our future: The 7th report on economic, social and territorial cohesion Document date: 2017-10-09 COM\_COM(2017)0583 COM documents*](https://advance.lexis.com/api/document?id=urn:contentItem:5R36-J7G1-F0YC-N0X4-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

51. [*Bisichi reports financial results for year ended December 31, 2017*](https://advance.lexis.com/api/document?id=urn:contentItem:5S5S-7K01-DYG0-71V7-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

52. [*Register of Commission documents: Annex 1 to Commission Implementing Decision amending Decisions adopting the Turkish Cypriot community programmes for the years 2014, 2015 and 2016 Document date: 2017-07-26 COM-AC\_DR(2017)D051891-02 Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PKK-HMD1-F0YC-N3JP-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

53. [*- Berkeley Energia Limited - 2017 Annual Report*](https://advance.lexis.com/api/document?id=urn:contentItem:5PM7-PKK1-F0K1-N4F3-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

54. [*Register of Commission documents: The sheep and goat sector in the EU: Main features, challenges and prospects Document date: 2017-08-31 EPRS\_BRI(2017)608663 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5PRD-4RD1-JDG9-Y48C-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

55. [*Register of Commission documents: Draft Commission Implementing Decision on the 2017 Annual Action Programme in favour of Cuba Document date: 2017-07-04 COM-AC\_DR(2017)D052017-01(ANN01) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5PDW-MHD1-JDG9-Y374-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 01 jun 2017 tot 01 jun 2018; Locatie: International; Plaats van publicatie: Europe; Taal: English |

56. [*Register of Commission documents: European Parliament resolution of 17 April 2018 on strengthening economic, social and territorial cohesion in the European Union: the 7th report of the European Commission (2017/2279(INI)) Document date: 2018-04-17 P8\_TA-PROV(2018)0105 Texts adopted (provisional edition*](https://advance.lexis.com/api/document?id=urn:contentItem:5S64-YDB1-F0YC-N1GV-00000-00&idtype=PID&context=1516831)

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57. [*Register of Commission documents: 2000/29/EC and 2008/90/EC, Regulations (EC) No 178/2002, (EC) 882/2004 and (EC) No 396/2005 of the European Parliament and of the Council, Directive 2009/128/EC of the European Parliament and of the Council and Regulation (EC) No 1107/2009 of the European Parliament and of the Council and repealing Council Decisions 66/399/EEC, 76/894/EEC and 2009/470/EC Document date: 2017-09-26 COM\_SWD(2017)0314 SEC docume*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MJ01-F0YC-N2PR-00000-00&idtype=PID&context=1516831)

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58. [*Register of Commission documents:Draft Commission Implementing Decision on the Annual Action Programme 2017 for the Pan-African Programme - Annex 4 Digital Africa (PRIDA) Document date: 2017-06-28 COM-AC\_DR(2017)D051910-01(ANN04) Comitology - Right of scrutiny*](https://advance.lexis.com/api/document?id=urn:contentItem:5P8C-YRC1-JDG9-Y498-00000-00&idtype=PID&context=1516831)

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59. [*Council of the European Union: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - The Future of Food and Farming (Markets & Direct payments) - Exchange of views - Preparation of the Council debate ST 5775 2018 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5RP3-61X1-F0YC-N2JD-00000-00&idtype=PID&context=1516831)

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60. [*Violent governance, identity and the production of legitimacy: autodefensas in Latin America*](https://advance.lexis.com/api/document?id=urn:contentItem:671W-P2V1-F0C0-343M-00000-00&idtype=PID&context=1516831)

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61. [*Council of the European Union:JOINT STAFF WORKING DOCUMENT Report on EU- EGYPT relations in the framework of the revised ENP ST 11287 2017 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5PGT-5K01-JDG9-Y0CS-00000-00&idtype=PID&context=1516831)

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62. [*Register of Commission documents:Meeting of CONT from Monday, 20 November 2017 to Tuesday, 21 November 2017 Document date: 2018-01-08 CONT\_PV(2017)11-20-1 Minutes*](https://advance.lexis.com/api/document?id=urn:contentItem:5RG2-V641-F0YC-N29D-00000-00&idtype=PID&context=1516831)

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63. [*Register of Commission documents: European Parliament resolution of 15 November 2017 on an Action Plan for nature, people and the economy (2017/2819(RSP)) Document date: 2017-11-15 P8\_TA-PROV(2017)0441 Texts adopted (provisional edition*](https://advance.lexis.com/api/document?id=urn:contentItem:5R6T-YHX1-JDG9-Y2DJ-00000-00&idtype=PID&context=1516831)

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64. [*Register of Commission documents:Instrument for Pre-accession Assistance (IPA II) Document date: 2017-05-30 EPRS\_BRI(2017)603957 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5P52-B041-JDG9-Y38H-00000-00&idtype=PID&context=1516831)

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65. [*-IMF Executive Board Concludes 2018 Article IV Consultation and the Third Review under the Stand-By Arrangement with Jamaica*](https://advance.lexis.com/api/document?id=urn:contentItem:5S4C-MD71-JD3Y-Y1R6-00000-00&idtype=PID&context=1516831)

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66. [*Register of Commission documents: Research for REGI Committee - Implementation of Cohesion Policy in the 2014-2020 Programming Period - January 2018 UPDATE Document date: 2018-01-18 IPOL\_BRI(2016)563425 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5RJ1-4S11-JDG9-Y1TJ-00000-00&idtype=PID&context=1516831)

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67. [*Register of Commission documents: staff working document Accompanying the document COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESMENT BANK A stronger and renewed strategic partnership with the EU's outermost regions Document date: 2017-10-25 COM\_SWD(2017)0349 SEC documents*](https://advance.lexis.com/api/document?id=urn:contentItem:5R65-4NS1-F0YC-N1DW-00000-00&idtype=PID&context=1516831)

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68. [*Africa THE BANKER AWARDS 2017AFRICA WINNERS*](https://advance.lexis.com/api/document?id=urn:contentItem:5RG4-BBV1-DY9P-N4GK-00000-00&idtype=PID&context=1516831)

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69. [*Register of Commission documents:Harnessing globalisation for local and regional authorities: Challenges and possible solutions Document date: 2017-09-29 EPRS\_BRI(2017)608723 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5R13-MJ01-F0YC-N0M7-00000-00&idtype=PID&context=1516831)

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70. [*P8\_TA(2015)0402 Cohesion policy and marginalised communities European Parliament resolution of 24 November 2015 on cohesion policy and marginalised communities (2014/2247(INI))*](https://advance.lexis.com/api/document?id=urn:contentItem:5PX3-MST1-JDG9-Y27W-00000-00&idtype=PID&context=1516831)

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71. [*Asia-Pacific ASIA-PACIFIC WINNERS THE BANKER AWARDS 2017*](https://advance.lexis.com/api/document?id=urn:contentItem:5RG4-BBV1-DY9P-N4GV-00000-00&idtype=PID&context=1516831)

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72. [*Saudi Arabia works to meet rising water and energy demand*](https://advance.lexis.com/api/document?id=urn:contentItem:5WS6-C4X1-DXYV-740K-00000-00&idtype=PID&context=1516831)

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73. [*Public and private facilities find their place in providing quality health care and services to residents in Sri Lanka*](https://advance.lexis.com/api/document?id=urn:contentItem:5WS6-C4X1-DXYV-72R8-00000-00&idtype=PID&context=1516831)

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74. [*Bangalore Electricity Supply Company Limited: Issuer rating reaffirmed at [ ICRA ]BBB+ (Stable)*](https://advance.lexis.com/api/document?id=urn:contentItem:5RTW-PD11-F19S-P1N0-00000-00&idtype=PID&context=1516831)

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75. [*‘Old, borrowed, and renewed’: A review of early childhood education policy in post-Reform Indonesia*](https://advance.lexis.com/api/document?id=urn:contentItem:6BNK-7DJ1-DY41-72S2-00000-00&idtype=PID&context=1516831)

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76. [*Register of Commission documents: European Parliament resolution of 6 July 2017 on EU action for sustainability (2017/2009(INI)) Document date: 2017-07-06 P8\_TA-PROV(2017)0315 Texts adopted (provisional edition)*](https://advance.lexis.com/api/document?id=urn:contentItem:5P97-J9Y1-JDG9-Y0M5-00000-00&idtype=PID&context=1516831)

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77. [*Register of Commission documents: Ex-post Addressing migration and forced displacement challenges in Asia and the Middle East Document date: 2018-01-16 COM-AC\_DI(2018)O055047-01 Comitology - Documents for information*](https://advance.lexis.com/api/document?id=urn:contentItem:5RJ6-PV21-JDG9-Y2N7-00000-00&idtype=PID&context=1516831)

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78. [*BRIEF NEWS BULLETIN NO. 10319*](https://advance.lexis.com/api/document?id=urn:contentItem:5RGR-T4G1-F12K-R2ND-00000-00&idtype=PID&context=1516831)

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79. [*Council of the European Union: REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT under Article 12(3) of Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment ST 9274 2017 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5P52-B031-F0YC-N22R-00000-00&idtype=PID&context=1516831)

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80. [*Ethical issues in action-oriented research in Indonesia*](https://advance.lexis.com/api/document?id=urn:contentItem:6BNK-BF11-DY41-73BJ-00000-00&idtype=PID&context=1516831)

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81. [*Is gender an impediment to firm performance? Evidence from small firms in Mauritius*](https://advance.lexis.com/api/document?id=urn:contentItem:5YJX-P231-DY4C-F0M4-00000-00&idtype=PID&context=1516831)

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82. [*Register of Commission documents: European Maritime and Fisheries Fund Document date: 2017-06-15 EPRS\_BRI(2017)607254 Briefing*](https://advance.lexis.com/api/document?id=urn:contentItem:5NYF-9F71-F0YC-N348-00000-00&idtype=PID&context=1516831)

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83. [*BRIEF NEWS BULLETIN NO. 10439*](https://advance.lexis.com/api/document?id=urn:contentItem:5SDB-5J11-F12K-R2W6-00000-00&idtype=PID&context=1516831)

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84. [*BISICHI MINING - Annual Financial Report*](https://advance.lexis.com/api/document?id=urn:contentItem:5SBJ-CWS1-JB72-13JV-00000-00&idtype=PID&context=1516831)

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85. [*Council of the European Union: REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the implementation of the Common Monitoring and Evaluation System for the European Maritime and Fisheries Fund ST 5798 2018 INIT*](https://advance.lexis.com/api/document?id=urn:contentItem:5RP3-61X1-F0YC-N2GT-00000-00&idtype=PID&context=1516831)

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86. [*Vietnam : Full text of APEC ministerial meeting's joint statement*](https://advance.lexis.com/api/document?id=urn:contentItem:5PY0-25Y1-DYRV-34JK-00000-00&idtype=PID&context=1516831)

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87. [*Putin chairs meeting on defence industry problems - transcript*](https://advance.lexis.com/api/document?id=urn:contentItem:5RHK-SGC1-JC8S-C50K-00000-00&idtype=PID&context=1516831)

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88. [*Menhaden Capital Plc - Annual Financial Report*](https://advance.lexis.com/api/document?id=urn:contentItem:5SBJ-CWS1-JB72-13D2-00000-00&idtype=PID&context=1516831)

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89. [*Inclusive growth versus pro-poor growth: Implications for tourism development*](https://advance.lexis.com/api/document?id=urn:contentItem:6BM4-FYP1-JBMY-H00G-00000-00&idtype=PID&context=1516831)

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90. [*Register of Commission documents: WORKING DOCUMENT on the certification bodies’ new role on CAP expenditure: a positive step towards a single audit model but with significant weaknesses to be addressed Document date: 2017-06-15 CONT\_DT(2017)605918 Working documents*](https://advance.lexis.com/api/document?id=urn:contentItem:5NYF-9F71-F0YC-N35B-00000-00&idtype=PID&context=1516831)

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91. [*Putin's state of the nation address - Kremlin transcript*](https://advance.lexis.com/api/document?id=urn:contentItem:5RSD-VD81-JC8S-C54V-00000-00&idtype=PID&context=1516831)

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92. [*We should’ve made a revolution: A critical rhapsody of the Hungarian education system’s catching-up revolutions since 1989*](https://advance.lexis.com/api/document?id=urn:contentItem:6BNK-7DJ1-DY41-747X-00000-00&idtype=PID&context=1516831)

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93. [*Register of Commission documents: REPORT on increasing engagement of partners and visibility in the performance of European Structural and Investment Funds Document date: 2017-05-24 P8\_A(2017)0201 Reports*](https://advance.lexis.com/api/document?id=urn:contentItem:5P51-RRP1-F0YC-N4PB-00000-00&idtype=PID&context=1516831)

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94. [*Register of Commission documents:Global Trends to 2035' Geo-politics and international power Document date: 2017-09-20 EPRS\_STU(2017)603263 Study*](https://advance.lexis.com/api/document?id=urn:contentItem:5PX3-MST1-JDG9-Y362-00000-00&idtype=PID&context=1516831)

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95. [*Localising the impact of techno-entrepreneurship in Eastern Iran : Birjand 's Science and Technology Park as a local innovation community*](https://advance.lexis.com/api/document?id=urn:contentItem:6BNK-C111-DY41-73W0-00000-00&idtype=PID&context=1516831)

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96. [*P8\_TA(2015)0391 New challenges and concepts for the promotion of tourism in Europe European Parliament resolution of 29 October 2015 on new challenges and concepts for the promotion of tourism in Europe (2014/2241(INI))*](https://advance.lexis.com/api/document?id=urn:contentItem:5PT4-N491-F0YC-N4XG-00000-00&idtype=PID&context=1516831)

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97. [*Hunger Amidst Plenty: Locating Vulnerability in a Resource-Rich Region in India*](https://advance.lexis.com/api/document?id=urn:contentItem:6BH2-VXY1-JBMY-H3YV-00000-00&idtype=PID&context=1516831)

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98. [*South East Europe - Q2 2018*](https://advance.lexis.com/api/document?id=urn:contentItem:5RHY-FTD1-JD33-J2K4-00000-00&idtype=PID&context=1516831)

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99. [*Ephemeral Development Agendas and the Process of Priority Shifts in Malawi*](https://advance.lexis.com/api/document?id=urn:contentItem:6BH2-VXY1-JBMY-H40G-00000-00&idtype=PID&context=1516831)

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100. [*United plans premium economy on the 787-10 E United Airlines will offer its new premium economy product on the Boeing 787-10 when the aircraft is introduced later this year, a seat map for the stretched Dreamliner shows.*](https://advance.lexis.com/api/document?id=urn:contentItem:5S3H-K491-JCF2-H537-00000-00&idtype=PID&context=1516831)

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# [***Register of Commission documents: WORKING DOCUMENT on the European Court of Auditors’ Special Report No 16/2017 (2016 Discharge): “Rural Development Programming: less complexity and more focus on results needed” Document date: 2018-01-23 CONT\_DT(2018)615449 Working documents***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RJN-M081-JDG9-Y281-00000-00&context=1516831)

Impact News Service

February 2, 2018 Friday

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**Body**

Brussels: Public Register European Parliament has issued the following document:

DT\1141960EN.docx PE615.449v01-00 EN United in diversity EN European Parliament 2014-2019 Committee on Budgetary Control 23.01.2018 WORKING DOCUMENT on the European Court of Auditors’ Special Report No 16/2017 (2016 Discharge): “***Rural*** Development Programming: less complexity and more focus on results needed” Committee on Budgetary Control Rapporteur: Karin Kadenbach PE615.449v01-00 2/6 DT\1141960EN.docx EN Audit scope, objective and approach. The EU's ***rural*** development policy aims to make ***agriculture*** more competitive, ensure the sustainable management of natural resources and climate action, and achieve balanced territorial development of ***rural*** economies and communities, including the creation and maintenance of employment. The EU plans to spend nearly 100 billion euro for the period 2014-2020. The European ***Agricultural*** Fund for ***Rural*** Development (EAFRD provides financial support for measures carried out by the Member States through national or regional ***Rural*** Development Programmes (RDPs), which are prepared by the Member States and approved by the Commission. An objective of the EU ***strategic*** framework for 2014-2020 was to focus more on results. The Court of Auditors examined whether the new legislative framework (Common Provisions Regulation (CPR), EAFRD and related Commission regulations) reflected an enhanced focus on ***performance*** and whether the new programming process enabled and resulted in the production of quality RDP’s thus potentially contributing to better results.

In order to do so, the Court focused on checking: – the RDPs’ consistency, complementarity and synergy with higher-level ***strategic*** documents and – the definition and incorporation of the reinforced ***intervention*** logic in the RDPs. Additionally, the Court analysed whether the new ***performance*** framework is likely to enhance the focus on results and the timeliness of RDP approval. The audit was carried out from March 2016 to February 2017 and was based on a review of information and documents from the Commission and the Member States on the approval process for a selection of RDPs:10 approved RDPs (both national and regional), complemented by two RDPs reviewed by the IAS.1 Court's findings and observations 1. The Court found that the design of the 2014 – 2020 programming framework was more ambitious, but implementation was affected by significant shortcomings. Furthermore despite Commission’s efforts, the start of RDPs’ implementation, similarly to previous programming cycle, was delayed and the implementation of planned spending over the first three years was lower than in the previous period. The post 2020 CAP is currently under political debate and at this stage, it is unknown what will be its exact shape in the future. In preparing its recommendations, the Court assumed that future ***rural*** development policy would involve significant continuities with the current framework. 1 Belgium (Wallonia), Germany (Baden Württemberg), Ireland, Greece, Spain (La Rioja), France (Lorraine), Italy (Campania), Austria, Poland and Romania, complemented by Denmark and the United Kingdom (England). DT\1141960EN.docx 3/6 PE615.449v01-00 EN The aim of integrating the EAFRD with other European Structural and Investment Funds was to increase the thematic concentration of EU spending by ensuring that the RDPs made a clear contribution to the Europe 2020 priorities, but also to foster coordination, complementarity and synergies between programmes. In practice, although this resulted in RDPs being consistent with ***strategic*** documents such as the Partnership Agreements1, the RDPs’ contribution towards thematic objectives is difficult to assess because the relationships between the various programming documents are complex. Complementarity, synergies and coordination between RDPs and programmes from other ESIFs are not satisfactorily developed. 2. While the Commission sought to balance the amount of information presented in the RDPs, RDPs reviewed by the Court of Auditors were lengthy and required a significant administrative effort on the part of national authorities to meet the extensive new content requirements. However, the main goal of addressing specific territorial needs better and demonstrating more clearly the links between identified needs and selected support measures is not achieved. 3. The Court found that the new ***performance*** framework has limited potential to enhance the focus on ***performance*** and results. The Common Monitoring and Evaluation System has the potential to improve the way ***rural*** development policy is monitored in that it could provide a step in the direction of addressing the vicious circle of defining contents of new programmes without timely result information from the previous periods. However, the lack of adequate assessments of the quality of data collection, combined with shortcomings in the choice of ***indicators*** and the fact that most result ***indicators*** do not fit the definition of a “result” ***indicator***, are a significant limitation in terms of measuring policy results and their contribution to the Europe 2020 strategy. The “***performance*** reserve” is a misnomer because the ***indicators*** used for the ***performance*** review do not measure policy results but explicitly seek to measure expenditure and direct output. This being the case, the ***performance*** framework does not provide information about the RDPs’ objectives and expected results. Moreover, the audit confirmed the inherent risk of RDPs setting unambitious milestones and targets to avoid possible sanctions in the event of underperformance. In any case, when relevant milestones are not reached, the ***performance*** reserve is not lost as it can be reallocated to other priorities, and potential financial sanctions are not based on result ***indicators***. 4. The Court found that the programming process required significant efforts by the Commission and the Member States, but that the implementation of the RDPs began more slowly than in the previous period. Support for ***Rural*** Development programming is a multi-stage process in which RDPs are the last stage. The financial allocation per Member State and the ***strategic*** legislative 1 Partnership Agreements entered into by the European Commission and each Member State for the 2014-2020 programming period. PAs set out the national authorities' plans on how to use funding from the European Structural and Investment Funds and outline each country's ***strategic*** goals and investment priorities, linking them to the overall aims of the Europe 2020 strategy for smart, sustainable and inclusive growth. PE615.449v01-00 4/6 DT\1141960EN.docx EN framework are decided by the EP and the Council before the programmes are drafted. RDPs should therefore be viewed more as tools for bringing national and European perspectives into line than as documents triggering the process of building national RD strategies from scratch. Despite the RDPs’ rather limited role in the multi-stage process described above, a considerable administrative effort was required of the Commission and the Member States to prepare and approve all the RDPs. A long delay in adopting the legal framework (December 2013) impacted the timeframe for submitting and approving the programming documents; when combined with complex RDP content requirements, this meant that RDPs were approved and new programmes implemented after the programming period has already started. A total of 118 RDPs were approved by the Commission within a 20-month period (April 2014 - December 2015), these figures compare favourably with the 94 RDPs approved within 24 months for the 2007-2013 programming period. However, despite the efforts made, RDPs were approved later than in the previous period and most of them did not start to be implemented before mid-2015; with some starting, only in 2016. Consequently, about 90 % of the EAFRD financial plan remained unspent at the beginning 2017 (the fourth year of the programming period) whilst the equivalent figure in the previous period was 83 %. This entails a risk to full implementation of the financial plan, as well as an emphasis on absorption, meaning that the results-oriented approach endorsed by the Commission is undermined. Delays in implementing programmes under the MFFs are general and recurrent problems, increasing the risks of excessive focus on absorption and planning new MFF before having the results of EU spending under the preceding one. Replies of the Commission The Commission accepts recommendations of the Court partially or in full. Draftsman's recommendations for possible inclusion in the annual discharge report The European Parliament recommends that: 1. When preparing the post 2020 programming period, in order to enhance the focus on ***performance*** and results, increase integration between RDPs and other programmes and to improve assessments of the RDPs’ contribution towards the ***strategic*** objectives: (a) the Commission ensure that its policy proposals indicate how consistency between individual programmes will be enhanced through further development of requirements. (b) the Member States specify how coordination, complementarity and synergy mechanisms will be implemented, followed up and reported on in the context of overarching EU objectives and rules. Target implementation date: for (a) should be by the time the proposals are published and 2022 for (b) DT\1141960EN.docx 5/6 PE615.449v01-00 EN 2. The Commission review the design of programming documents with a view to simplifying their content and reducing the number of requirements for the post-2020 programming period. In particular, it should limit programming documents’ structure to those elements and options that are essential for correct planning, implementation and monitoring of RD expenditure. Target implementation date: end of 2020 3. The Commission work with the Member States to ensure that the enhanced annual implementation reporting of 2019 provides clear and comprehensive information on programme achievements and that the required answers to common evaluation questions provide an improved basis for the next programming period. Target implementation date: end of 2018 4. When preparing the post 2020 programming period, the Commission define more accurately, in the context of overarching EU objectives for ***agriculture*** and ***rural*** development, the types of ***indicators*** to be set in order to assess the results and impact of ***rural*** development ***interventions***. It could benefit in this process from the experience and solutions already developed by other international organisations (e.g the WHO, the World Bank and the OECD) focussing on ***performance*** and results. The Commission need to ensure the continuity of the type of investment currently carried out by the second pillar of the common ***agricultural*** policy, which is an essential financing instrument for boosting economic growth promoting competitiveness, innovation and employment in lagging regions’ ***rural*** and mountainous areas and ensuring sustainable ***rural*** development. The Commission promote and facilitate national cooperation and networking in order to disseminate good ***performance*** measurement practices developed at national level. Target implementation date: end of 2020 5. For the post 2020 programming period, the Commission review and take stock of the experience from the implementation of the current system including: (a) the impact of the ***performance*** reserve and what alternative mechanism(s) could better improve ***performance***; (b) the appropriateness and measurability of result ***indicators*** used to access the ***performance*** reserve and; (c) the use made of financial sanctions to address underperformance. Target implementation date: end of 2020. 6. The Council and the Commission consider aligning the long-term strategy and policy-making into line with the budgetary cycle and conducting a comprehensive spending review before a new long-term budget is set. In order to allow approval of RDPs at the start of the next programming period, the PE615.449v01-00 6/6 DT\1141960EN.docx EN Commission should indicate in its legislative proposals what changes in the timing of policy design, programming and implementation are included to ensure that RDPs can be approved at the start of the next programming period to allow for timely implementation from 2020. Target date – publication of legislative proposals (mid 2018) 7. Is of the opinion that the decision on the duration of the MFF should strike the right balance between two seemingly conflicting requirements: on the one hand, the need for several EU policies – especially those under shared management, such as ***agriculture*** and cohesion – to operate on the basis of the stability and predictability of a commitment of at least seven years, and, on the other hand, the need for democratic legitimacy and accountability that results from the synchronisation of each financial framework with the five-year political cycle of the European Parliament and the European Commission.

**Load-Date:** February 3, 2018

**End of Document**



[***The African Union to launch the Africa Agriculture Transformation Scorecard; towards achieving agricultural transformation***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RGX-Y821-JDG9-Y3J3-00000-00&context=1516831)

Impact News Service

January 25, 2018 Thursday

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**Length:** 615 words

**Body**

Addis Ababa: African Union Commission has issued the following news release:

The African Union will, during the Assembly of the AU Heads of State and Government, launch the Africa ***Agriculture*** Transformation Scorecard (AATS) and present the Inaugural Biennial Report on the Implementation of the June 2014 Malabo Declaration on Accelerated ***Agricultural*** Growth and Transformation for Shared prosperity and improved Livelihoods.

The AATS, the first of its kind in Africa, captures the continent’s ***agricultural*** progress based on a pan-African data collection exercise led by the African Union Commission’s Department of ***Rural*** Economy and ***Agriculture*** (DREA), NEPAD Agency, Regional Economic Communities in collaboration with partners, which has gathered data on up to 43 ***indicators***.

The AATS tracks progress in commitments made by AU Heads of State and Government through the Comprehensive Africa ***Agriculture*** Development Programme (CAADP) and the Malabo Declaration to increase prosperity and improved livelihoods for transforming ***agriculture***.

The AATS captures 23 ***performance*** categories and 43 ***indicators*** for each of the 55 AU Member States. The ***indicators*** chosen to track the ***performance*** categories were defined on the basis of the ***strategic*** objectives derived from the Malabo Declaration.

In the Malabo Declaration, AU Member States committed to report on a biennial basis, the progress in achieving the 7 commitments of the Declaration with the first report to be presented at the 30th AU Assembly of Heads of State and Government. Preceding this, the “Inaugural Biennial Report on the Implementation of the June 2014 Malabo Declaration on Accelerated ***Agricultural*** Growth and Transformation for Shared prosperity and improved Livelihoods,” was endorsed by Ministers of ***Agriculture*** during the 2nd Specialized Technical Committee on ***Agriculture***, ***Rural*** Development, Water and Environment that was held in October 2017, in Addis Ababa (Ethiopia).

“No other ***agriculture*** evaluation tool in Africa’s history has ever brought together the AU, all the continent’s regional trade organisations, the private sector, the international development community and all African governments to build Africa’s ***agriculture*** and agribusiness markets,” said DREA’s Director Dr. Godfrey Bahiigwa. “The aim is that the AATS will encourage ***performance*** across AU Member States, and also provide a tool that can be used by every actor engaged in ***agriculture***, across governments, the private sector, and non-state actors.”

In 2017, the AUC conducted and facilitated 6 training sessions respectively in West (in French and English), East, Central, Southern and North Africa regions, with 156 national experts trained including CAADP Focal Persons, Monitoring and Evaluation Specialists and Statisticians from Ministries of ***Agriculture*** and other line ministries.

Almost all AU Member States participated in the training and familiarized themselves with the Malabo Declaration, targets and ***indicators***, and the biennial review reporting format, which has further embedded the culture of mutual accountability in Africa.

The work that has gone into delivering Africa’s most comprehensive ***agricultural*** data set has been enormous, but with this new tool set, the AUC has delivered on the Heads of State’s mandate to create tools which, when implemented, will take Africa’s economic growth to a next level.

In addition, five top performing countries in the implementation of the Malabo Declaration commitments will be awarded at the Summit.

The 30th AU Heads of State and Government Summit is scheduled to take place from 28-29 January 2018 under the theme, “Winning the Fight against Corruption: A Sustainable Path to Africa’s Transformation.”

**Load-Date:** January 26, 2018

**End of Document**



[***-Europa-Rural Development: new planning process too long and complex, say EU Auditors***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PYM-KHC1-F0K1-N2Y8-00000-00&context=1516831)

ENP Newswire

November 15, 2017 Wednesday

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**Length:** 517 words

**Body**

A new process for planning EU ***rural*** development spending is too long and complex, with shortcomings that hinder both ***performance*** and results, according to a report from the European Court of Auditors.

The auditors also found that, despite efforts by the European Commission, implementation of programmes did not start earlier and spending began more slowly than in the previous period. EU ***rural*** development policy aims to make ***agriculture*** more competitive, ensure the sustainable management of natural resources and achieve balanced development of ***rural*** economies and communities. The EU plans to spend nearly EUR100 billion on ***rural*** development over the period 2014 to 2020.

The European ***Agricultural*** Fund for ***Rural*** Development provides financial support for measures carried out by the Member States through national or regional ***Rural*** Development Programmes, which are prepared by the Member States and approved by the Commission. 'Planning for a new period always faces the problem of starting before adequate, relevant data are available from previous periods', said Janusz Wojciechowski, the Member of the European Court of Auditors responsible for the report. 'We found that the programming documents are too complex and voluminous and yet insufficiently focused on expected results'. The auditors examined whether the new EU ***strategic*** framework for 2014-2020 reflected a greater focus on ***performance*** and whether the new process resulted in good quality ***Rural*** Development Programmes which would lead to better results. They found that even though the framework aimed at a results-based approach, the approved programmes were long and complex, with shortcomings that would hinder the focus on ***performance*** and results. They also looked at programming for ***rural*** development policy between 2014 and 2020 to check whether it allowed ***Rural*** Development Programmes to be implemented earlier and thus avoid the negative consequences of delays. They found that, despite the Commission's efforts, implementation did not start earlier and planned spending began more slowly than before.

To improve the process, the auditors recommend that, in future, the Commission should: ensure its proposals help develop consistency between individual programmes; simplify the programming documents and reduce the number of requirements; work with the Member States to ensure reporting for 2019 provides clear and comprehensive information; define the various ***indicators*** more accurately; take stock of the experience gained from the current system; prepare the proposals for ***rural*** development policy after 2020 in good time. The auditors also recommend that the European Parliament, the Council and the Commission should consider aligning the long-term strategy with the EU budget cycle and conduct a comprehensive spending review before a new long-term budget is set. Special Report No 16/2017: '***Rural*** Development Programming: less complexity and more focus on results needed' is available on the ECA website (eca.europa.eu) in 23 EU languages.

[Editorial queries for this story should be sent to [*newswire@enpublishing.co.uk*](mailto:newswire@enpublishing.co.uk) ]

**Load-Date:** November 15, 2017

**End of Document**



[***COMMISSION IMPLEMENTING REGULATION (EU) 2018/276 of 23 February 2018 amending Implementing Regulation (EU) No 215/2014 with regard to changes to the determination of milestones and targets for output indicators in the performance framework for the European Structural and Investment Funds***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RRR-NPX1-F0YC-N1RV-00000-00&context=1516831)

Impact News Service

February 24, 2018 Saturday

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**Length:** 843 words

**Body**

Brussels: Official Journal of the European Union has issued the following Legislation:

COMMISSION IMPLEMENTING REGULATION (EU) 2018/276

of 23 February 2018

amending Implementing Regulation (EU) No 215/2014 with regard to changes to the determination of milestones and targets for output ***indicators*** in the ***performance*** framework for the European Structural and Investment Funds

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (1), and in particular the fifth subparagraph of Article 22(7) thereof,

Whereas:

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| --- | --- |
| (1) | Article 5(3) of Commission Implementing Regulation (EU) No 215/2014 (2) sets out requirements for the determination of milestones and targets for output ***indicators*** in the ***performance*** framework for the different European Structural and Investment Funds (?ESI Funds?). |

|  |  |
| --- | --- |
| (2) | The requirements set out in Article 5(3) of Implementing Regulation (EU) No 215/2014 imply that the managing authorities of the European Regional Development Fund, the Cohesion Fund and ? in selected cases ? the European ***Agricultural*** Fund for ***Rural*** Development should only report outputs against milestones and targets in the ***performance*** framework if these were delivered by operations, where all the actions leading to outputs were implemented in full. |

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| (3) | To simplify reporting procedures, improve legal certainty and ensure that in the context of the ***performance*** framework the achievement of a milestone or target for an output ***indicator*** can be assessed based on the data that most accurately reflects the implementation progress, Article 5(3) of Implementing Regulation (EU) No 215/2014 should be amended to align the requirements for all ESI Funds. |

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| (4) | Following the increase of the resources for the Youth Employment Initiative and its extension until the end of the programming period, Article 7(4) of Implementing Regulation (EU) No 215/2014 should be amended to establish how the achievement of targets should be assessed. |

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| (5) | To make it possible for the envisaged measures to be applied promptly, this Regulation should enter into force on the day following that of its publication in the Official Journal of the European Union. |

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| (6) | The measures provided for in this Regulation are in accordance with the opinion of the Coordination Committee for the European Structural and Investment Funds. |

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| --- | --- |
| (7) | Implementing Regulation (EU) No 215/2014 should therefore be amended accordingly, |

HAS ADOPTED THIS REGULATION:

Article 1

Implementing Regulation (EU) No 215/2014 is amended as follows:

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| --- | --- |
| (1) | Article 5(3) is replaced by the following: ?3.   The milestone and target for an output ***indicator*** shall refer to the values achieved by operations, where all the actions leading to outputs have been implemented in full, but for which not all the related payments have necessarily been made, or to the values achieved by operations which have been started, but where some of the actions leading to outputs are still ongoing, or to the both.?; |

|  |  |
| --- | --- |
| (2) | Article 7(4) is replaced by the following: ?4.   If the resources for the YEI are programmed as a part of a priority axis in accordance with Article 18(c) of Regulation (EU) No 1304/2013, a ***performance*** framework shall be established separately for the YEI and the achievement of milestones and targets set for the YEI shall be assessed separately from the other part of the priority axis.? |

Article 2

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 23 February 2018.

For the Commission

The President

Jean-Claude JUNCKER

(1)  OJ L 347, 20.12.2013, p. 320.

(2)  Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014 laying down rules for implementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund with regard to methodologies for climate change support, the determination of milestones and targets in the ***performance*** framework and the nomenclature of categories of ***intervention*** for the European Structural and Investment Funds (OJ L 69, 8.3.2014, p. 65).

**Load-Date:** February 27, 2018

**End of Document**



[***Council of the European Union: Communication on "The Future of Food and Farming" - Draft Council conclusions ST 6660 2018 REV 1***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S2R-9JV1-F0YC-N2RC-00000-00&context=1516831)

Impact News Service

April 9, 2018 Monday

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**Length:** 2176 words

**Body**

Brussels: Council of the European Union has issued the following document:

6660/1/18 REV 1 GDLC/LP/JU/ah 1 DGB 1B LIMITE EN Council of the European Union Brussels, 8 March 2018 (OR. en) 6660/1/18 REV 1 LIMITE AGRI 110 NOTE From: Presidency To: Special Committe on ***Agriculture*** Subject: Communication on 'The Future of Food and Farming' - Draft Council conclusions Following the comments received by delegations on doc. 6660/18, with a view to its examination at the SCA meeting on 12 March 2018, delegations will find in the Annex a revised version of draft Council conclusions on the above-mentioned subject. PUBLIC Conseil UE 6660/1/18 REV 1 GDLC/LP/JU/ah 2 ANNEX DGB 1B LIMITE EN ANNEX Draft Council Conclusions THE COUNCIL OF THE EUROPEAN UNION 1. HAVING REGARD to the Communication from the Commission on 'The Future of Food and Farming' (COM(2017) 713 final) adopted on 29 November 2017; 2. WITHOUT PREJUDGING the negotiations on the next Multiannual Financial Framework (MFF) and pending further information on the Commission proposal for the future Common ***Agricultural*** Policy (CAP); 3. RECALLING the added value of the CAP for farmers, citizens and society as a whole, and its key role in providing safe, high-quality food in sufficient quantities, contributing to a fair standard of living for farmers, protecting the environment, mitigating and adapting to climate change, promoting animal welfare, creating jobs and growth, keeping ***rural*** areas strong and sustainable, and maintaining ***agricultural*** production throughout the EU, in particular in areas with natural constraints or other specific constraints; 4. ACKNOWLEDGING the important role of direct payments in providing income support, rewarding farmers for the provision of public goods and services, supporting ***agricultural*** activity in all parts of the EU and contributing to the protection of the environment and the development of ***rural*** economies; 5. ACKNOWLEDGING that EU market support contributes to counter-balancing high price volatility and reducing the impact on vulnerable ***agricultural*** markets of external factors; STRESSING the importance of continued market orientation; 6. RECOGNISING that ***rural*** development provides a pivotal contribution to the life and resilience of ***rural*** areas and farming and boosts their vitality by creating growth, innovation and employment opportunities and facilitating young people's access to farming; 6660/1/18 REV 1 GDLC/LP/JU/ah 3 ANNEX DGB 1B LIMITE EN 7. HIGHLIGHTING the principles and goals set out in the Cork 2.0 Declaration 'A better life in ***rural*** areas', adopted in September 2016; Enhancing the CAP's added value to deliver on new challenges 8. CONSIDERS that, in spite of its merits, the CAP could be further improved by strengthening the EU added value and by making the policy greener, simpler and more result-driven; 9. STRESSES the importance of a trust-based partnership with farmers and the need for farmers to remain at the centre of the policy in order to successfully deliver on enhanced policy objectives; 10. HIGHLIGHTS the importance of ensuring that CAP support is commensurate with this enhanced added value; 11. RECALLS the CAP's objectives as set out in Article 39 of the Treaty on the Functioning of the European Union (TFEU), which are still valid and relevant: i) increasing ***agricultural*** productivity; ii) ensuring a fair standard of living for farmers; iii) stabilising markets; iv) assuring the availability of supplies and v) ensuring reasonable prices for consumers; 12. HIGHLIGHTS the need for the CAP to contribute to the Union's international obligations and commitments, such as the COP21 Paris Agreement and the UN 2030 Agenda for Sustainable Development.

STRESSES the CAP's role in meeting citizens' expectations and its contribution to the objectives of other relevant EU policies, in particular jobs and growth, environment, climate change, biodiversity, animal health and welfare. On these grounds, SHARES the three main objectives for the future CAP identified in the Commission's Communication. Empowering Member States to take decisions fitting local needs and specificities 13. ENDORSES the view that Member States should enjoy more subsidiarity and flexibility to take account of their national and regional specificities and to contribute to a more efficient delivery of the policy; 6660/1/18 REV 1 GDLC/LP/JU/ah 4 ANNEX DGB 1B LIMITE EN 14. While in principle sharing the result-oriented approach of the proposed 'new delivery model', NOTES that there is a potential risk of fragmentation of the CAP. Therefore, CALLS on the Commission to continue ensuring a level playing field among Member States and the integrity of the internal market by basic common rules at EU level; 15. STRESSES that a new delivery model should bring substantial and tangible simplification and reduction of administrative burden for both beneficiaries and national/regional administrations. To this end, CALLS for simple CAP ***Strategic*** Plans, allowing flexibility in their design and subsequent amendments, taking into account the division of competences within each Member State; 16. HIGHLIGHTS that the CAP ***indicators*** should be simple, realistic, easily quantifiable and controllable, ensuring synergies with ***indicators*** used in other relevant policies. They should be adaptable to local realities and directly linked to the defined objectives; 17. HIGHLIGHTS that the audit and control systems should be based on the principles of proportionality, simplification and single audit, focusing on achieving policy results. INSISTS on the reduction of controls, which should be based on risk analysis, further relying on the use of satellite data; 18. CALLS for the possibility for Member States to transfer funds between pillars. Strengthening the resilience of the ***agricultural*** sector 19. TAKES NOTE of the Commission's intention to explore instruments to make direct payments more targeted. STRESSES the importance of providing the necessary flexibility to Member States to take into consideration national specificities and needs; 20. RECOGNISES the sensitivities of Member States on the external convergence of direct payments. ACKNOWLEDGES that further discussion will be needed in the framework of the negotiations on the MFF package; 6660/1/18 REV 1 GDLC/LP/JU/ah 5 ANNEX DGB 1B LIMITE EN 21. RECALLS that, following successive CAP reforms, the overwhelming volume of CAP support is decoupled. Reiterating its commitment to CAP market orientation, NOTES the value of voluntary coupled support for certain regions, sectors and types of farming, within the limits of the EU's WTO commitments and the need to maintain the integrity of the internal market; 22. STRESSES that, in order to simplify direct payment provisions and facilitate generational renewal in ***agriculture***, as well as to take account of different national conditions, decoupled area-based payments (such as the Single Area Payment Scheme) should continue to apply, with Member States having the option to use payment entitlements; 23. RETAINS the role of the Common Market Organisation as a safety net. WELCOMES the Commission's commitment to reflect on how to strengthen farmers' position in the food supply chain. BELIEVES that measures should be considered in this regard, including increased market transparency and reinforcement of producer organisation; 24. NOTES that the ***agricultural*** crisis reserve introduced in 2013 has not been used and CONSIDERS that reflection is needed on how to improve its design, such as by dissociating it from direct payments and adopting a multiannual approach. Fostering CAP's contribution to environmental objectives 25. While recalling that farmers already contribute to environmental and climate protection, SUPPORTS a higher level of environmental ambition for the CAP in the future. At the same time, REALISES the importance of more effective and targeted actions to reach higher ambitions, while adequately rewarding farmers for the public goods they provide; 26. AGREES that, while a common level of ambition and environmental objectives should be set at EU level to ensure a level playing field, Member States should enjoy a higher level of subsidiarity and flexibility in the implementation of environmental and climate measures, relying on their territorial characteristics and needs to design their specific ***interventions***; 6660/1/18 REV 1 GDLC/LP/JU/ah 6 ANNEX DGB 1B LIMITE EN 27. Subject to further information and clarifications from the Commission, SUPPORTS the Commission's intention to make the new 'green architecture' more efficient through a simple conditionality and CALLS for the streamlining of the current requirements in relation to greening and cross-compliance; 28. STRESSES that, in addition to compensating for income forgone and costs incurred, effective incentives should be provided to farmers engaging in more ambitious environmental and climate practices going beyond the mandatory measures; 29. CALLS for the coordination of environmental and climate ***interventions*** under both pillars to be ensured, avoiding overlaps between them and taking into account the different characteristics of the measures under each pillar. Measures under pillar II should remain voluntary as at present. Improving life in ***rural*** areas 30. RECOGNISES the particular challenges ***rural*** areas are facing and EMPHASISES the need to keep them vital and resilient, in particular by creating jobs, promoting growth, favouring generational renewal in the farming sector and further developing the bioeconomy and the circular economy; 31. SUPPORTS the development of ***rural*** areas in an integrated manner, through a wide range of actions (investments, connectivity and broadband, basic services, preservation of life and nature, renewal of villages, digitalisation etc.), making them more attractive places to live and prosper; POINTS TO enhancing synergies with other relevant policy areas and EU funds, in particular the European Structural and Investment Funds and the European Fund for ***Strategic*** Investments (EFSI), to optimise the impact on ***rural*** development; 32. NOTES the difficulties that young people face with regard to access to farming and CALLS for the future CAP to address this common challenge as a priority, improving the supporting instruments for generational renewal available under both pillars and their complementarity with other EU and national measures; 6660/1/18 REV 1 GDLC/LP/JU/ah 7 ANNEX DGB 1B LIMITE EN 33. UNDERLINES the importance of fostering innovation and knowledge sharing in the farming sector, as well as transferring research results into farming practice. EMPHASISES the positive experience of the LEADER approach and the importance of continuing it. CALLS for further efforts to facilitate the implementation of financial instruments, on a voluntary basis, in order to increase the potential of raising further private capital for investments in ***rural*** areas; 34. HIGHLIGHTS that, following the lessons learned from the current ***Rural*** Development Programmes, the future CAP ***Strategic*** Plans should be simpler, avoid overlapping with other programming documents (such as current partnership agreements), rely on less complex and more understandable rules and be approved in a quicker manner to allow for timely implementation. CALLS for a simpler process for amending the CAP ***Strategic*** Plans in itinere, as necessary. INSISTS on for the positive experience of the 'one-window approach' to be continued regarding state aid; 35. WELCOMES the Commission's efforts to optimise the use of the existing risk management tools and INVITES it to explore further voluntary measures and to reflect on better coordination with existing national measures. Looking forward 36. CALLS for adequate support for the future CAP in order to enhance its added value, to meet its ambitious objectives effectively and to address societal concerns linked to ***agriculture***, particularly in relation to environmental protection and climate change, without prejudging in any way the upcoming negotiations on the next MFF; 37. INVITES the Commission to set up appropriate and functional mechanisms and procedures to ensure the timely approval of the future CAP ***Strategic*** Plans and to avoid delays in the disbursement of payments to farmers; 38. HIGHLIGHTS that the new delivery model requires a unified approach to auditing and a shift from a compliance-based to a result-oriented system; 6660/1/18 REV 1 GDLC/LP/JU/ah 8 ANNEX DGB 1B LIMITE EN 39. CALLS on the Commission to support Member States, in a partnership-based approach, in the process of designing and adapting CAP ***Strategic*** plans and in their implementation; 40. LOOKS FORWARD to receiving the Commission's legislative proposals in order to allow the co-legislators sufficient time for examination and negotiations; 41. STRESSES the need to foresee a sufficiently long transitional period for Member States to adapt to the new CAP delivery model. In this regard, CALLS upon the Commission to provide Member States with the necessary assistance.

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**Body**

Brussels: Public Register European Parliament has issued the following document:

1 MULTIANNUAL INDICATIVE PROGRAMME BOLIVIA 2017-2020 1. The overall lines for the EU response 1.1 ***Strategic*** objectives of the EU’s relationship with Bolivia The ***strategic*** objectives of the relationship between the EU and its Member States and Bolivia are set in the Joint European Strategy (JES):1 The JES is based on a commitment to working together and achieving significant, qualitative progress in the European cooperation model in Bolivia. Accordingly, the initiative sets out the following joint positions for the Plurinational State of Bolivia and its European partners: a. Under the JES, it will be considered crucial to help the Bolivian State deepen the democratic process as regards its institutions and promote a favourable environment for the inclusive participation of all stakeholders in the comprehensive development of the Vivir Bien2 approach. The JES’s support will therefore be deemed important for strengthening the role of the government, the Plurinational Legislative Assembly, the judicial and local authorities, and civil society organisations. The JES will promote greater involvement of women in all areas and compliance with the principle of gender equality. It will also seek to make Bolivia’s institutions more effective with regard to human rights, the enjoyment of fundamental rights, good governance and the application of the legal framework.

b. The JES will support the formation of complementary and inclusive partnerships with all stakeholders in Vivir Bien, placing particular importance on coordinated support with the central government with regard to strengthening the capacities of Governors’ Offices and Municipalities in accordance with the Framework Law on Autonomy and Decentralisation and the Comprehensive State Planning System. It will also acknowledge the importance of the private and community sector within the diverse economy as drivers of growth, jobs, investment and innovation, with a key role in the reduction of poverty and the development of sustainable production systems. The construction of these partnerships will also include an analysis of the role of civil society organisations as key stakeholders in Vivir Bien, together with local and parliamentary authorities. Under these partnerships, it will be particularly important to count on the inclusion of the judicial authorities in the judicial reform process. c. The JES will guarantee a commitment to the development and implementation of common results frameworks at sectoral level, with a manageable number of ***indicators*** in accordance with the 2016-2020 Economic and Social Development Plan. This 1 Paragraphs 50 and 51 pf the JES of 23/09/2016. 2 The 'vivir bien' (living well) concept, enshrined in the Bolivian Constitution, refers to the practices and visions of indigenous peoples, with at its core a life in harmony with nature and the larger community. 2 commitment will foster joint evaluation processes, based on the national and sectoral development plans. d. The JES, together with the Ministry of Development Planning, will ensure the transparency of its operations through the public, regular, detailed and timely dissemination of the European commitments, the sums spent and allocated, and the results obtained through the coordinated European effort. In this context, the priority measures to be implemented under the JES beginning in 2017 in accordance with the commitments in the Agenda on Development Effectiveness are the following:  Guarantee that the measures described in the JES are aligned with and complementary to the Patriotic Agenda 2025 and the 2016-2020 Economic and Social Development Plan.  Seek to increase the proportion of resources used by national budget execution and procurement systems, as well as financial reporting standards.  Seek to ensure that all new programmes, projects and cooperation initiatives are defined in the division of work to be established under the JES. 1.2 Choice of sectors Based on Bolivia’s specific conditions and needs, the Plan de Desarrollo Económico y Social 2016-2020 (Economic and Social Development Plan for 2016-2020 – PDES) and the EU’s and Switzerland’s JES for 2017-2020, the following sectors have been selected for ***intervention***: 1. Justice reform and fight against corruption 2. Fight against illicit drugs and control of surplus coca cultivation 3. Water, sanitation and natural resources management The proposed ***interventions*** in these sectors will contribute to the 2030 Agenda and will put into practice the EU’s approach to financing sustainable development and poverty eradication as set in 2015 at the Addis Ababa Conference. More specifically, this multiannual indicative programme (MIP) will contribute to the achievement of the following sustainable development goals for Bolivia:  SDG 2 — Zero Hunger: through actions aimed at reducing food insecurity levels in zones of outward migration (focal sector 2).  SDG 3 — Good Health and Wellbeing: through actions aimed at reducing the prevalence of drug and alcohol consumption (focal sector 2).  SDG 5 — Gender Equality: besides promoting equal access to resources and basic services across all ***interventions***, in accordance with the EU Gender Action Plan II, 3 this MIP includes specific actions to reduce gender-based crime and to increase access to justice for victims of gender-based violence (focal sector 1).  SDG 6 — Clean water and Sanitation: through actions aimed at increasing access to sanitation, improving water quality and fostering integrated water resource management (focal sector 3).  SDG 12 — Responsible Consumption and Production: through actions related to sustainable use of forest and biodiversity as well as knowledge and practices (focal sector 3).  SDG 15 — Life on Land: through actions aimed at conservation and restoration of ecosystems, and halting of deforestation and desertification (focal sector 3).  SDG 16 — Peace, Justice and Strong Institutions: through actions aimed at increasing access to justice, strengthening citizen participation, improving transparency, and fighting corruption (focal sector 1). Research and Innovation can play an important role in the achievement of the Sustainable Development Goals and should be considered of cross-cutting nature in support of the specific needs and priorities for Bolivia. The objectives set by the recent Communication on Partnership Framework for Migration3 in principle do not seem relevant for the Bolivian context. However, the management of internal migration flows has become a key pillar of the national policy to control the surplus of coca leaf cultivation (focal sector 2). Addressing the food security and socioeconomic development of Bolivia’s most vulnerable regions is crucial to diminishing certain domestic migration flows. 1) Justice reform and the fight against corruption Promoting good governance is a core aim of EU development policy and is key to reducing poverty and to Bolivia’s achieving the sustainable development goals (SDG 16 — Peace and Justice). Bolivia’s good governance progress currently very much depends on successful reform of the justice system and on a significant reduction of corruption. Since 2013, the EU Delegation, together with other European and international partners, has been engaged in supporting this reform process. The 2009 Bolivian Constitution aims to build a justice system that complies with international human rights norms, recognises indigenous justice systems, pays particular attention to the protection of individual rights, and focuses on marginalised groups such as women, children, young people, families and the elderly. However, in its Economic and Social Development Plan (PDES) for 2016-2020 (pillar 11.2), the government recognises that the justice system is 3 COM(2016) 385 - Communication from the Commission to the European parliament, the European Council, the Council and the European Investment Bank on establishing a new Partnership Framework with third countries under the European Agenda on Migration. 4 in crisis, due to delays and corruption, among other problems.4 To provide a comprehensive response to citizens’ demands for better justice services, the PDES makes justice reform a political and developmental priority and sets a number of objectives, including a transformation of the sector to guarantee access, speed, equity, transparency and respect for the values of vivir bien (living well). At the same time, the PDES (pillar 11.1) calls for a new model of public management based on civil servants’ high commitment and active fight against corruption at all levels. This includes the creation of a monitoring mechanism that evaluates ***performance*** and detects corruption. Public employees will have to be trained to implement this. It also lists e-government as a key tool to increase transparency and limit opportunities for corruption. In June 2016, a National Justice Summit took place to discuss sector reform. This event gathered representatives from the government, the judiciary and civil society to build a common vision towards the so-called ‘justice revolution’. The Summit is the starting point for the reform process and should pave the way for the definition of short-, medium- and long-term reform objectives, developed in a structured, comprehensive and overarching strategy that can lead to action plans and budgetary allocations. It should also enable the international community to define appropriate actions to support the reform process. The Summit focused on six working areas: i) selection of senior judicial authorities; ii) delays in justice; iii) access to justice; iv) fight against corruption; v) criminal policy and penal justice, and vi) training, recruitment, capacity building and disciplinary control of justice public officials. EU support for the justice sector and the fight against corruption is set in the context of the EU Agenda for Action on Democracy Support and the 2030 Agenda. It is based on a ***strategic***, long-term political approach and anchored in national priorities. The EU will continue to encourage Bolivia’s national authorities to prepare a comprehensive reform strategy while fostering citizen and civil society engagement. Accordingly, a mixed approach combining institutional capacity building and fighting corruption, with specific actions addressing key constraints to service delivery, seems to be the best supporting strategy at this point. However, EU support should also be flexible in order to respond to the different priorities and needs identified by the reform process and thus to achieve sustainable results. The following main areas have been identified as the entry points for EU support: Justice access for all (SDGs 16.3 and 16.6). A main problem of the justice sector in Bolivia is low access. The high cost and ritualism of ordinary law proceedings constitute a significant barrier for most people. Many of the country’s 339 municipalities are not covered by a first instance tribunal. Free legal assistance and public conciliation support are mainly available in urban areas. Different options to allow greater and fairer access to justice, including decentralisation of services and e-justice systems, are currently under analysis within the government. Existing alternative mechanisms (conciliation, arbitration and customary, essentially active in ***rural*** areas) need reinforcement. 4 PDES, p. 159. 5 Fight against corruption (SDG 16.5). According to the Transparency International corruption perception index for 2015, Bolivia had a score of 34, which has remained relatively stable over the past years. Since 2009, Bolivia has a national plan for transparency and fighting corruption, enforced by Supreme Decree Nº 214, with the final objective of creating a culture of zero tolerance for corruption. The decree, implemented by the Ministry of Transparency and Fighting Corruption, focuses on three main areas: strengthening citizen participation, improving the transparency of public institutions and access to information, and measures to eliminate corruption. Nevertheless, corruption remains a major issue in Bolivia, undermining the population’s trust in key institutions, such as the judiciary and the police. The EU will provide support for completing the regulative framework and strengthening its implementation. In addition to improving access to justice and fighting corruption, and in line with the EU Gender Action Plan II, the EU will support initiatives (including building capacity for gender equality work) to prevent gender-based crime and improve access to justice for gender-based violence victims (SDG 5.2); this is a matter of significant concern for Bolivian civil society and the government. Bolivia has made significant regulatory progress in this area in recent years (e.g Law 348 for women living free of violence), but effective implementation is lagging behind. It is expected that lower levels of corruption and a more effective judiciary will significantly contribute to better results in the other two sectors of EU ***intervention***. For example, it will make the fight against illicit drugs more effective and will improve the implementation of environmental legislation, which is particularly dependent on effective law enforcement. Given the relevance of environmental legislation for sector 3 of this MIP, there may be specific support envisaged in the area of environmental justice. 2) Fight against illicit drugs and control of surplus coca cultivation After a decade of involvement in alternative development programmes in coca production areas, the EU has in recent years supported the Bolivian government in developing a comprehensive counter-narcotics strategy. EU cooperation now covers a wide range of critical areas of the fight against drug trafficking. This evolution has been particularly relevant after the departure in 2013 of US agencies involved in the sector (NAS and USAID), which has left the EU as the only actor providing financial support to Bolivian work in this area. Prior to the election of Evo Morales in 2006, counter-narcotics policies in Bolivia focused on forced eradication of coca fields combined with alternative development. Subsequently, a ‘Bolivian model’ was developed, combining the reduction and ‘social control’ of coca production, alternative development, and interdiction. Recent data from the United Nations Office against Drugs and Crime (UNODC) shows that coca cultivation in the country decreased by 34 % between 2012 and 2015. According to the government, Bolivian authorities eradicated 11 019 ha of coca in 2015. In 2015, the Special Counter-Narcotics Police Force (FELC-N) reported an increase of 42 % in the destruction of cocaine 6 hydrochloride processing labs compared to 2014. Seizures of cocaine have also significantly increased in recent years. However, drug production and trafficking (hydrochloride, base paste and marihuana) and related crimes (money laundering, diversion of precursors and corruption) have increased and are a security problem, though at a lower level than for other countries in the region. They are also a significant obstacle to successful economic development. Despite the improved results of anti-narcotics operations, the growing presence of national and international criminal gangs is a matter of concern. The counter-narcotics sector in Bolivia has an outdated legal and regulatory framework (law 1008) which is currently under revision. To improve sector coordination, the government issued a national Strategy to Fight Drugs and Reduce Surplus Coca 2011-2015 (ELCN, 2012) and a corresponding action plan (2013). The ELCN complements the National Strategy for Comprehensive Development with Coca 2011-2015 (ENDIC). The new national Strategy to Fight Drugs and Reduce Surplus Coca 2016-2020 (ELCN&CCEC) was adopted at the end of 2016, whereas the new ENDIC until 2020 is currently under preparation.. The ELCN makes clear that comprehensive national solutions are needed to fight drug trafficking and identifies three working pillars: supply reduction, demand reduction, and reduction of surplus cultivation of coca leaf. The new strategy for 2016-2020 will most likely be in line with the previous one. The ENDIC 2016-2020 is under preparation and, as stated in the PDES, will focus on supporting the creation of ‘productive complexes5’ using a territorial approach. The National Council for the Fight against Illicit Drugs Trafficking (CONALTID) was reorganised by Supreme Decree 0649 from 29 September 2010. CONALTID acts as a central coordination unit for different ministries and is supported by the EU. Decree 0649 also created the National Council for Revalorisation, Production, Commercialisation and Industrialisation of Coca Leaf (CONCOCA) which will be operational soon. The government has significantly increased its budget allocation to the sector over the last few years, in particular to the FELC-N and to the National Fund for Alternative Development (FONADAL). In line with Bolivia’s national counter-narcotics strategy and EU drugs policy for 2013-2020, the 2030 Agenda and with full respect for human rights, EU support focuses on three main areas: I. The fight against production and trafficking (SDG 16.4), the reduction of coca leaf surplus cultivation and law enforcement. This has included building capacity in public entities such as the FELC-N, the Chief Public Prosecutor, the General Directorate for Migration, the National Customs Office, the Joint Military and Police Force, the Financial Investigation Unit and the CONALTID. Under the current budget support programme, funding will be provided to improve the sector’s legal and regulatory 5 A Bolivian adaptation of the concept of integrated value chains, which gives particular importance to community and social development. PDES pp 104-117. 7 framework, the effectiveness of police operations and intelligence activities, the reduction of coca cultivation, the mainstreaming of the sector policy in relevant public entities, and the participation of civil society. In addition, the EU is funding the UNODC annual coca leaf monitoring report and drugs seizures destruction observation. Bolivian institutions in charge of the fight against illicit drugs will also benefit from a major police technical assistance programme to be implemented by a consortium of EU Member States. Current programmes already link to ***interventions*** under focal sector 1 of this MIP to strengthen the judicial system and therefore improve the prosecution of drug-related crimes, and to ***interventions*** under sector 3, with the EU Delegation supporting the collaboration between Bolivian institutions in charge of the fight against illicit drugs and the department in charge of protected areas. II. Demand reduction (SDG 3.5), in line with the Bolivian National Plan for Drug Demand Reduction (2013). This includes preventing drug abuse, rehabilitation of drug addicts, and reintegration of small-scale drug criminals into the workforce. The plan (and EU support) envisages the improvement of the legal and regulatory framework, the creation of a regulatory body in the field of prevention and rehabilitation, the incorporation of innovative concepts, and nationwide capacity building. The PDES aims to reduce the prevalence of drug and alcohol consumption in Bolivia by 5 % by 2020. III. Comprehensive development with coca6 (SDG 2). This aims to reduce excess coca cultivation by offering alternative economic and employment opportunities to coca growers, while ensuring environmental sustainability. The ongoing budget support programme PAPS 2 supports the implementation of the ENDIC 2011-2015, whose main goals are to diversify ***agriculture*** production, create employment and improve living conditions both in coca production areas and zones of outward migration. Experience in the past ten years has shown links between the expansion of coca cultivation and food insecurity in other non-coca growing parts of the country. Indeed, the success of forced eradication, coca rationalisation and alternative development programmes is counterbalanced by an influx of new settlers farming coca (mainly impoverished peasant farmers from the Altiplano). Efforts to try to reduce the extension of coca in traditional cultivation areas are undermined if nothing is done to diminish migration flows in areas vulnerable in terms of food security. To address this, it is important to support the socioeconomic development of outward migration areas and to reinforce communities’ resilience to the effects of climate change. A new EUR 20 million budget support programme targeting those particular areas/issues and aligned with the PDES is expected to start in 2016. Moreover, this budget support programme will benefit from a PRO-ACT7 top up of EUR 7 million, which will focus 6 alternative development. 7 ‘Supporting the poor and food insecure to react to crises and strengthen resilience’, under the Food and Nutrition Security and Sustainable ***Agriculture*** component of the GPGC, to tackle the impact of ‘el Niño’. The top up will focus on addressing the causes of chronic lack of micro-elements (iron and zinc), improving the adoption of ***agricultural*** good practices to increase resilience against droughts, increasing diversification of ***agricultural*** production and strengthening food insecurity monitoring mechanisms. 8 on the most vulnerable and food insecure areas. Efforts in the ***agriculture***/***rural*** development and food security sectors are also aligned with the Bolivian Intended Nationally Determined Contribution (INDCs), where ***agriculture*** and forestry production are deemed to be key for poverty reduction and adaptation to climate change. 3) Water, sanitation and natural resources management The Government of Bolivia aims to promote the integrated development and sustainable use of natural resources to guarantee the well-being of its population. Accordingly, it promotes a balance of production and consumption in order to satisfy the need of Bolivian people for ‘el Vivir Bien’, while at the same time protecting the regenerative and adaptive capacities of the environment in all its components — forests, water, soil, etc. The 2009 Constitution and the 2012 Ley de la Madre Tierra (Law of Mother Earth) set out Bolivia´s endorsement of the human right to water and sanitation and its vision of natural resources management. This is further developed in pillars 2 (Universalisation of basic services) and 9 (Environmental sovereignty with integral development) of the PDES. These pillars focus on the availability of basic services, sustainable productive systems, water resources, forests and protected areas, waste management and prevention of natural disasters. The Ministry of Environment and Water Institutional ***Strategic*** Plan for 2014-2018 is firmly set in this framework and aims to contribute to the PDES national targets and to the climate-change-related commitments made by Bolivia at the Conference of Parties in 2015 through its intended nationally determined contribution. In the past five years, the EU has supported the sector through a number of ***interventions***, of which the most noteworthy were four sectoral budget support programmes and one programme estimate aiming to: a) improve access to water and sanitation services, mostly in poor ***rural*** and suburban areas; b) manage river basins at national and local level, taking into account climate change, deforestation and natural disasters; c) manage Bolivia’s natural protected areas and d) the environmental protection and economic development of areas affected by pollution from mining activities. Important capacity building activities accompanied these ***interventions***. Overall results have been satisfactory and alignment to government priorities full. However, there is agreement that further integration has to be achieved between different sub-sectors (water, environment, river basins, natural resources, sanitation, etc.) for the EU to be aligned with the new vision of the MEW. ***Interventions*** proposed under this MIP will therefore, as much as possible, support MEW´s integrated approach to water, sanitation, environment and natural resource management, recognising their strong links and interdependences. The Delegation will also support coordination with other ministries that may have an impact on this sector such as for ***agriculture*** and energy which are key sectors within the Bolivian policy on climate change (ref. INDCs presented at COP21). Moreover, this MIP will aim at supporting those geographical areas and sectors that present major gaps with respect to national development targets and the 2030 Agenda with Sustainable Development Goals. This is the case, for example, of sanitation, especially in 9 ***rural*** and peri-urban areas, where needs are the highest, ***interventions*** more costly and stigmatisation greater. In the case of environment, it will be crucial to focus on areas of ***strategic*** importance for the well-being of the Bolivian population, as for example the five protected areas supplying water to the main Bolivian cities, the wetlands recognised under the RAMSAR Convention for their biodiversity value and the forest areas that provide the highest economic contribution through forest products. The proposed approach is in line with and contributes to the Joint European Strategy priority sector Environment and Climate Change, and specifically to three of its subsectors: water & sanitation, forests & biodiversity and water basins & irrigation. The Delegation will endeavor to promote the principle of equal access and control over clean water, and equitable engagement in its management, enjoyed by girls and women, as per objective n. 16 of the EU Gender Action Plan II. 2. Financial overview 1. Justice reform and fight against corruption EUR 20,000,000 12,6 % 2. Fight against illicit drugs and control of surplus coca cultivation EUR 50,000,000 31,6 % 3. Water, sanitation and natural resources management EUR 86,366,800 54,5 % Cross-cutting support measures EUR 2,000,000 1,3 % Total EUR 158,366,800 100 % 3. EU support per sector 3.1 Justice reform and fight against corruption (EUR 20 million) 3.1.1 The following overall and specific objectives will be pursued: Overall objective: to enhance justice and reduce corruption in Bolivia, to be in line with international and regional norms and standards and Bolivian human rights commitments. Specific objective 1: contribute to strengthen the independence, impartiality, transparency and effectiveness of the justice sector (SDG 16.6). Specific objective 2: to improve population access to justice services in order to facilitate the exercise of fundamental rights, with particular emphasis on vulnerable groups and victims of gender violence (SDG 16.3). Specific Objective 3: contribute to reduce corruption levels within the public administration by promoting transparent institutions and the implementation of policies for the prevention and fight against corruption (SDG 16.5). 3.1.2 For each of the specific objectives the main expected results are: 10 Expected Result a): Pertinent and viable guidelines for a comprehensive justice reform (including short, medium and long term actions, credible budget allocations and smart ***indicators***) are under execution. Expected Result b): Improved quality and effectiveness of the justice sector in the frame of the full respect of human rights. Expected Result c): Improved population access to justice services, especially for vulnerable groups. Expected Result d): Improved effectiveness of the gender based violence prevention services and of assistance and protection to victims. Expected Result e): Integrated National Policies for prevention and transparency aiming at reducing corruption levels, under execution. f) A comprehensive, pertinent and credible plan to fight against corruption and to recover assets within the public sector is under execution. 3.1.3 For each result, the main ***indicators*** are: ER a) ***Indicators***:  Adoption of a comprehensive, pertinent and credible ***strategic*** document defining guidelines for the Justice Reform (including short, medium and long term actions).  Government expenditure in the justice sector (as a percentage of the National Budget).  Progress of Bolivia in the International Governance ***Indicators*** (Voice and Accountability, Regulatory Quality, Rule of law and control of corruption and others)  Existence of an institutional mechanism to monitor the implementation of the Justice Reform (Implementation Commission). ER b) ***Indicators***:  Number of justice professionals (judges, prosecutors, policemen, investigators and others) that are recruited/nominated on the basis of objective and transparent criteria.  Number of pending cases per 100 inhabitants per matter.  Clearance rate (number of resolved cases over the number of incoming cases).  Delays measured by length (in months) of the proceedings, per matter.  Development and implementation of new smart judicial and prosecution management models.  Availability of information about the judicial system for the general public. ER c) ***Indicators***: 11  National coverage of first level courts and to comprehensive and free justice services (Plurinational Integral Service-SIJPLU), Plurinational System for Assistance to Victims-SEPDAVI), Plurinational System for Public legal Aid/Defence-SEPDEP and others).  Attention rate of legal assistance and other services, per matter (n. of people receiving assistance over n. of people seeking it).  Number of cases referred to alternative dispute resolution mechanisms through conciliation and national coverage.  National coverage of pilot mobile justice services. ER d) ***Indicators***:  Prevalence of girls and women who have experienced physical or sexual violence in the last 12 months (disaggregated by age).8  Geographical coverage of assistance services for the victims of gender based violence  % of victim-survivor of violence (physical, sexual, mental or others) including trafficking and forced labour who received assistance and rehabilitation services in the last 12 months. ER e) ***Indicators***:  A national regulation for access to public information adopted and implemented.  Creation, adoption and implementation of a comprehensive set of ***indicators*** on Transparency and Anticorruption in line with international standards.  Number and quality of accountability reports provided by State institutions.  On the basis of a mapping of risks in courts, prosecutors’ offices, police stations and other public entities, creation of a risk management system that would allow planning of anticorruption initiatives ER f) ***Indicators***:  Number of cases referred for discipline or prosecution following investigation and number of referred cases resulting in the imposition of discipline or punishment.  Number of public servants who undergo verification of their revenues and goods declarations.9 8 EU Gender Action Plan (GAP) and SDG 5.2 9 Declaración Jurada de Bienes y Rentas. 12  The Integrated Information system on Anti-corruption and Recuperation of Goods by the State (SIIARBE) is linked to the monitoring systems of judicial and prosecution proceedings.  Number of prosecutions aiming at assets/funds recovery ending in actual recovery.  Number of complaints for acts of corruption at national level. More precise ***indicators*** (disaggregated by gender and age, whenever possible) will be developed at the formulation stage for Financing Agreement on the basis of the ***Strategic*** Reform Plan that should emerge from the National Justice Summit. At the same time, baseline data and targets will be established, wherever missing. 3.1.4 Donor coordination and policy dialogue are: Donors’ coordination is ensured through the work of the International Group on Justice (GIJ), which over the last few years has been working closely with national authorities to support the whole reform process. A broad policy dialogue on the justice sector with Bolivian institutions is in place, through formal and informal channels (troika dialogue, seminars, provision of international expertise, bilateral and multilateral round tables, etc.). The GIJ has also been active as regards coordination between donors in the sect

or. The group meets at least once a month facilitating the sharing of information about bilateral programming. At present, the GIJ is working on developing a common results framework to avoid overlapping and to foster complementarity. The group also formulated an agreed common agenda for the international community, which has considerably enhanced the quality and effectiveness of the policy dialogue. To date, there is no specific coordination mechanism for the fight against corruption, although the Delegation maintains a fruitful dialogue with the relevant Ministry. As part of the EU ***intervention*** under this MIP, the Delegation will support the enhancement of coordination among donors interested in this area of work and the relevant government institutions. 3.1.5 The Government’s financial and policy commitments are: The sum of the Ministry of Transparency’s and the Justice Sector’s10 share of the national budget for 2015 is 0.56 %, most of it for salaries, with almost no provision for investment. The figure is well below international norms. The Government is asking the judiciary to improve its ***performance*** and resolve the backlog of pending cases as a precondition to increasing the budget allocation for this sector. 10 Including Ministry of Justice, Supreme Audit institution, General Prosecutor Office, Ombudsmen, General Attorney Office, Constitutional Court and the Judiciary. 13 In bilateral meetings, the government has committed to fund the reform process, once a strategy emerges from the Summit, with clear results and ***indicators***. The international community plans to provide complementary funds to support key areas of reform. 3.1.6 The overall risk assessment of the sector ***intervention***: The justice sector has often been criticised in the media and by Government for its cumbersome procedures, the substantial number of pending cases leading to abnormal delays and extended use of preventive detention, corruption, and the poor condition of prisons. Insufficient allocation of Government funds (to both the Justice sector and the fight against corruption) seems to be a major risk associated with EU ***intervention***, along with the weak capacity of the different public bodies concerned, notably in terms of human resources and leadership. The EU should adopt a step-by-step approach, taking into account the present absorption capacities of the concerned institutions and the political sensitivity of the sectors. 3.2 Fight against illicit drugs and control of surplus coca cultivation (EUR 50 million) 3.2.1 The following overall and specific objectives will be pursued: Overall objective: to support Bolivia’s Strategy to fight against trafficking of illicit drugs and to control surplus cultivation of coca (ELCN&CCEC 2016-2020). Specific objective 1: contribute to the fight against illicit drugs and related crimes/offences (pillar 1 of the ELCN&CCEC) by strengthening operational capacities of involved public institutions, law enforcement and dialogue with civil society organisations and international actors in the framework of shared responsibility Specific objective 2: to support the implementation of the demand reduction pillar of the ELCN &CCEC based on a solid regulatory framework and on a comprehensive approach covering prevention, rehabilitation and reinsertion issues. Specific objective 3: to support the National Strategy for Comprehensive Development with Coca (ENDIC 2016-2020) and the control of surplus cultivation of coca as foreseen by the ELCN&CCEC 2016-2020, for the stabilisation of coca cultivation and the strengthening of food security in ENDIC priority areas. 3.2.2 For each of the specific objectives the main expected results are: Expected Result a): Strengthening national efforts in the fight against drugs (SDG 16.4). Expected Result b): Drug consumption reduced among Bolivian population (SDG 3.5). Expected Result c): Coca production stabilised and food insecurity reduced (SDG 2). 3.2.3 For each result, the main ***indicators*** are: ER a) ***Indicators***: 14  Quantity of seized drugs (cocaine and marihuana) confiscated and incinerated (Tn.).  Number of cocaine factories and laboratories destroyed.  Quantity of chemical substances and precursors seized and legal proceeding against companies and/or persons engaged in illegal trafficking of said substances.  Number of prosecutions of drug trafficking related crimes. ER b) ***Indicators***:  Prevalence of drug consumption within the general population.  Percentage of population benefiting from prevention and rehabilitation programmes.  Regulatory body for prevention, rehabilitation and reinsertion created and in full function. ER c) ***Indicators***:  Surface (number of hectares) and or volume of coca production in the country.  Production volume of alternative crops in defined coca production areas.  Number of sustainable productive complexes created in areas of coca production according to the Economic and Social Development Plan 2016-2020.  Increased food security in defined areas of outward migration.  National Migration flows in defined areas of outward migration. More precise ***indicators*** (disaggregated by gender and age, whenever possible) will be developed at the formulation stage for Financing Agreement on the basis of the new relevant government strategies (ELCN and ENDIC) currently under preparation. 3.2.4 Donor coordination and policy dialogue are: There are few donors active in the counter-narcotics sector in Bolivia. Several European countries supported alternative development projects in the past but channel today their contributions through UNODC. The United States agencies (DEA, USAID, NAS) left the country between 2008-13 after five decades of substantial financial and technical aid. The international community, organised under the mini Dublin group, produces an annual assessment of the counter-narcotics situation in Bolivia. UNODC has established the Thematic Group on Drugs, which gathers all international donors in the sector and neighbouring countries 2-3 times a year. At a regional level, the EU has established a platform with Latin American and Caribbean states (EU-LAC) to discuss drug issues. In 15 addition, several regional EU funded projects (such as ‘COPOLAD’ or ‘EL PACCTO’) have intensified in recent years the coordination between Latin America and Europe. Over the past years, the EU has progressively become the main donor in anti-drugs cooperation to Bolivia, not least thanks to important ***interventions*** under the previous CSP (EUR 69 million) and under the MIP 2014-2016 (EUR 60 million to fight against drugs + EUR 20 million for food security). International partners, including UNODC, rely on our longstanding and constructive relationship with the Government and sector institutions. Policy dialogue in the law enforcement sub-sector is a challenge and a delicate exercise. However, there is at present a good level of trust and fruitful coordination between the EU, CONALTID and the FELC-N, not least thanks to the institutional support already provided. Over the past few years, coordination and policy dialogue between central government, public entities, social sector organisations and donor community has evolved positively in the subsector ‘comprehensive development with coca’. There is a well-established sector coordination group (MESDI) led by the Ministry of ***Rural*** Development and Land (MDRyT). Important efforts are currently being deployed by the Vice Ministry to develop a monitoring system of the entire national strategy with the aim of improving the quality of sector policy dialogue with donors. In the case of food security, a sector coordination group (MESSA) is currently under creation by the MDRyT, with the participation of local and international actors (local governments, FAO, PAM, Belgium, Germany, EU, etc.). 3.2.5 The Government’s financial and policy commitments are: The government has increased its financial contributions to the counter-narcotics sector, from USD 20 million in 2010 to USD 36 million in 2013. This amount is in addition to the regular public budget allocations for the police, military, migration, customs, etc., but is still relatively low given the scale of the problem. After the withdrawal of US agencies, President Morales announced that the Government would make up the loss in financial contributions. However, the fight against drugs is expensive and Bolivia might in the future experience financial constraints in covering future needs. In this context, and under the principle of shared responsibility for the fight against drugs, the EU should encourage international partners to support actively the Bolivian anti-drugs strategy. As regards alternative development in coca production areas, the government has increased its financial contribution to the sector (+14 % each year) and it seems a priority for the next years. The new PDES considers food security as one of the main priorities for the coming years and introduces the concept of Territorial Productive Complexes for which significant public investment is expected. Bolivian political commitment to fight drug production and trafficking is strong. Bolivia is party to all drug relevant regional and international conventions and has signed some 70 bilateral agreements on the subject. The President’s slogan ‘Coca yes, Cocaine no’ expresses the Bolivian policy of allowing a limited amount of coca production in defined areas for legal 16 consumption (mainly chewing) while combating the production and trafficking of cocaine and pasta base. The stabilisation of coca production since 2010 and its net reduction to 20 200 hectares in 2015 confirms that Bolivia has applied a successful mix of measures to control coca cultivation. On the interdiction side, the security forces achieve respectable results with limited resources. However, improvement in law enforcement capacities still represents a major challenge. 3.2.6 The overall risk assessment of the sector ***intervention***: More attention should be given to assist the executive, the judiciary and the legislative powers to improve the legal framework for the fight against drugs, and support relevant public entities to apply the law. Though technical expertise and training are important tools, a strengthened political dialogue, jointly with international partners is essential to support the reform process. In this context, the dialogue with non-state actors is also crucial to foster the participation of civil society, including traditional social movements, in the fight against drugs. The generally weak capacity of public entities in charge of enforcement constitutes an important risk for programme implementation and financial execution. While modern equipment and technology will contribute to overcoming this situation, measures such as training and twinning opportunities are vital to successful implementation. An ambitious EU-funded technical assistance programme on counter narcotics started in 2016 under the coordination of a Consortium of EU Member States Police Agencies. The aim of this programme is to improve the capacities of the Bolivian police forces and therefore to reduce the above mentioned risk. Bolivia needs to improve its cooperation with neighbours and other international partners. The EU is currently supporting attempts to strengthen of Bolivian regional cooperation via a bilateral EU-UNODC programme and several regional counter-narcotics projects (eg cocaine route programme, COPOLAD, etc.). In the case of alternative development and food security, the main risks are the high price volatility of different ***agriculture*** products (banana, pineapple, coffee, cocoa, honey and palm hearts), marketing and distribution weaknesses and the potential for social conflict in coca production areas. A better market approach and economic diversification strategy complemented with better dialogue between Government and the different coca production areas should help to mitigate the risks significantly. 3.3 Water, sanitation and natural resources management (EUR 86,366,800) 3.3.1 The following overall and specific objectives will be pursued: Overall objective: to support Bolivia´s efforts toward integrated water resource management, including access to water and sanitation services and related economic opportunities, while ensuring environmental sustainability and climate change adaptation and mitigation. 17 Specific objective 1: to support the Bolivian sectoral plan to increase coverage of improved and sustainable sanitation facilities by 2020. Specific objective 2: to improve sustainable management of natural resources, including forests, ensuring availability of quality water and the protection of critical ecosystems. 3.3.2 For each of the specific objectives the main expected results are: Expected Result a): Increased coverage rate of improved sanitation facilities11 (SDGs 3.3 and 6.2). Expected Result b): Improved water governance and management of water-related risks (SDGs 6.3, 6.5, and 6.a). Expected Result c): Improved integrated forest management, and protection and sustainable use of critical ecosystems (SDGs 6.6, 12.2, 15.1, 15.2, 15.9, 15.a, 15.b) 3.3.3 For each result, the main ***indicators*** are: ER a) ***Indicators***:  Percentage of population, with access to improved sanitation facilities.  Percentage of population in small concentrated communities connected to sewage systems.  Number of new –or expanded — small scale wastewater treatment plants in small concentrated communities.  Number of schools with improved sanitation facilities and DESCOM12 provided to students on appropriate hygiene habits.  Number of sub-national level stakeholders (municipal and department-level government staff and EPSAs) provided with basic knowledge on adapted sanitation technologies and DESCOM that includes the relation between sanitation, hygiene and human health. ER b) ***Indicators***:  Number of ***strategic*** water basins with integrated management plans under implementation.  Number of sub-basins intervened with integrated natural resource management. 11 Access to improved sanitation facilities refers to the percentage of the population using improved sanitation facilities. An ‘improved’ sanitation facility is one that hygienically separates human excreta from human contact. The improved sanitation facilities include flush/pour flush (to piped sewer system, septic tank, pit latrine), ventilated improved pit (VIP) latrine, pit latrine with slab, and composting toilet (Source: WHO). 12 Desarrollo comunitario = Community development activities. 18  Number of municipalities with coverage of Early Warning Systems integrated into the national system.  Number of water bodies with water quality monitoring systems. ER c) ***Indicators***:  Surface of forested area, in hectares.  Surface of forested area at river sources, in hectares.  Number of key areas providing environmental functions monitored and with management.  Surface under integrated water resource management, integrated and sustainable management of forests, protected areas and biodiversity.  Number of direct and indirect beneficiaries from new projects promoting the sustainable use of natural resources.  Number of communication and sensitisation campaigns on the importance of environmental functions, integrated environmental management and key conservation areas. In Attachment 1 additional information is provided on the link between these ***indicators*** and the PDES and Sector Plans. It is also worth noting that the proposed results are expected to contribute to the achievement of the targets set by Bolivia at COP21 in the sectors of water vulnerability and adaptive capacity in water as well as sustainable management of forests. More precise ***indicators*** (disaggregated by gender and age, whenever possible) will be developed at the formulation stage for Financing Agreement on the basis of the new relevant government strategies currently under preparation. 3.3.4 Donor coordination and policy dialogue are: Effective donor coordination and harmonisation has existed for years in the water and sanitation subsector. The Group of Donors in the Water and Sanitation Sector (GRAS), established jointly between the Government and the donor community, is being currently reinforced to ensure alignment of donors’ ***interventions*** to the new water and sanitation sectoral plan 2016-2020. Besides the EU, the most significant donors are Germany, Spain and multilateral institutions such as the Inter-American Development Bank (IDB) and Corporación Andina de Fomento (CAF). Resources Management subsector also has a donor coordination mechanism — the ‘Basin Group’. It works under the leadership of the Vice Ministry of Water Resources and Irrigation, with the participation of all donors and technical assistance providers. The group has developed a ***Performance*** Assessment Framework (PAF) which has served as a tool to review progress in the subsector policy. Current donors include the EU, Belgium, Germany, Sweden, Switzerland, the IDB and WB. 19 The actors supporting the environment and climate change sub-sector meet through a specific Donor Group under the GruS, and the EU currently plays a leading role. 3.3.5 The Government’s financial and policy commitments are: The Government´s policy commitments to the sector are clearly presented in the Economic and Social Development Plan 2016-2020 and the related sector plans. Water and sanitation coverage is also a key commitment of the Government in the Patriotic Agenda. The estimated investment needed to achieve established targets for the sector is of about USD 2 400 million, to be achieved through own resources, credits and grants. The second phase of the Watershed Management Plan (2014-8) has a financial projection of USD 115.8 million (EUR 102 million), which is implemented both directly by the Vice Ministry of Water Resources and Irrigation (with an annual budget of around EUR 7 million) and through related programmes coordinated with the same Vice Ministry (eg the EU-funded programme in Lake Poopó). 3.3.6 ***Strategic*** Environmental Assessment or Environmental Impact Assessment In 2010, the Delegation carried out a comprehensive environmental assessment and presented in 2011 a Country Environmental Profile for Bolivia, which is still valid. 3.3.7 The overall risk assessment of the sector ***intervention***: Besides the general context risks described in section 3.5 of the JES, specific risks to the sector derive from climate change-related challenges as well as weakness vis-à-vis more profitable productive sectors with competing interests. The 2015 Presidential Decree on hydrocarbon exploration in protected areas has highlighted the degree of pressure natural resources are exposed to in a context of decreasing economic growth, and the need for strengthening both the normative framework and the control mechanisms in the field. The Delegation has already started providing technical assistance to the Ministry in this area and is committed to continue its support together with other cooperation agencies. Institutional stability and good governance will be very important in order to have continuity and consistency in the implementation of the sectoral plans. The environmental sector plan is still under preparation, and that the forestation targets may prove to be unrealistic especially in the context of significant expansion of ***agriculture***. Poor communication and uneven capacities across the different vice ministries may hamper the proper implementation of the proposed integrated approach, for which technical assistance will be needed. Given generally weak capacity at central Government level but especially at sub-national levels, low budget execution rates are common and present another significant risk. This can be the case especially for sanitation investments in ***rural*** areas, especially if programme 20 implementation follows a top-down approach. More effective programme and project decentralisation and awareness campaigns at local level on the use of adapted sanitation technology and involving local small-scale enterprises should be promoted. 4. Support Measures Measures to support or accompany the programming, preparation or implementation of actions. Under the MIP 2014-2016, a Decision was adopted to allow for the provision of capacity building and technical assistance in the sectors where the EU works through Budget Support. The related Service Contract(s) are in process of being tendered and contracted. These resources are expected to be sufficient to cover the needs of the first few years of the MIP 2017-2020. An additional EUR 2 million is proposed under this MIP to allow support in the sectors where the EU is not working through Budget Support and to cover new needs that may emerge toward the end of the 2017-2020 period. Attachments 1. Country at a glance 2. Donor matrix 3. Sector ***intervention*** framework and ***performance*** ***indicators*** 4. Indicative timetable for commitment of funds 5. Joint European Strategy 21 Attachment 1. Country at a glance Population: 10.8 million (2015) Pop. growth rate: 1.6 % (2014 estimation) Urban population: 68 % (2015 estimation) Country rank: LMC Total area: 1 098 580 km² Selected Human Development ***Indicators*** HDI Value1 Life expectancy at birth (years) Under-five mortality rate (per 1000) Adult literacy rate (% ≥15 yrs) Expenditure on Health (GDP ratio) (%) 0.66 (2014) 71.3 (2015) 38 (2014) 96.8 (2015) 6.3 (2014)5 Income distribution (Gini)2 Moderate and Extreme Poverty (%) GII Value3 Human Rights Situation Corruption4 0.49 (2014) ↑ Moderate 43.3 (2012) Extreme 17.3 (2014) 0.44 (2014) Good formal basis for the exercise of human rights. BOL has ratified most international treaties. Women, indigenous peoples and justice are main concerns. 34 (2015) 1 HDI: Human Development Index — comparative measure of life expectancy, literacy, education, and standard of living. Position 113/189. 2 Gini index: measure of inequality — a value closer to 0 indicates higher equality 3 GII: Gender Inequality Index –inequality between women and men in: reproductive health, empowerment and the labour market; value closer to 0 indicates higher equality 4 CPI: perceived corruption among public officials and politicians — ranges from 0 (no corruption) to 100 (highly corrupt) — Transparency International, 2012. Position 99/168 5 Source: WB Selected Economic ***Indicators*** (2015) GDP (current, USD m) GDP per capita (USD) GDP growth (%) GDP by sector 34 493 3 194 4.8 ***Agriculture***: 4.4 % Mining: 2.7 % Natural gas: -1.3 % Manufacturing: 4.8 % Commerce:4.2 % Public Investment (USD m) Public Investment as % of GDP State Budget (USD m) 6 179 18 32 242 22 Net International Reserves (USD m) Overall fiscal balance Inflation (CPI, %) Transportation 5.4 % Services: 6.0 % Construction 6.9 % Electricity, gas and water 7.0 % 13 397 -6.9 % 2.95 Unemployment (%) External debt stock (USD bn) External debt stock (% of GDP) 3.5 (2014) 6.3 19.1 Source: MEPF, Central Bank, NSI Foreign Direct Investment (Gross inflows 2014, USD m): Total Inflow EU Gross FDI inflow 2.113 989 Main EU investors Sectors Spain (26 %), UK (22 %), France (10 %). 58 % of all FDI in 2014 Energy, Mining, Hydrocarbon and service sectors Sources: MRREE, MEPF (estimation) Trade ***Indicators*** (2015) BOLIVIA main trade partners EU-BOL trade value in 2015 1-Brazil Imports from EU: USD 1 168 million 2- US Exports to EU: USD 729 million 3- Argentina Trade balance: — USD 439 million 4- EU Imports from EU Exports to EU Industrial capital goods (27 %) Minerals (54 %) Others (73 %) ***Agricultural*** products (24 %) Manufactured goods and others (22 %) Source: IBCE Development Assistance Net ODA received (2014): USD 672 million Share of GDP: 2.2 % 23 Per capita: USD 63.6 Number of donors: 24 Top 3 donors: 1- EU 2- Spain 3- Germany EU Bilateral Cooperation 2014-2020: EUR 281 million (MIP 2014-2016 and MIP 2017-2020) Sources: OECD, EU, GoB 24 Attachment 2: Donor matrix ODA DISBURSEMENTS TO BOLIVIA (In million USD) Time Period 2008 2009 2010 2011 2012 2013 2014 Australia 0.03 0.01 0.55 0.21 0.15 Austria 0.25 0.27 0.3 0.25 0.29 0.18 0.25 Belgium 17.81 24.8 23.58 24.4 16.94 13.23 18.65 Canada 13.98 24.3 19.07 27.05 27.98 19.91 17.27 Denmark 26.47 28.11 41.41 39.91 29.2 19.48 29.19 EU 43.79 77.83 64.69 52.05 61.56 82.11 35.93 Finland 0.28 1 1.22 1.06 0.94 1.24 1.03 France 15.84 11.69 12.46 10.4 8.18 8.85 7.93 Germany 55.13 45.67 79.29 42.3 30.93 39.18 43.33 Ireland 1.21 1.13 0.8 1.25 0.4 0.71 0.26 Italy 9.9 8.95 5.92 11.09 2.53 2.66 5.9 Japan 37.46 32.47 54.62 39.08 20.42 13.78 14.93 Korea 5.23 1.84 1.66 1.89 5.64 6.76 17.21 Luxembourg 1.1 0.96 1.19 1.24 1.75 1.27 1.31 Netherlands 41.43 45.56 47.54 53.65 37.51 21.23 6.4 Norway 6.41 6.4 5.85 5.82 5.45 7.74 5.03 Spain 96.15 98.94 147.61 53.45 23.68 19.83 16.94 Sweden 27.56 29.63 27.73 35.45 32.53 38.13 29.44 Switzerland 12.55 19.77 19.41 29.71 35.01 31.62 35.38 United Kingdom 1.05 0.54 0.08 0.14 1.02 0.96 1.13 United States 123.82 101.12 86.11 59.69 50.88 26.63 34.75 IDM Sp. Fund 0 104.99 166.59 186 198.7 259.91 294.88 Nordic Dev. Fund 0 0.71 1.61 4.97 0 0 4.29 UN System 8.37 6.78 5.57 6.96 5.09 5.65 6.76 All Donors Total 627.87 725.25 715.19 721.58 658.4 700.0 671.84 Note: Totals extracted from [*http://stats.oecd.org/qwids*](http://stats.oecd.org/qwids)/ 25 Attachment 3. Sector ***intervention*** framework and ***performance*** ***indicators*** SECTOR 1: JUSTICE REFORM AND FIGHT AGAINST CORRUPTION Specific objective 1: contribute to strengthen the independence, impartiality, transparency and effectiveness of the justice sector. Expected Results ***Indicators*** Means of verification a) Pertinent and viable guidelines for a comprehensive justice reform (including short, medium and long term actions, credible budget allocations and smart ***indicators***) are under execution. a1) Adoption of a comprehensive, pertinent and credible ***strategic*** document defining guidelines for the Justice Reform (including short, medium and long term actions). a2) Government expenditure in the justice sector (as a percentage of the National Budget). a3) Progress of Bolivia in the International Governance ***Indicators*** (Voice and Accountability, Regulatory Quality, Rule of law and control of corruption and others) a4) Existence of an institutional mechanism to monitor the implementation of the Justice Reform (Implementation Commission). Baseline and targets to be established during formulation process. Data source: UNCHR annual report on Bolivia, Ministries of Justice and Home Affaires data, Ombudsman data and civil society surveys b) Improved quality and effectiveness of the justice sector in the frame of the full respect of human rights. b1) Number of justice professionals (judges, prosecutors, policemen, investigators and others) that are recruited/nominated on the basis of objective and transparent criteria. b2) Number of pending cases per 100 inhabitants, per matter. b3) Clearance rate (number of resolved cases over the number of incoming cases). b4) Delays measured by length (in months) of the proceedings, per matter. b5) Development and implementation of new smart judicial and prosecution management models. b6) Availability of information about the judicial system for the general public. Baseline and targets to be established during formulation process. Data source: UNCHR annual report on Bolivia, Ministries of Justice and Home Affaires data, Judiciary and Prosecutor Office data, Ombudsman data and civil society surveys 26 Specific objective 2: to improve population access to justice services in order to facilitate the exercise of fundamental rights, with particular emphasis on vulnerable groups and victims of gender violence. c) Improved population access to justice services, especially for vulnerable groups. c1) National coverage of first level courts and comprehensive and free justice services (Plurinational Integral Service-SIJPLU), Plurinational System for Assistance to Victims-SEPDAVI), Plurinational System for Public legal Aid/Defense-SEPDEP and others). c2) Attention rate of legal assistance and other services, per matter(n. of people receiving assistance over n. of people seeking it). c3) Number of cases referred to alternative dispute resolution mechanisms through conciliation and national coverage. c4) National coverage of pilot mobile justice services. Baseline and targets to be established during formulation process. Data source: UNCHR annual report on Bolivia, Ministry of Justice data, data provided from a comprehensive mapping and diagnostic of justice services, other national institutions data, reports from mediation services and evaluation surveys from beneficiaries. d) Improved effectiveness of the gender based violence prevention services and of assistance and protection to victims. d1) Prevalence of girls and women who have experienced physical or sexual violence in the last 12 months (disaggregated by age). d2) Geographical coverage of assistance services for the victims of gender based violence. d3) % of victim-survivor of violence (physical, sexual, mental or others) including trafficking and forced labour who received assistance and rehabilitation services in the last 12 months. Baseline and targets to be established during formulation process. Data source: UNCHR annual report on Bolivia, Ministries of Justice and Home Affaires data, Ombudsman data and civil society surveys Specific objective 3: contribute to reduce corruption levels within the public administration by promoting transparent institutions and the implementation of policies for the prevention and fight against corruption. e) Integrated National Policies for prevention and transparency aiming at reducing corruption levels, under execution. e1) A national Law for access to public information adopted and implemented. e2) Creation, adoption and implementation of a comprehensive set of ***indicators*** on Transparency and Anticorruption in line with international standards. e3) Number and quality of accountability reports provided by State institutions. Baseline and targets to be established during formulation process. Data source: Ministries of 27 e4) On the basis of a mapping of risks in courts, prosecutors’ offices, police stations and other public entities, creation of a risk management system that would allow planning of anticorruption initiatives. Transparency and civil society surveys f) A comprehensive, pertinent and credible plan to fight against corruption and to recover assets within the public sector is under execution. f1) Number of cases referred for discipline or prosecution following investigation and number of referred cases resulting in the imposition of discipline or punishment. f2) Number of public servants who undergo verification of their revenues and goods declarations.13 f3) The Integrated Information system on Anti-corruption and Recuperation of Goods by the State (SIIARBE) is linked to the monitoring systems of judicial and prosecution proceedings. f4) Number of prosecutions aiming at assets/funds recovery ending in actual recovery. f5) Number of complaints for acts of corruption at national level. Baseline and targets to be established during formulation process. Data source: Ministries of Transparency, Judiciary and civil society surveys. SECTOR 2: FIGHT AGAINST ILLICIT DRUGS AND CONTROL OF SURPLUS COCA CULTIVATION Specific objective 1: contribute to the fight against illicit drugs and related crimes/offences (pillar 1 of the ELCN&CCEC) by strengthening operational capacities of involved public institutions, law enforcement and dialogue with civil society organisations and international actors in the framework of shared responsibility. Expected Results ***Indicators*** Means of verification a) Strengthening national efforts in the fight against drugs. a1) Quantity of seized drugs (cocaine and marihuana) confiscated and incinerated (Tn.). a2) Number of cocaine factories and laboratories destroyed. a3) Quantity of chemical Baseline: 22.34 Tn. of seized cocaine (2014), 21.28 Tn. of seized cocaine (2015) -Targets to be established during formulation process Baseline: 5.306 factories (2014), 4.234 factories (2015) dismantled Targets to be established during 13 Declaración Jurada de Bienes y Rentas. 28 substances and precursors seized and legal proceeding against companies and/or persons engaged in illegal trafficking of said substances. a4) Number of prosecutions of drug trafficking related crimes. formulation process Baseline: solid SSQQ 613.11 Tn. and liquid SSQQ 1.640.32 M3 (2014), solid SSQQ 579.13 Tn. and liquid SSQQ 1.053.52 M3 (2015) — Targets to be established during formulation process. Baseline and targets to be established during formulation process Data source: UNODC Annual Monitoring Reports and various national sources (including VDS-SC annual reports). Specific objective 2: to support the implementation of the demand reduction pillar of the ELCN&CCEC based on a solid regulatory framework and on a comprehensive approach covering prevention, rehabilitation and reinsertion issues. b) Drug consumption reduced among Bolivian population. b1) Prevalence of drug consumption within the general population. b2) Percentage of the population benefiting from prevention and rehabilitation programmes. b3) Regulatory body for prevention, rehabilitation and reinsertion created and in full function. Targets to be established during formulation process. Baselines: Data of the ‘Estudio Nacional de Prevalencia y Caracteristicas del Consumo de Drogas en Hogare Bolivianos de nueve ciudades capitales de departamento y más la ciudad de El Alto’ (2013), National Plan for the Reduction of Drugs Consumption 2013-2017 Data source: Regional and national sources, Survey on Drug Use Prevalence in 10 capitals 2007. Studies about prevalence of drug consumption, S.C: CONALTID. 29 Specific objective 3: to support the National Strategy for Comprehensive Development with Coca (ENDIC 2016-2020) and the control of surplus cultivation of coca as foreseen by the ELCN&CCEC 2016-2020, for the stabilisation of coca cultivation and the strengthening of food security in ENDIC priority areas. c) Coca production stabilised and food insecurity reduced. c1) Surface (number of hectares) and or volume of coca production in the country. c2) Production volume of alternative crops in defined coca production areas. c3) Number of sustainable productive complexes created in areas of coca production according to the Economic and Social Development Plan 2016-2020. c4) Increased food security in defined areas of outward migration. c5) National Migration flows in defined areas of outward migration. Baseline: 20 200 ha (UNODC annual report 2015) Target: final level agreed with the government reflecting outcomes of EU-funded coca studies. Baseline: National ***Agricultural*** Survey 2014 — Precise targets to be established during formulation process. Baseline: 0 productive complexes in place — Target: 4 productive complexes in coca areas. Baseline: Vulnerability Analysis and Mapping study 2013 — Precise targets to be established during formulation process Baseline: National census in 2014 Precise targets to be established during formulation process Data source: UNODC annual reports, National ***Agricultural*** Survey subsequent years and ad-hoc annual surveys, Vulnerability Analysis and Mapping study 2017 (MDRyT, EU, WFP); National census in 2018. 30 SECTOR 3: WATER, SANITATION AND NATURAL RESOURCES MANAGEMENT Specific objective 1: to support the Bolivian sectoral plan to increase coverage of improved and sustainable sanitation facilities by 2020. Expected Results ***Indicators*** Means of verification a) Increased coverage rate of improved sanitation facilities. a1) Percentage of population, with access to improved sanitation facilities (MEW). a2) Percentage of population in small concentrated communities connected to sewage systems a3) Number of new –or expanded — small scale wastewater treatment plants in small concentrated communities a4) Number of schools with improved sanitation facilities and DESCOM provided to students on appropriate hygiene habits. a5) Number of sub-national level stakeholders (municipal and department-level government staff and EPSAs) provided with basic knowledge on adapted sanitation technologies and DESCOM that includes the relation between sanitation, hygiene and human health. Baseline 2014: 63 % urban and 42 % ***rural*** (Source MEW) Targets: 70 % urban and 60 % ***rural***. All other baseline and targets to be established during formulation process 31 Specific objective 2: to improve sustainable management of natural resources, including forests, ensuring availability of quality water and the protection of critical ecosystems. b) Improved water governance and management of water-related risks. b1) Number of ***strategic*** water basins with integrated management plans under implementation (MEW — part of PNC ***indicator*** 1). b2) Number of sub-basins intervened with integrated natural resource management (MEW — part of ***indicator*** 2 of the National River Basin Plan (PNC). b3) Number of municipalities with coverage of Early Warning Systems integrated into the national system (MEW — PNC ***indicator*** 3.1). b4) Number of water bodies with water quality monitoring systems (MEW — PNC ***indicator*** 4). Baseline: 5 — Target: 14 Baseline andtarget to be confirmed through the adaptation of the National Watershed Programme Baseline: 38 municipalities in 4 departments — Target to be confirmed through the adaptation of the National Water Basin Programme Baseline: 8 water basins Data source: PNC Reports subsequent years 32 c) Improved integrated forest management, and protection and sustainable use of critical ecosystems. c1) Surface of forested area, in hectares (objective 6 result 2 of PDES and PNC ***indicator*** 3.2). c2) Surface of forested area at river sources, in hectares. c3) Number of key areas providing environmental functions monitored and with management (objective 4 result 4 and objective 7 target 3 of PDES). c4) Surface under integrated water resource management, integrated and sustainable management of forests, protected areas and biodiversity c5) Number of direct and indirect beneficiaries from new projects promoting the sustainable use of natural resources (objective 5 result 5 of PDES and contributing to DEVCO global ***indicator*** ‘# of projects/ enterprises with sustainable production practices for biodiversity use’). c6) Number of communication and sensitisation campaigns on the importance of environmental functions, integrated environmental management and key conservation areas. Target: 750 000 additional ha All other baseline and targets to be established during formulation process Data source: MEW Vice Ministry of Water Resources and Irrigation, Vice Ministry of Environment and SERNAP 33 Attachment 4. Indicative timetable for commitments (in EUR) Indicative Allocation 2017 2018 2019 2020 SECTOR 1 20 000 000 - Justice reform and fight against corruption 5 000 000 15 000 000 SECTOR 2 50 000 000 - Fight against illicit Drugs 30 000 000 - Integral Development/ Food Security 20 000 000 SECTOR 3 86 366 800 - Water and sanitation 35 000 000 - Natural resources management 51 366 800 Support Measures: 2 000 000 Measures to support or accompany the programming, preparation or implementation of actions 2 000 000 Total Commitments 158 366 800 51 366 800 92 000 000 15 000 000

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Single Support Framework for EU support to Moldova

(2017-2020)

Single Support Framework

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Republic of Moldova 2017-2020

Introduction

The Republic of Moldova (hereafter referred to as Moldova) is a lower middle income country with a GDP per capita (PPP) of USD 1,900 in 2016. Moldova ranked 107th out of 188 countries on the Human Development Index (HDI-0.699 – 2016 HDI Report). A period of sustained economic growth and reforms to the social protection system helped to reduce poverty levels. Nevertheless, in 2014, approximately 11.4% of the population were estimated as living below the absolute poverty line. Absolute and relative poverty is particularly acute amongst the ***rural*** population, the elderly living alone and larger (5+) households in the urban areas. Less than half of the working age population is on the labour market (42.5% in 2015), some 23% of the population lives abroad and outward migration has an important socio-economic role with remittances representing around a fifth of GDP (23.4% in 2015). A very large share of young people (30.4% in 2015) is not in employment, education or training (NEET). Moldova scored 1.01 on the Gender Development Index (2016 HDI Report), and while there is little appreciable difference between men and women on the majority of ***indicators***, there is a substantial difference in share of gross national income.

Real GDP grew at an average rate of 4.8% per annum in 2014, but the country slipped into recession at the end of 2015 (-0.5%), as a result of the banking crisis, a severe drought, declining remittances, and weaker external flows. The International Monetary Fund (IMF) reported that the outturn for 2016 was 4.1% and forecasts further improvement in 2017 (+4.5%).The economy is dominated by the service sector (63.2% of GDP end 2015) and the manufacturing sector (20.7% of GDP). ***Agriculture*** accounts for 16.1% of GDP and 33.7% of the active labour population continue to derive their living from primary ***agriculture*** including subsistence activities (2016). There is a significant trade imbalance (USD -1913 million end 2016). Remittances fell by 27% in 2015 but levelled off in 2016. The current account deficit was 4.5% of GDP at the end of 2016. There are concerns that external debt levels may rise to unsustainable levels. Total external debt now stands at 97.2% of GDP (2016)and public and publicly-guaranteed external debt is currently 43.3% of GDP. The fiscal deficit was 2.1% in 2016. Inflation remained steady in 2012-2014 (4.6%-4.7%), but rose to 9.7% in 2015, on the back of the declining exchange value of the Moldovan LEI and rising energy and food prices. In 2016, the IMF recorded annual inflation of 6.4% and predicts that it will continue to decline steadily through 2017-2022.

Stabilisation of the economy depends on the implementation of the agreement reached with the IMF in July 2016. It was approved by the IMF Board in November 2016. The economic reform programme is supported by a three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangement, valued at approximately EUR 160 million. The IMF Programme re-opened opportunities for the country, in the political, financial and economic spheres. It frames future reforms efforts which should inter alia prevent fraud in the banking sector.Nevertheless, the Moldovan economy faces a number of significant downside risks: the slowdown in the Russian economy and stagnation in the Eurozone will continue to impact upon export ***performance***, weaker capital inflows and further reductions in remittances. These external pressures are compounded by poor revenue collection, a fragile banking sector, and structural problems in the non-banking financial sector.

Following request from the Moldovan government and also taking into account the residual financing needs under the IMF programme, the European Commission adopted on 13 January 2017 a proposal for macro-financial assistance to Moldova of up to EUR 100 million (EUR 40 million in grants and EUR 60 million in loans) to be disbursed in 2017-2018 when Moldova fulfils the conditions and provided the IMF programme remains on track.

The current government under Prime Minister Filip (Democratic Party)took officein January 2016. Relative stability of the country allowed for the re-starting of reforms, namely through work on the so-called Priority Reform Action Roadmap, addressing some of the concerns and recommendations expressed in the EU Council conclusions of February 2016. In November 2016, Igor Dodon (The Party of Socialists) was elected as President by popular vote. Parliamentary elections are due in late autumn 2018. The Corruption Perception Index (CPI) indicates that Moldova continues to be regarded as a country with widespread corruption. In 2016, Moldova ranked 123, a downgrade from 103 in 2015 and its score had fallen from 33 to 30 reflecting the growing mistrust amongst the population.

Following theresumptionofnegotiationsinthe“5+2” format (Moldova, Transnistrian representative, Ukraine, Russia and the Organisation for Security and Cooperation in Europe (OSCE), with the EU and the United States of America) andthesignaturebyallpartiesoftheBerlinProtocol on2-3June2016, talks have continued at different level in an effort to move forward the process, but with limited progress to date. The European Union is committed to and fully supportive of Moldova’s territorial integrity and sovereignty and continues to work towards the peaceful resolution of the Transnistrian conflict.A permanent Working Group involving the Parliament of Moldova and the Gagauz People’s Assembly has been established toimprove relations between the Moldovan and Gagauz authorities.

1.       EU Response 1.1       ***Strategic*** objectives of the EU's relationship with the partner country

Resilience and transition to democracy and a social market economy are the EU's main political priorities outlined in the European Neighbourhood Policy (ENP) review of November 2015[1] and in the Global Strategy[1] of June 2016 as they would contribute to stability expected by the citizens. In this regard, supporting Moldova's political, social and economic development opportunities towards political association and economic integration with the EU will contribute to these aims. The Association Agreement signed in 2014,in force since July 2016, provides the basis for this commitment towards fulfilling the mentioned objectives.

The EU Council Conclusions of 15 February 2016 on Moldova highlighted a number of pending challenges and key priority reform areas to be tackled, such as addressing the politicisation of state institutions and systemic corruption and strengthening the governance of the financial sector. To address those issues, the government prepared a roadmap on priority reform actions. While several legislative measures foreseen in the roadmap have been adopted, the reform process should be continued, with a particular focus on genuine implementation of legislation and policies with the aim of improving citizens' life. In December 2016, the government approved a national plan on the implementation of the Association Agreement /Deep and Comprehensive Free Trade Agreement 2017-2019.

The priorities and indicative allocations for financial assistance to be included in the Single Support Framework (SSF) are connected to the priority actions set out by the 2017-2019 Association Agenda. 1.2       Choice of sectors of ***intervention***

The priority sectors reflect the revised ENP and the Association Agendaand are coherent with the Eastern Partnership priorities reflected inthe '20 Deliverables for 2020'.

Extensive consultations have taken place over 2015-2017 with the government, civil society organisations, multilateral and bilateral donors including EU Member States, International Financial Institutions (IFIs) and International Organisations.

The choice of priority sectors has also been guided by the Joint programming process through the completion of a Joint Analysis (involving Member States and other donors) that was presented to the Government in October 2016.The indicative budget allocations reflect the focus on delivering tangible and visible results for citizens.

To enhance the impact and visibility of EU support, the EU will identify, together with the Government of Moldova, one or two pilot regions. In each pilot region, the EU will aim to concentrate support from a number of cross-sectoral initiatives to maximise impact. This will also allow new initiatives to be piloted in the selected regions, where appropriate.The approach of pilot regions does not mean that EU assistance will be limited to these regions. It will permit concentration of EU support, where appropriate.The aim is to ensure that EU support is as close to citizens as possible.The sectors of ***intervention*** reflect the priorities set out in the relevantSector Strategies, the “Government Programme 2016-2018”, and the National Development Strategy (“Moldova 2020”). The latter document targets seven priorities: Education, Roads, Finance, Business, Energy, Pensions Reform and Justice. The strategy is presently undergoing a mid-term assessment and a new National Development Strategy until 2030 will be prepared. During the period of the SSF 2017-2020, the EU will provide support to these priorities through either the national, thematic or regional envelopes, or the EU financial institutions.For all the priority sectors of this SSF, TAIEX could propose a list of peer to peer activities to assess and match Moldova's specific needs to support and serve the reform process.

The main sectors of concentration of the SSF 2014-2017 have been as follows: Public administration reform, ***Agriculture*** and ***rural*** development; and Police reform and border management.

A number of lessons learned during the implementation of the ENPI 2007-2013 and the ENI 2014-2016 have informed the programming of this SSF:

* The need for projects that produce tangible results for citizens and provide high visibility for the EU;

1. The need to programme assistance within the framework of clear national sector strategies, supported byAction Plans, whose costing is consistent with the State Budget and the medium-term budgetary projections, and evidence of ownership of reforms by the Government;
2. The importance of a sustained policy dialogue;
3. Theimportance of Government capacity to coordinate policy and legislative development and implementation and well as external assistance, ensure coherence between the budgetary processes and policy agenda, and to monitor the implementation of the AA/DCFTA;
4. The importance of mainstreaming the key Principles of Public Administration Reform, including when appropriate the Better regulation approach advocated at the EU level in sector programmes and policy dialogue;
5. The importance of mainstreaming cross-cutting issues, notably civil society engagement, youth, gender, a rights-based approach, social inclusion, environment and climate change, and of employing confidence building measures in potential and post-conflict situations;
6. The need to ensure coherence between ***interventions*** financed through the national, thematic, cross-border and regional envelopes;
7. The desirability of pursuing a joint programming approach with EU Member States and willing partners and ensuring synergy with bilateral and multilateral donors, International Financial Institutions (IFIs) and International Organisations;
8. The importance of fostering ***strategic*** communication on EU policies and support.

The priority Sectors of ***Intervention*** are:

Sector 1: Economic development and market opportunities, including sustainable and inclusive economic growth (indicative 35% of total budget)

Given the revised ENP, support for sustainable, inclusive and smart economic growth has emerged as the crucial issue in Moldova. The need to improve the business climate and to unlock innovation and investment potential is reinforced by the Association Agreement, including a DCFTA, and has been presented as a tool for modernisation and promoting prosperity.

Sector 2: Strengthening institutions and good governance, including the Rule of Law and Security (indicative 15% of total budget)

Effective and accountable public administration and justice are crucial not only to fulfil Moldova's reform aspirations and to effectively implement the EU-Moldova Agreements, but also for political stability and to gain citizen and investor confidence. The public perception of corruption among civil servants, including those serving in the judiciary, is very high. The security situation in Moldova leaves room for improvement, in particular with regard to organised crime.

Sector 3: Connectivity, energy efficiency, environment and climate change(indicative 25% of total budget)

Supporting better energy connectivity with the EU is crucial with a view to increasing the currently low level of energy supply security and diversification. The situation of transport infrastructures require in many cases strong rehabilitation efforts with a view a view to improving access of population, especially in ***rural*** areas, to social services and access to markets. In addition, some transport infrastructures are needed to ensure greater connectivity with the EU and stimulate current and future economic activity. Sustainable management of natural resources (including energy efficiency) is also underdeveloped in Moldova. Implementation of the commitments stemming from the Association Agreement, the Energy Community Treaty as well as the Paris Agreement on Climate Change will also be supported.

Sector 4: Mobility and people-to-people contacts,including support to the continuous fulfilment of the Visa Liberalisation Action Plan benchmarks and to education, training and research (indicative 10% of total budget)

Moldova was the first Eastern Neighbour to benefit from visa-free regime with the EU, whose good implementation may also contribute to ensuring public support for association with the EU. Development of stronger ties between the labour market and the education and training system and between the private sector and research are needed to support smart and sustainable economic development.

Cross-cutting issues, notably environmental protection and climate change, promoting the digital economy and society, gender and human rightswill be mainstreamed in the priority sectors,together with the key Principles of Public Administration. Especially policy and legislative development needs to be inclusive and based on evidence. This is a key in ensuring implementation and enforcement of adopted policies and legislation, including those required by commitments under the DCFTA. Complementary support may also be provided, in order to implement priority commitments that are not already covered.

The regional and multi-country programmes will continue to provide key complementary support to implement results to citizens in the context of the EaP priorities set in Riga and the regional multiannual indicative plan. With regards to strengthening market opportunities, support will continue under the EU4Business Initiative – with support ranging from a business friendly regulatory environment to the implementation of the DCFTA - as well as EU4Digital, which will provide support to strengthening the digital economy and society within and across the region. Support to strengthening the international and regional connectivity agenda including on transport in line with the TEN-T network, energy and climate change and the environment will be provided both through relevant regional programmes (i.e EU4Energy) as well as the Neighbourhood Investments Facility and EU4Innovation. Similarly, EU4Youth as well as continued programmes such as Erasmus+ will continue to benefit the mobility and people to people contacts. In addition, the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM) will be another priority areas of ***intervention*** for regional cooperation of particular importance for Moldova. 2.   Financial overview

The indicative allocation for 2014-2020 isEUR610 million to EUR746 million. The indicative allocation for 2017-2020 is EUR 284million to EUR 348million. The indicative breakdown by sector is the following:

|  |  |  |
| --- | --- | --- |
| Sectors | Indicative allocation | % of total allocations |
| 1.Economic development and market opportunities,including sustainable and inclusive economic growth | EUR 99.4million? EUR 121.8million | 35% |
| 2.Strengthening institutions and good governance,including the Rule of Law and Security | EUR 42.6 million?EUR 52.2million | 15% |
| 3.Connectivity, energy efficiency, environment and climate change | EUR71million - EUR87million | 25% |
| 4. Mobility and people-to-people contacts, including support to the continuous fulfilment of the Visa Liberalisation Action Plan benchmarks and to education, training and research | EUR28.4 million- EUR34.8million | 10% |
| Complementary support for capacity development and institution building | EUR14.2 million- EUR17.4million | 5% |
| Complementary support for civil society development | EUR14.2 million- EUR17.4million | 5% |
| Complementary support for ***strategic*** communication | EUR14.2million - EUR17.4million | 5% |

In addition, Moldova may benefit from supplementary allocations provided under the umbrella programmes. Such supplementary allocations will be granted on the basis of progress towards deep and sustainable democracy and implementation of agreed reform objectives contributing to the attainment of that goal.

Moldova is also eligible for financial support under a number of other EU instruments, such as the Instrument contributing to Stabilityand Peace (IcSP), Humanitarian Aid, the Partnership Instrument, the European Instrument for Democracy and Human Rights, the Instrument for Nuclear Safety Cooperation, Macro-Financial Assistance, the Mobility Partnership Facility (MPF), Development Co-operation Instrument (DCI) thematic programmes, and external actions under EU internal programmes for e.g research and innovation, energy, transport, education and youth (Erasmus+) and culture (Creative Europe). 3.   EU support per sector 3.1 Economic development and market opportunities, includingsustainable and inclusive economic growth (indicative 35% of total budget)

3.1.1 The overall objectiveis to stimulate smart, sustainable and inclusive economic growth and development, including in the regions, reduce absolute and relative poverty through improving the business environment and investment climate, create jobs and to facilitate trade with the EU, .The specific objectivesinclude:

* to enable the country to maximise the potential benefits of the DCFTA by reducing the technical and administrative barriers to trade and to ensure compliance with SPS standards (specific objective 1);

1. to support structural reforms to improve economic ***performance*** and governance, in close synergy with the IMF, World Bankand EU Macro Financial Assistance and in close coordination with the sector of ***intervention*** on 'Strengthening institutions and good governance,including the Rule of Law and Security' (specific objective 2);
2. to facilitate SMEs' access to finance, to business services and to improve commercial justice; to support diversification of access to finance beyond the banking sector (specific objective 3);
3. to increase productivity of SMEs, production of more higher value added products by SMEs, improve quality standards; to facilitate the emergence of start-ups in ***strategic*** sectors including by using the potential of the digital economy, and to enhance innovation and technology transfer towards business (specific objective 4);
4. tofacilitate the emergence of social enterprises (specific objective 5);
5. to promote inclusive growth and social cohesion through stimulation of job creation in less favoured areas, including in particular ***rural*** areas (specific objective 6).

3.1.2 The main expected results include:

* In relation to specific objective 1: continuation of the general positive trend in total trade. Procedures are simplified and border agency cooperation is enhanced to secure and facilitate trade.

1. In relation to specific objective 2: the macro-economic policy of the Government of Moldova is stability-oriented.
2. In relation to specific objective 3: the economic transition process is driven forward allowing creating an attractive environment and level playing-field for private-sector investments and business execution. Access to finance for SMEs is broader.
3. In relation to specific objective 4: contribution of SMEs in the GDP increases in value. New opportunities in high growth potential areas such as possibly ***agriculture***, greening of the economy and digital markets are seized.
4. In relation to specific objective 5: social enterprises are created and developed.
5. In relation to specific objective 6: disparities between regions and between urban and ***rural*** areas in Moldova are reduced and new additional jobs are created.

3.1.3 The main ***indicators*** are:

* Volume and/or value of trade ; volume and/or value of trade to the EU;

1. Value of Foreign Direct Investment; value of Foreign Direct Investment originating from the EU
2. Score of Moldova on Ease of Doing Business ***Indicators*** (World Bank Group)
3. Enterprise value-added, profitability and per capita productivity rates;
4. Contribution of SMEs in the GDP
5. Number of business start-up and survival rates;
6. Number of social enterprises and survival rates;
7. Employment rate at national/regional level;
8. Number of jobs created per region against lost jobs;

3.1.4 Policy dialogue with donorstakes place both at bilateral level and within the Sector Councils in the field of external assistance, set up in accordance with Government Decree no.561 (19th August 2015).Formal Sector Councils have been established to discuss support to SMEs, ***Agriculture*** and Regional Development. In addition, ad hoc fora have been established (some led by government and others by donors) to discuss and coordinate with donorson specific sectoral issues. A donor group also exists specifically for the issue of food safety. Regular cross-sectoral meetings of all Development Partners take place.The EU Delegation is engaged in a wide-ranging policy dialogue with the Government, including through the EU High Level Policy Advice Mission (EUHLPAM). Advisors are present in each of the key sectors: Economy, Labour, and ***Agriculture*** and Regional Development.

3.1.5 The partner country's policy commitments are described in the Association Agreement and revised Association Agenda 2017-2019.

3.1.6 When required by the legislation in force, the appropriate type of environmental assessment (Environmental impact assessment (EIA) and ***strategic*** environmental assessment (SEA)) will be carried out.

3.1.7 The overall risks to the sector ***intervention*** are:

* The outcome of the Parliamentary elections (planned for end 2018) has an impacton the government's ability and commitment to implement provisions of the AA/DCFTA.

1. Political uncertainty regarding the outcome of the election leads to potential investors' disengagement.

1. The Government fails to implement Title IV 'Economic and other sectoral cooperation' and Title V “Trade and Trade related matters” of the Association Agreement in a timely and efficient manner and apply the provisions of harmonised legislation rigorously, transparently and equitably;
2. The Government lacks the budgetary resources necessary to co-finance investment projects in support of the DCFTA or meet the operational and maintenance costs of those public bodies responsible for oversight and monitoring of implementation;
3. Enterprises and entrepreneurs are not making the necessary investments to upgrade production standards, quality and efficiency in the present economic climate;
4. There is a lack of political will and limited institutional and human resource capacities within the stakeholder Ministries to manage and monitor the implementation of their respective sector policies;
5. There is a lack of sufficient and adequate available Labour force which limits Moldovan economic attractiveness.

The EU will closely monitor and react to mitigate the impact of any of the above-mentioned risks, by, inter alia, allocating human, financial, technical and diplomatic resources and by reinforcing the policy dialogue. 3.2 Strengthening institutions and good governance, including the Rule of Law and Security (indicative 15% of total budget)

3.2.1 The overall objective is to promote good governance,democracy, the rule of law and human rights in the Republic of Moldova (in line with the Association Agreement), and to strengthen Moldova's state and societal resilience including also against security threats, such as hybrid threats, and to secure Moldova's international borders.

The specific objectives are:

* to prevent and fight against corruption, conflicts of interestand fraud (specific objective 1);

1. to support the public administration reform at national and local level. It includes: modernisation and further digitalisation of public services delivery, to increase inclusive and evidence-based policy development and coordination based on high quality official statistics, improvement of public finance management (PFM), improvement of accountability and governance of public administration and state-owned enterprises, and professionalisationand de-politisation of public administration (specific objective 2);
2. to strengthen independence, accountability, efficiency, transparency and professionalism of the Judiciary(specific objective 3);
3. to strengthen Moldova's security situation, including the capacity to secure borders, and to fight against organised crime, trafficking in human beings and smuggling of migrants, drugs and illicit arms trafficking, counterfeiting, money laundering and financial crime, as well as cybercrime (specific objective 4);
4. to promote confidence-building initiatives in Moldova (specific objective 5).
5. to support the independence of media and increase access to balanced and reliable news reporting for citizens (specific objective 6).

3.2.2 The main expectedresults are:

* In relation to specific objective 1: decreased corruption, in particular high-level corruption, and decreased perception of corruption through the effective implementation of a comprehensive anti-corruption and integrity policy; increased transparency, decreased conflicts of interest and effective asset recovery.

1. In relation to specific objective 2: quality, accessibility, efficiency and cost effectiveness of public services both at national and local levels are enhanced, including a more rational framework of administrative procedures for service delivery and increased availability of effective e-governance services; the transparency and accountability of the public administration, including the state-owned enterprises is enhanced, PFM systems are improved to ensure effective control of expenditure; a depoliticized public administration is established; Coverage and quality of available statistics is improved and increasing use of official statistics is made for policy decision.
2. In relation to specific objective 3: a more independent, andeffective judiciary system is in place.
3. In relation to specific objective 4: capacity of Moldova to ensure the security of its population and to be more resilient to security threats is strengthened and money laundering legislation is effectively implemented.
4. In relation to specific objective 5: economic, social and sectoral rapprochement between the two banks of the Nistru River is ensured with a positive impact onthe Transnistria settlement process.
5. In relation to specific objective 6: media are more independent and citizens have an increased access to balanced and reliable news reporting.

3.2.3 The main ***indicators*** are:

* Worldwide Governance ***indicators***;

1. Transparency International Corruption Perception Index;
2. Number of corruption cases reported, disaggregated by source (State or non-State actors), as well as number of investigations and convictions of these cases;
3. Level of implementation of the territorial reform;
4. Quality of the medium-term budgetary framework;
5. Quality of public debt management;

1. Number of new e-governance modules rolled out (number of accessible public services for citizens through internet);

1. Use of statistics for evidence-based decision-making and holding the government accountable;
2. Public trust in the prosecution services, the judiciary and the law enforcement agencies;
3. User satisfaction on the effectiveness of the justice system;
4. ***Indicators*** of CEPEJ (European Commission for the Efficiency of Justice – Council of Europe);
5. Nº of persons charged and convicted of trafficking in human beings and smuggling of migrants, organised crime, smuggling and counterfeiting;

1. Value of illicit goods, drugs, arms etc. seized;

1. Level of implementation of recommendations for the Transnistrian settlement;
2. Audience for independent media;

3.2.4 In accordance with Government Decree no.561 (19th August 2015)a formal Sector Council has been established for Public Finance Management. The Public Administration Reform (PAR) is currently coordinated by the National Council on Public Administration Reform, chaired by the Prime Minister. In the area of Justice and Home Affairs (JHA), Sector Councils exist for Justice and Police Reform. In addition, there is a donor only coordination group on law enforcement and border control. The EU Delegation is engaged in a wide-ranging policy dialogue with the Government, including through the EU High Level Policy Advice Mission (EUHLPAM).Advisors are present in each of the key sectors: justice, prosecution, anti-money-laundering and combating financing of terrorism, internal affairs, public finance management, public administration reform, security sector reform, police, anti-corruption, confidence-building measures.

3.2.5 The partner country's policy commitments are described in the Association Agreement and in the revised Association Agenda 2017-2019.

3.2.6 At this juncture no environmental assessment (SEA or EIA) is anticipated.

3.2.7 The overall risks to the sector ***intervention*** are:

* The outcome of the Parliamentary elections (planned for end 2018) has an impact on the government's ability and commitment to implement the provisions of the AA/DCFTA;

1. Internal and external political tensions and macro-economic shocks divert the Government’s focus, restrict the pace and direction of the PAR and JHA reforms and inhibit the capacity of the Government to finance its reform agenda and make the necessary capital investments;
2. A lack of political will and/or vested interests derail the PAR and JHA reforms and efforts to fight against corruption;
3. Resistance within the public administration, the judiciary, prosecution services and border management services to the proposed reforms;
4. Inability of the Government to obtain the parliamentary majority necessary to introduce constitutional reforms to the structures and processes of the central and local government systems.

The EU will closely monitor and react to mitigate the impact of any of the above-mentioned risks, by, inter alia, allocating human, financial, technical and diplomatic resources and by reinforcing the policy dialogue. 3.3 Connectivity, energy efficiency, environment and climate change (indicative 25% of total budget)

3.3.1 The overall objectiveis to support better connectivity with the EU in the areas of transport and energy, support energy efficiency, resilience and security of Moldova address environmental challenges and contribute to adapt to climate change. The specific objectivesinclude:

* to reduce energy consumption by increasing energy efficiency and to promote renewable energy sources (specific objective 1);

1. to enhance resilience and security through energy sector reforms and by strengthening regulatory authority independence and interconnections(specific objective 2);
2. to improve local public services and local management of new or upgraded infrastructures (specific objective 3);
3. to enhance the governance of the transport sector and to assist on the prioritisation of key actions (specific objective 4).

The above specific objectives entail investments in transport, water, waste management, energy (including energy efficiency) and social infrastructures.

3.3.2 The main expected results are:

* In relation to specific objective 1: more efficient use of energy and higher share of renewable energy in the energy mix;

1. In relation to specific objective 2:Increased energy security, clean energy, market competition and transparency through enhanced independence of the energy regulator and implementation of EU energy market and sustainable energy legislation;
2. In relation to specific objective 3: improved living conditions of citizens through improved access to drinking water, wastewater and solid waste treatment systemsand through enhanced service delivery and renewed social and technical infrastructures in local communities;
3. In relation to specific objective 4: improved transport connectivity within the country and with the EU.

3.3.3    The main ***indicators*** are:

* Energy efficiency rate;

1. CO2 emissions/other greenhouse gas emissions
2. Implementation of the ***strategic*** projects on gas and electricity connectivity with EU/Romania;
3. Implementation of Energy Community and Association Agreement legislative and regulatory commitments in energy;
4. Nº of citizens connected to main gas and electricity networks;
5. Nº of inhabitants connected to mains drinking water and waste water systems;
6. Nº of inhabitants covered by waste/separate waste collection and recycling rates;
7. Access to enhanced public services and infrastructures;
8. Nº of kilometres of roads upgraded and regularly maintained;
9. Number of fatalities due to road accidents reduced.

3.3.4    In accordance with Government Decree no.561 (19th August 2015), donor coordinationtakes place through theSector Councilsestablished in the field of external assistancein transport, environment, energy etc.In addition, a specific ad hoc coordination group has been established for ***strategic*** energy projects. There is an extensive policy dialogue with the Government at bilateral level (Government – individual Development Partner), and with the Ministry of Regional Development and Construction on more technical issues. A high level group, led by the Prime Minister, has addressed the road sector.The EU Delegation is also engaged in a wide-ranging policy dialogue with the Government, including through the EU High Level Policy Advice Mission (EUHLPAM). Advisors are present in each of the key sectors: Energy, Environment, Transport etc.

3.3.5 The partner country's policy commitments are described in the Association Agreement and in therevised Association Agenda 2017-2019.

3.3.6 When required by the legislation in force, the appropriate type of environmental assessment (SEA or EIA) will be carried out, most notably with respect to any investments in the modernisation of the social, technical and connectivity infrastructure.

3.3.7 The overall risks to the sector ***intervention*** are:

* the outcome of the Parliamentary elections (planned for end 2018) has an impact on the government's ability and commitment to implement the provisions of the AA/DCFTA.

1. the potential lack of sufficiently mature, fundable infrastructure investment projects and a failure to agree on the prioritisation of the projects;
2. conceptual disagreements within the Government and between the Government and the donors/IFIs or within the donor community regarding the priorities, objectives and approach to be pursued in order to stimulate regional and local development;
3. a lack of financial, technical and human resource capacities in the districts (raioane) to design, manage, monitor and co-finance development projects.

The EU will closely monitor and react to mitigate the impact of any of the above-mentioned risks, by, inter alia, allocating human, financial, technical and diplomatic resources and by reinforcing the policy dialogue. 3.4 Mobility and people-to-people contacts, including support to the continuous fulfilment of the Visa Liberalisation Action Plan benchmarks and to education, training and research (indicative 10% of total budget)

3.4.1 The overall objective is to enhance and facilitate the mobility of citizens, develop the skills of the young generation, strengthen the coordination between the education and training system and the labour market and stimulate competitiveness, research and innovation as enablers to economic development, while also targeting social inclusion in education and labour. The specific objectives are:

* to sustain the fulfilment of all benchmarks of the Visa Liberalisation Action Plan and to continue implementing the Mobility Partnership (specific objective 1);

1. to enhance the functioning of the labour market by ensuring synergy between the needs of the labour market and the skills and qualifications offered by the education, vocational education and training systems and to improve law enforcement in the areas of labour rights and working conditions (specific objective 2);
2. to support innovation and research including fostering research/private sector partnerships (specific objective 3);
3. to strengthen the inclusion of disadvantaged groups (including minorities) in mainstream education (specific objective 4).

3.4.2 The main expected results are:

* In relation to specific objective 1: Visa-free regime operates effectively and there are projects being implemented under the Mobility Partnership.

1. In relation to specific objective 2:Social inclusion is enhanced. The percentage of VET graduates in employment or further study after six months is increased. The NEET rate has decreased. Informal employment in total employment is decreased.Enrolment in VET, including continuous training, is increased.Improved conditions of work, including health and safety, improved effective application of labour rights.
2. In relation to specific objective 3: research-industry partnerships are fostered. The diversification of the economy is increased thanks to the growth of innovative sectors.
3. In relation to specific objective 4: inclusion of disadvantaged groups (including minorities) in mainstream education is ensured.

3.4.3 The main ***indicators*** are:

* Level of fulfilment of the VLAP benchmarks for Moldova and number of projects under the Mobility Partnership.

1. Percentage of graduates of VET courses finding employment within six months of the completion of their courses.
2. NEET (Not in Education, Employment, or Training) rate.
3. Share of informal employment in total employment;.
4. Gender gaps in activity rate, employment rate and unemployment rate and gender pay gap.
5. Number of persons from socially or physically disadvantaged groups in employment.
6. N° of inspections (labour law and health and safety at work) and n° of violations sanctioned.
7. Enrolment rate, academic success rate and drop-out rate of young people disadvantaged groups (including minorities) in mainstream education.

3.4.4 The Ministry of Education is responsible for the donor coordination in the field of Vocational Education Training (VET) andhas established the National Coordinating Councilto ensure the coordination in the sector. There is also extensive policy dialogue and coordination on a bilateral level.In the field of Visa liberalisation, the main coordination and monitoring mechanism in place is the Moldova-EU Mobility Partnership. The Moldova-EU Mobility Partnership Platform meets at least once per year with all partners involved.The EU Delegation is also engaged in a wide-ranging policy dialogue with the Government including through the EU High Level Policy Advice Mission (EUHLPAM).Advisors are present in the Education and Research area, as well as in the Employment field.

3.4.5    The partner country's policy commitments are described in the Association Agreement and in the revised Association Agenda 2017-2019.

3.4.6    At this juncture no environmental assessment (SEA or EIA) is anticipated.

3.4.7    The overall risks to the sector ***intervention*** are:

* No willingness from EU Member States to implement projects under the Mobility Partnership;

1. Failure of the Government to finance its employment and VET reform agenda;
2. A lack of political will and limited institutional and human resource capacities within the stakeholder Ministries to manage and monitor the implementation of their respective sector policies;
3. Resistance within the VET institution and amongst Higher Education to the introduction of new institutional arrangements, management and quality assurance systems, career paths, qualifications and curricula;
4. The social partners and civil society organisations are unwilling or unable to play a constructive role in the implementation of the sector policies or uptake of sector objectives;
5. A lack of sufficient investments to finance research-industry partnerships;
6. A lack of sufficiently educated researchers and entrepreneurs due to massive brain drain in the country.
7. The EU will closely monitor and react to mitigate the impact of any of the above-mentioned risks, by inter alia allocating human, financial, technical and diplomatic resources and by reinforcing the policy dialogue.
8. The demographic deficit continues to increase having strong negative impact on the country development perspective.

4.   Complementary support for capacity development and institution building (5%)

This complementary provision will provide support for capacity development and institution building activities and will address the implementation of priority commitments deriving from EU agreements and the dialogue on mobility that are not already covered under the four principal priority sectors. Assistance will be provided to those line Ministries, State Agencies and Public Institutions involved in the implementation of the AA and DCFTA to strengthen their institutional, technical and human resource capacities to implement the Agreements. In this context, specific attention will be paid to supporting the legal approximation processes, assisting in the drafting of the Directives/Regulations/Standards included in Association Agenda, and in preparing a pipeline of fundable projects.

The EU will additionally provide support to the policy dialogue between the EU and the Moldovan Government and continue to support the national authorities to upgrade their capacities to programme, manage, coordinate, monitor and evaluate external assistance and to align it with national and sector priorities. The support may also address participation in EU programmes and in the work of EU agencies. 5.   Complementary support for civil society development (5%)

In order to build stronger democratic processes and accountability systems, civil society will be supported, beyond sector specific support, through this complementary envelope. The targeted civil society will include business and/or producers associations, and/or representative social partners' organisations. The development of civil society's professionalism, skills and their links to the citizens, including their ability to work on regional and local level will also be targeted. This support will notably aim at:

- ensuring sustainability of civil society actors, including social partners, at national level by developing their capacity to contribute to dialogue and policy making in all sectors of the Association Agenda,

- developing civic engagement, increasing CSOs' outreach and contacts with their constituencies, stimulating networking between CSOs', media, business organisations, local authorities and schools, improving management of CSOs at regional level,

- fostering gender equality active engagement of youth, women and minorities in CSOs and in voluntary work,

- implementing the provisions of the EU Gender Action Plan. 6.   Complementary support for ***strategic*** communication(5%)

In February 2016, the Council in its Conclusions stated that: Effective, ***strategic*** communication, including in cooperation with civil society and independent media, on the reforms achieved and to be undertaken in the framework of the Association Agreement including its Deep and Comprehensive Free Trade Area, is of key importance to raise awareness among the citizens of the Republic of Moldova about benefits expected from political association and economic integration with the European Union.

Specific effortswill be made to foster ***strategic*** communication on EU policies and support. This means a focus on effectively communicating EU's messages to various audiences, reducing the risk of fragmentation of communication under an individual project approach. This includes engaging partners and Moldovan authorities, ensuring sound understanding of target audiences through robust opinion analysis and making use of most appropriate communication tools and channels. ***Strategic*** communication efforts will be mainstreamed in the four priority sectors, but will alsobesupported by this complementary provision.

  Attachments

* Joint Analysis

1. Sector of ***intervention*** framework and ***performance*** ***indicators***

  Attachment 1. Joint Analysis

  Attachment 2.       Sector of ***intervention*** framework

The ***indicators*** provided in this section are indicative and provide a framework for assessing progress under the present multi-annual programming document. Baseline and targets for these ***indicators*** will be decided upon at a later stage (I.e before implementation).

|  |  |  |
| --- | --- | --- |
| Sector 1:Economic development and market opportunities, including sustainable and inclusive economic growth Specific objective 1:to enable the country to maximise the potential benefits of the DCFTA by reducing the technical and administrative barriers to trade and to ensure compliance with Sanitary and Phytosanitary (SPS) standards. |  |  |
| Expected Results | ***Indicators*** (highlighted in green = ***indicators*** proposed by Del) | Means of verification |
| Continuation of the general positive trend in total trade, in particular with the EU. | Volume and/or value of trade; volume and/or value of trade to the EU; Balance of payments deficit Value of Foreign Direct Investment;value of Foreign Direct Investment originating from the EU Number of trade-related laws and regulations harmonised with EU acquis | National Bureau of Statistics Reports |
| Trade with the EU is facilitated.Technical and Administrative barriers to trade are reduced. Compliance with SPS is ensured | Degree of compliance with the AA/DCFTA Agendaand with the AA/DCFTA commitments Number of technical and administrative barriers to trade removed | EU Annual Progress Report Ministry of Economy Annual Report Ministry of Interior reports and statistics Revenue Service Reports |
| Specific objective 2:to support structural reforms to improve economic ***performance*** and governance, in close synergy with the IMF,World Bank and the EU Macro Financial Assistance and in close coordination with the sector of ***intervention*** on 'Strengthening institutions and good governance,including the Rule of Law and Security' |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| The macro-economic policy of the Government of Moldova is stability-oriented   . | Laws related to competition, including state aid, and bankruptcy amended and applied rigorously, transparently and equitably; Transparent and professional management of State-Owned enterprises; Increase in bank loans to GDP | Ministry of Economy Annual Report Statistics of the National Bank |
| Specific objective 3:to facilitate SMEs' access to finance, to business services and to improve commercial justice; to support diversification of access to finance beyond the banking sector. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| The economic transition process is driven forward allowing to create an attractive environment and level playing-field for private-sector investments and business execution. | Score of Moldova on Ease of Doing Business ***Indicators*** (World Bank Group) Number of out of courts settlements for business dispute resolutions | World Bank Group |
| Improved access to finance and insurance schemes for SMEs is broader. | Number of SMEs benefiting from finance Volume of access to finance for SMEs, including in the ***agricultural*** sector | Small Business Act assessment (OECD), Business Environment and Enterprise ***Performance*** Survey (EBRD), DCFTA Facility (NEAR) Ministry of Economy |
| Specific objective 4:to increase productivity of SMEs, production of more higher value added products by SMEs, and improve quality standards, to facilitate the emergence of start-ups in ***strategic*** sectors including by using the potential of the digital economy, and to enhance innovation and technology transfer towards business. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Contribution of SMEs in the GDP increase in value. | Contribution of SMEs in the GDP Enterprise value-added, profitability and per capita productivity rates; Percentage increase in number of Moldovan enterprises engaged in export activities generally and exporting to the EU in particular; Percentage increase in number of business start-up and survival rates; | Ministry of Economy Annual Report National Bureau of Statistics Reports |
| Improved conditions for production, processing and marketing of selected ***agricultural*** commodities | Productivity of selected commodities (increase)   ***Agricultural*** added value of selected commodities (increase) | Ministry of ***Agriculture***   National Bureau of Statistics Reports |
| Development of efficient value chains and increased competitiveness in selected sectors with high export potential and/or import substitution | Number of infrastructure for storage and processing of selected crops (in particular fruits&vegetables) | Ministry of ***Agriculture***   National Bureau of Statistics Reports |
| New opportunities in high growth potential areas such as possibly ***agriculture***, greening of the economy and digital markets are seized | Number of business start-up and survival rates in following areas: ***agriculture***, greening of the economy and digital markets. Level of independence of the telecom regulator; level of harmonisation of spectrum allocation with the EU and roaming pricing with the other 5 EaP partners; level of broadband coverage. Level of structuring, mapping, and interconnection of ICT innovation and start-up ecosystems; Establishment of and functioning of a CERT - Computer Emergency Response Team; Level of harmonisation on eCommerce, eCustoms, eLogistics and eHealth legislation. | Relevant MD Ministries, agencies     European Commission, DG CONNECT, DG NEAR |
| Specific objective 5:to facilitate the emergence of social enterprises; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Social enterprises are created and developed. | Number of social enterprises and survival rates; Number of persons employed in social enterprises | Ministry of Economy |
| Specific objective 6:to promote inclusive growth and social cohesion through stimulation of job creation in less favoured areas, including in particular ***rural*** areas. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Disparities between regions and between urban and ***rural*** areas in Moldova are reduced. Jobs are created. | Regional GDP; Employment rate at national/regional level ; Number of jobs created per regions against lost jobs; National Strategy for Regional Development 2016-2020 implemented through projects. | Ministry of Economy Annual Report Ministry of Regional Development and Construction Annual report |

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| --- | --- | --- |
| Sector 2:Strengthening institutions and good governance, including the Rule of Law and Security Specific objective 1:    to prevent and fight against corruption, conflicts of interest and fraud |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Decreased corruption, in particular high-level corruption, and decreased perception of corruption through the effective implementation of a comprehensive anti-corruption and integrity policy; increased transparency, decreased conflicts of interest and effective asset recovery. | Worldwide Governance ***indicators*** Transparency International Corruption Perception Index Number of sectoral and regional development plans with effective anticorruption measures. Number of asset declarations introduced and verified. Number of corruption cases reported, disaggregated by source (State or non-State actors), as well as number of investigations and convictions of these cases. Fully-fledged Asset Recovery Office in place with a track record for identification, freezing, management and confiscation of criminal/unjustified wealth. Implementation of OECD-Anti Corruption Network (ACN) and GRECO recommendations, including in relation to business integrity and public procurement. | Transparency International annual report and Corruption Perception Index World Governance ***Indicators*** UNCAC report GRECO and OECD reports MoIA annual report Asset Recovery Office annual report Justice, Freedom and Security sub-committee meetings |
| Specific objective 2:to support the public administration reform at national and local level. It includes: modernisation and further digitalisation of public services delivery, to increase inclusive and evidence-based policy development and coordination based on high quality official statistics, improvement of public finance management, improvement of accountability and governance of public administration and state-owned enterprises, and professionalization and de-politisation of the civil service. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Quality, accessibility, efficiency and cost effectiveness of public services both at national and local levels are enhanced, including a more rational framework of administrative procedures for service delivery and increased availability of effective e-governance services; | Accessibility of public services(SIGMA composite ***indicator***) Fairness and efficiency of administrative procedures (SIGMA composite ***indicator***) Level of implementation of the territorial reform; Efficiency and transparency of public procurement Comprehensive legal framework to protect citizens against maladministration and unjustified administrative decisions (comprehensive appeal system and regulation on public liability and compensations in case of administrative wrongdoing). Number of new e-governance modules rolled out (number of accessible public services for citizens through internet) Fairness in handling of administrative judicial disputes (SIGMA composite ***indicator***) | OECD-SIGMA Assessment Reports on implementation of PAR Strategy |
| The transparency and accountability of the public administration, including the state-owned enterprises is enhanced | Accountability and organisation of central government (SIGMA composite ***indicator***)   Accessibility of public information (SIGMA composite ***indicator***) | OECD-SIGMA assessment Reports on implementation of PAR Strategy |
| PFM systems are improved to ensure effective control of expenditure; | Quality of the medium-term budgetary framework; (SIGMA composite ***indicator***) Quality of public debt management; (SIGMA composite ***indicator***) Level of scrutiny and oversight by Parliament over budget preparation and execution and reports of Court of Accounts | OECD-SIGMA assessment |
| A depoliticized public administration is established. | Merit-based recruitment and dismissal of senior civil servants (SIGMA composite ***indicator***);   Extent to which managerial accountability mechanisms are established in the regulatory and legislative framework and applied in practice (SIGMA composite ***indicator***). | OECD-SIGMA assessment |
| Coverage and quality of available statistics is improved and increasing use of official statistics is made for policy decision. | More statistical ***indicators*** produced by the National Statistical Office of Moldova in 2020 than in 2017. Extent to which the policy-making and legal-drafting process is evidence-based (SIGMA composite ***indicator***)Use of statistics for evidence-based decision-making and holding the government accountable | National statistics available on the web site of the national statistical bureauor in publications in the period 2017-2020 OECD-SIGMA assessment Reports on implementation of PAR Strategy |
| Specific objective 3:to strengthen independence, accountability, efficiency, transparency and professionalism of the Judiciary; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| A more independent and effective judiciary system is in place. | Public trust in the prosecution services, the judiciary and the law enforcement agencies. User satisfaction on the effectiveness of the justice system; ***Indicators*** of CEPEJ (European Commission for the Efficiency of Justice ? Council of Europe); | Public Opinion Poll Corruption Perception Index User satisfaction and legal needs surveys CEPEJ |
| Specific objective 4:to strengthen Moldova's security situation, including the capacity to secure borders, and to fight against organised crime, human trafficking, drugs and illicit arms trafficking, counterfeiting, money laundering and financial crime, as well as cybercrime; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Capacity of Moldova to ensure the security of its population and to be more resilient to security threats is strengthened. | Nº of persons charged and convicted of trafficking in human beings and smuggling of migrants, organised crime, smuggling and counterfeiting. Value of illicit goods, drugs, arms etc. seized. Level of irregular migration. | EUBAM Annual Report MoIA Annual Report MoF Annual Report Commission monitoring reports on visa-free regime |
| Money laundering legislation is effectively implemented. | Number of investigations and convictions of money-laundering cases. Implementation of FATF (Financial Action Task Force) recommendations. | Report from the National Anti-Corruption Centre   MONEYVAL Reports FATF monitoring reports |
| Specific objective 5:to promote confidence-building initiatives in Moldova. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Economic, social and sectoral rapprochement between the two banks of the Nistru River is ensured with a positive impact on the Transnistria settlement process. | Level of implementation of recommendations for Transnistrian settlement. |  |
| Specific objective 6: to support the independence of media and increase access to balanced and reliable news reporting for citizens. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Media are more independent and citizens have an increased access to balanced and reliable news reporting. | Audience for independent media. Reporters Without Borders Press Freedom Index | Polls on media consumption Reporters Without Borders Press Freedom Index |

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| Sector 3:Connectivity, energy efficiency, environment and climate change Specific objective 1:to reduce energy consumption by increasing energy efficiency and to promote renewable energy sources; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
|  |  |  |
| More efficient use of energyand higher share of renewable energy in the energy mix. | CO2 emissions/other greenhouse gas emissions Energy efficiency rate | Ministry of Environment Annual Report |
| Specific objective 2: to enhance resilience and security through energy sector reforms and by strengthening regulatory authority independence(specific objective 2) |  |  |
| Increased energy security, clean energy, market competition and transparency through enhanced independence of the energy regulator and implementation of EU energy market and sustainable energy legislation; | Implementation of the Memorandum of Understanding on common energy interconnection projects between Romania and Moldova. Implementation of the ***strategic*** projects on gas and electricity connectivity with EU/Romania. Nº of citizens connected to main gas and electricity networks Implementation progress of the 'Energy Efficiency' and 'Renewable Energy' Action Plans. Implementation of Energy Community and Association Agreement legislative and regulatory commitments in energy. | Relevant line Ministries Annual Reports Local Authorities? Annual Reports National Bureau of Statistics Reports Ministry of Economy Annual Report Energy Community Secretariat reports Association Agreement meetings |
| Specific objective 3:to improve local public services and local management of new or upgraded infrastructures; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Improved living conditions of citizens through improved access to drinking water, wastewater and solid waste treatment systems; | Nº of inhabitants connected to mains drinking water and waste water systems;   Nº of inhabitants covered by waste/separate waste collection and recycling rates; | Relevant line Ministries Annual Reports National Bureau of Statistics Reports |
| Improved living conditions of citizens through enhanced service delivery and renewed social and technical infrastructures in local communities; | Access to enhanced public services and infrastructures | Relevant line Ministries Annual Reports Local Authorities? Annual Reports National Bureau of Statistics Reports |
| Specific objective4:to enhance the governance of the transport sector and to assist on the prioritisation of key actions. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Improved transport connectivity within the country and with the EU | Nº of kilometres of roads upgraded and regularly maintained Number of fatalities due to road accidents reduced. | Ministry of Transports and Road Infrastructure Annual Report Ministry of Regional Development and Construction Annual Report National Bureau of Statistics Reports |

|  |  |  |
| --- | --- | --- |
| Sector 4:Mobility and people-to-people contacts, including support to the continuous fulfilment of the Visa Liberalisation Action Plan benchmarks and to education, training and research. Specific objective 1:to sustain the fulfilment of all benchmarks of the Visa Liberalisation Action Plan and continue the implementation of the Mobility Partnership. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Visa-free regime operates effectively. | Level of fulfilment of the VLAP benchmarks for Moldova. Number of Moldovan citizens making use of the visa-free regime Status of the implementation of the EU-Moldova Readmission Agreement including number of reintegrated migrants (disaggregated by gender). | Commission monitoring reports on visa-free regime/Ministry of Internal Affairs Statistics on border-crossings Reports of the Joint Readmission Committee Justice, Freedom and Security Subcommittee meetings |
| Projects are being implemented under the Mobility Partnership. | Number of projects under the Mobility Partnership | Mobility Partnership meetings and scoreboard |
| Specific objective 2:to enhance the functioning of the labour market by ensuring synergy between the needs of the labour market and the skills and qualifications offered by the education, vocational education and training systems and to improve law enforcement in the areas of labour rights and working conditions (specific objective 2); |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Social inclusion is enhanced. | Gender gaps in activity, employment and unemployment rates gender pay gap Number of persons from socially or physically disadvantaged groups in employment | Ministry of Labour, Social Protection and Family Annual Report National Bureau of Statistics Reports |
| The percentage of VET graduates in employment or further study after six months is increased. The NEET rate has decreasedInformal employment in total employment rate is decreased. | Percentage of graduates of VET courses finding employment within six months of the completion of their courses; NEET rate; National coalition for digital skills and jobs in place. | Ministry of Education Annual Report European Training Foundation Reports   Relevant MD Ministries, agencies. |
| Enrolment in VET, including continuous training, is increased. | Enrolment in VET: Students in vocational programmes as a % of total upper secondary students (ISCED level 3); Number of students enrolled in vocational programmes at the upper secondary level of education (ISCED level 3); Participation in training/lifelong learning (by sex). | Administrative data (e.g from ministries or agencies) or data from the joint UNESCO?OECD?Eurostat (UOE) data collection. European Training Foundation Reports       Labour Force Survey |
| Informal employment in total employment is decreased. | Share of informal employment in total employment | National Bureau of Statistics Reports |
| Improved conditions of work, including health and safety, improved effective application of labour rights. | Nr of inspections (labour law and health and safety at work) Nbr of violations sanctioned Nbr of inspectors Level of alignment of Legal framework with international standards | Ministry of Labour National Bureau of Statistics Reports |
| Specific objective 3:to support innovation and research including fostering research/private sector partnerships; |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Research-industry partnerships are fostered. The diversification of the economy is increased thanks to the growth of innovative sectors. | Number of Horizon 2020 projects with Moldovan partners Progress towards recommendations of the Peer Review of the Research and Innovation System Share of GDP allocated to research and innovation Share of private sector investment in research and innovation | Horizon 2020 Statistics National Bureau of Statistics Reports |
| Specific objective 4:to strengthen the inclusion of disadvantaged groups (including minorities) in mainstream education. |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| Inclusion of disadvantaged groups (including minorities) in mainstream education is ensured. | Enrolment rate, academic success rate and drop-out rate of young people disadvantaged groups (including minorities) in mainstream education | Ministry of Education and Science Annual Report |

[1]The ENP review (18.11.2015 JOIN(2015) 50 final) highlighted the stabilisation of neighbouring countries as an important political priority, to be achieved through support to good governance, democracy, human rights and rule of law, economic governance, as well as cooperation on security and on migration and mobility.

[1]A Global Strategy for the European Union’s Foreign And Security Policy

[*https://europa.eu/globalstrategy/sites/globalstrategy/files/regions/files/eugs\_review\_web\_0.pdf*](https://europa.eu/globalstrategy/sites/globalstrategy/files/regions/files/eugs_review_web_0.pdf)

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ANNEX

Annual Action Programme for Montenegro for the year 2017 part 1

* Identification

* Description of the Action Programme

* Sectors selected under this Action Programme

1. Rationale for the selection of the specific sectors under this programme:

The Annual Action Programme (AAP) for Montenegro for the year 2014 contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro[1] through formulating actions covering six of the eight priorities defined in the ISP. The first sectors covered by IPA II funds included Democracy and governance, the Rule of law and fundamental rights, Environment and Climate Action, Transport, Competitiveness and Innovation, and the ***Agriculture*** and ***rural*** development sector. Following the sector approach the Annual Action Programme for Montenegro for the year 2015 covered Democracy and governance and the Rule of law and fundamental rights sectors. It also included the first sector budget support programme aimed at supporting the implementation of the Integrated Border Management Strategy.

|  |  |
| --- | --- |
| Beneficiary | Montenegro |
| CRIS/ABAC Commitment references   Total cost EU Contribution         Budget line | IPA/2017/040-216 EUR 3 868 853  (22.020101) IPA/2017/039-816 EUR 9 642 250  (22.020102)   IPA/2017/040-216 EUR 4 812 705 EUR 3 868 853 IPA/2017/039-816 EUR 11 343 824 EUR 9 642 250    22.020101 and 22.020102 |
| Management Mode/ Entrusted entities | Indirect management by the entrusted entities listed below: Central Finance and Contracting Unit / Directorate for the Financing and Contracting of EU Assistance Funds (CFCU), Ministry of Finance, For Action 1 In case of action ?Participation in Union Programmes?, implementation will consist in the payment of the IPA part of the financial contribution to the programmes by the National Fund. Directorate of Public Works, Ministry of Sustainable Development and Tourism for Action 3   The following lead institutions will be responsible for the execution of the Actions: Ministry of European Affairs for Action 1 and 2 Ministry of Transport and Maritime Affairs for Action 3 |
| Final date for concluding Financing Agreements with the IPA II beneficiary | At the latest by 31 December 2018 |
| Final date for concluding procurement and grant contracts | 3 years following the date of conclusion of the Financing Agreements,   with the exception of the cases listed under Article 189(2) Financial Regulation |
| Final date for operational implementation | 6 years following the date of conclusion of the Financing Agreements. |
| Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed) | 12 years following the conclusion of the Financing Agreements. |
| Programming Unit | DG NEAR Unit D.1 Montenegro |
| Implementing EU Delegation | Delegation of the European Union to Montenegro |

Formulation of the Action Programme for the year 2016 also followed the principle of sector approach. In 2015 Montenegro developed a Regional Development Operational Programme 2016-2020 (RDOP) to provide a multiannual framework for IPA programming in Environment, Competitiveness and Transport sectors. The RDOP also defined the sequencing of the activities; the actions planned for 2016-2017 focus mainly on technical assistance, capacity building and project preparation, while from 2018 onwards competitiveness schemes will be introduced and physical infrastructure developments can be launched. Three actions have been prepared in parallel, each covering one of the three sectors identified in the RDOP. All of them also complement the previous IPA II support programmes implemented in the sectors. The Action Programme for the year 2016 included the actions focusing on economic development and growth by providing assistance to the Environment and Climate Action and Competitiveness and Innovation sectors. The third action aiming at the improvement and development of the Transport sector with a total EU contribution of EUR 9 642 250 is the main ***intervention*** in the present Annual Action Programme for Montenegro for the year 2017 – 2017 AAP(Action 3).

In addition to the assistance provided to the Transport sector, the IPA allocation of 2017 funds also targets the Democracy and Governance sector through setting up an EU Integration Facility with EUR 2 898 000 EU contribution (Action 1) and supporting the participation of Montenegro in Union Programmes with a total EU contribution of EUR 970 853. The EU Integration Facility  (EUIF) focuses mainly on technical support and capacity building related to the EU accession process. By ensuring the effectiveness and impact of actions financed through IPA II, the EUIF will also help the preparation for future cohesion and structural funds. Action 2 ensures Montenegro's participation in European Programmes by co-financing the participation fees or entry tickets.

The three actions are in line with the ***strategic*** objectives of the 2014 – 2020 Indicative Strategy Paper for Montenegro. With a total EU contribution of EUR 13 511 103, the 2017 AAP will bring added value to Montenegro, as well as to the European Union by supporting the integration process and the economic development of Montenegro. The 2017 allocation will help the country to modernise its transport infrastructure and to build the necessary capacities within the national institutions to support the negotiation process and the alignment of the national legislation with the EU Acquis.

* Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:

In the Democracy and Governance sector, previous IPA actions provided support to set up an EU Integration Facility with a total EU contribution of EUR 4.6 million in 2014 and EUR 2.45 million in 2015. Regarding the Participation in Union Programmes, the 2014 and 2015 Annual Action Programmes for Montenegro support of EUR 0.86 million and EUR 1.68 million respectively covered the costs of participation fees for 2014-2015 and 2016-2017. Other previous Actions in the sector addressed the reform of the civil service and its legal framework. The 2014 programme included a number of actions linked to Public Financial Management.

Regarding the activity of other development partners and EU Member States, no 'lead donor' was identified for the sector. Most donors have phased out their assistance from Montenegro. As a result, the European Union remains by far the principal donor in several areas. The United Nations Development Programme and the Organisation for Economic Cooperation and Development through the EU-funded Support for Improvement in Governance and Management (SIGMA) programme, have been key partners on enhancing good governance and participatory democracy. The Council of Europe Horizontal Facility (another EU funded initiative) also provides technical assistance and expertise to Montenegro in the areas of ensuring justice; fighting corruption, economic crime and money laundering; promoting freedom of expression and information; and promoting anti-discrimination and protection of the rights of vulnerable groups.

In the Transport sector, under the financial perspective 2007-2013, IPA assistance supported projects in the transport sector with more than EUR 23.4 million, mainly focusing on approximation with transport acquis, capacity building actions and infrastructure development, predominantly in the area of railways and maritime transport. Previous IPA actions targeted the development of the Bar-Belgrade corridor offering combined maritime-railway transport. In the area of road transport, IPA funded improvements to regional traffic flow conditions. Under IPA 2014 an EU contribution of EUR 5.18 million was provided to two actions aiming at the development of a road network database and safety assessment program (EUR 1.04 million) and the rehabilitation of the railway section Kos-Trebesica (EUR 4.14 million).

Additionally, through the Western Balkans Investment Framework blending facility, the participating institutions and countries also delivered important funding for ***strategic*** investment projects in the sector in the form of project preparation (five projects are under preparation or are already completed including projects for road improvement, construction of priority bypass and safety improvements on the railway line) or technical assistance (in total 12 grant projects including 5 completed).

Besides the EU, the Transport sector has also attracted several bilateral donors such as Czech Republic, Germany, France and Italy, as well as International Financial Institutions (IFIs) such as the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) among others. International donors are playing an active role in providing assistance to finance both road and railway infrastructure projects. Recent EIB loans will support road rehabilitation and city bypass constructions (EUR 30 million). Previously, EIB loans financed the rehabilitation of roads and bridges and the development of the railway infrastructure. EBRD also financed urgent road and rail rehabilitation projects and supported the modernisation of airport infrastructures.

Moreover, an agreement between Montenegro and China will support the construction of the Smokovac-Matesevo segment of the Bar-Boljare highway.

Experiences gained during the previous programming periods and implementation of previous projects shows some important lessons learned which need to be taken into account for future IPA assistance, in order to avoid possible overlaps and also to ensure that issues identified during the programming and/or implementation of previous projects will be addressed:

***Strategic*** planning and programming:

In the context of preparation of IPA national programmes, it has become clear that beneficiaries require assistance in developing programmes and actions and that it is in particular necessary to provide a facility to enable limited support targeted specifically at the design-preparation phase before larger scale funds are committed to less-well defined and relatively high-risk actions. The government's ***strategic*** planning, project prioritisation and especially project implementation capacities need to be strengthened. Past experience shows that it is important to regularly update ***Strategic*** Planning documents, which are prioritised, based on the most recent reliable data. Financial programming of infrastructure projects requires special attention taking into account complementary studies such as environmental impact assessment, economic and financial feasibility, cost-benefit methodology and affordability limitations (fiscal space).

During the programming, more focus should be given to sustainability concerns having in mind that high employee turnover, reliance on temporary staff and lack of expert skills in the administration hinder proper implementation of policies and projects.

Sector approach:

Regarding the implementation of the EU Integration Facility under the national IPA 2014 programme, the experience shows that the beneficiary institutions are still relaying in general on the IPA “project approach”. The sector approach concept should be further internalised for future IPA support in Montenegro, avoiding isolated infrastructure projects, and focusing more on the accession process, building among others the required capacities for a successful implementation of EU acquis.

Project implementation:

The implementation of projects requires that institutions have adequate staff capacities available for working on activities during the lifetime of the project. IPA assistance should be improved by improving communication and coordination, increasing administrative and monitoring capacity, better linking EU assistance to national sector strategies and action plans.

Lack of mature projects and pipelines of projects has been identified as one of the elements hindering IPA implementation. Projects should be analysed not only from the relevance but as well from the maturity point of view. Project gap assessments have to be carried out in order to identify the project’s needs for being ready for implementation. For those projects being identified as a priority, measures needs to be put in place in order to address well in advance the gaps and to finalise technical studies together with all necessary complementary documentations.

Internal capacities in the line Ministries for preparing adequate Tender dossiers have to be reinforced. On the other hand, the recent experience gained at the Directorate of Public Works as an Implementing body for contracting within the transport sector will facilitate a faster implementation during the next programming period.

Coordination among stakeholders:

As coordination among stakeholders is recognized as a problem, its overcoming will require comprehensive and clear information flows and focus on common understanding of responsibilities, obligations and deadlines. Additionally, competent authorities need to be proactive in cooperation with relevant internal and external stakeholders at central and local level. Coordination should also envisage formalised mechanisms to involve the relevant external stakeholder in the implementation and monitoring of policies and programmes.

List of Actions foreseen under the selected Sectors/Priorities:

Democracy and Governance

|  |  |  |  |
| --- | --- | --- | --- |
| Indirect Management with the IPA II beneficiary | Other implementation arrangements |  |  |
| Action 1 'EU Integration Facility' | EUR 2 898 000 |  |  |
| Action 2 'Support to participation in Union Programmes' | EUR 970 853 |  |  |
| TOTAL | EUR 3 868 853 | TOTAL |  |

Transport

|  |  |  |  |
| --- | --- | --- | --- |
| Indirect Management with the IPA II beneficiary | Other implementation arrangements |  |  |
| Action 3 'EU Support to Transport Development' | EUR 9 642 250 |  |  |
| TOTAL | EUR 9 642 250 | TOTAL |  |

* Description and Implementation of the Actions

|  |  |  |  |
| --- | --- | --- | --- |
| SECTOR 1 | Democracy and Governance |  | 3 868 853 EUR |
| Action 1 | EU Integration Facility | Indirect management by the Beneficiary | 2 898 000 EUR |

(1) Description of the Action, objective, expected results and key ***performance*** ***indicators***

Description of the Action and objective:

The purpose of the EU Integration Facility (EUIF) is to provide high quality, cost-effective expertise to Chief Negotiator / National IPA coordinator but also to sector working groups, line ministries and all other relevant institutions or stakeholders in the overall process of EU accession, IPA II programming and implementation and preparation for cohesion and structural funds.

This Action would focus mainly on technical support and capacity building related to the EU accession process and it should ensure effectiveness and impact of actions financed through IPA II.  The EUIF shall provide support to the national authorities aimed at addressing specific needs identified in the course of the implementation of IPA II, but it may also be used in ad-hoc circumstances where EU assistance is required and/or suggested.

The general objective of this action is:

* To support Montenegro in successfully conducting the process of EU accession and managing the overall EU assistance

The specific objectives of the action are:

* To strengthen overall capacities for accession negotiations, transposition of the acquis and implementation of EU policies;

1. To improve the quality and maturity of planning and programming documents and support effective and efficient management and absorption of IPA funds

Expected results:

* Legislative and institutional capacities of Montenegrin administration for transposition and implementation of the acquis and capacities for leading and carrying out  the accession negotiations strengthened

1. Capacities and relevant documentation for identification, programming, implementation and evaluation of  EU assistance developed

Key ***performance*** ***indicators***: The following ***indicators*** are proposed to measure the progress in implementation:

* Progress in accession to the EU

1. Number of benchmarks met
2. % of EU funds absorption

(2) Assumptions and conditions

Establishment and functioning of all relevant coordination mechanisms, as well as availability and commitment of the staff for capacity building ***interventions***, represent the main assumptions that are needed before and during the implementation of this action.

Also, high fluctuation in staff working in state administration, particularly in the beneficiary institutions, represents potential risk that can affect implementation of this action.

Continued commitment of government structures to the accession process is one of the main conditions that have to be in place for an effective and timely implementation of this action. Government of Montenegro has expressed its strong commitment to membership of the European Union, which remains as one of Montenegro’s highest ***strategic*** priorities.

(3) Implementation arrangements for the action

This action will be implemented in indirect management by Montenegro.

(3)(a) Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) in the Ministry of Finance

(3)(b) Short description of the tasks entrusted to the entity

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

|  |  |  |  |
| --- | --- | --- | --- |
| Action 2 | Support to participation in Union Programmes | Indirect management by the Beneficiary | 970 853 EUR |

(1) Description of the Action, objective, expected results and key ***performance*** ***indicators***

Description of the Action and objective:

Protocol 8 of the Association and Stabilisation Agreement provides the legal basis and establishes the general principles of Montenegro's participation in Union Programmes. On this basis, Montenegro has already signed Agreements to participate in a number of Union Programmes in areas such as education, science, culture, employment, entrepreneurship and innovation, taxation, custom system etc. The action will strengthen ownership and responsibility of Montenegro (including in financial terms) for participation in Union Programmes, and will contribute to an increase in the exchanges with EU Member States.

The objective of the action is:

* To ensure participation of Montenegro in Union Programmes by co-financing the costs of the entry-tickets/participation fees to be paid in areas such as set out in the respective international agreements governing the participation to Union programmes or agencies.

Expected results:

* Enabled and enhanced participation of Montenegro in Union Programmes, including increased exchanges with EU Member States;

1. Strengthened ownership and responsibility of Montenegro (including in financial terms) for participation in Union Programmes.

Key ***performance*** ***indicators***: The below ***indicators*** are proposed for measuring the ***performance***:

* Number of programmes for which an International Agreement has been concluded;

1. Montenegro's participation rates in the different Union Programmes.

(2) Assumptions and conditions

Each institutions signatory of an Agreement for participation to a Union Programme ensures sufficient budget allocation to pay annual contributions.

Montenegro is responsible to pay the full amount of the entry ticket, prior to receiving the partial reimbursement from IPA II. The reimbursement will be paid as a grant to Montenegro. Following the reimbursement of the ticket from IPA funds, national co-financing will amount to at least EUR 943 852.

(3) Implementation arrangements for the action:

This action will be implemented in indirect management by Montenegro.

(3)(a)  Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the National Fund Division in the Ministry of Finance.

(3)(b) Short description of the tasks entrusted to the entity:

This Action will consist of the payment of the IPA part of the financial contribution to the programmes by the National Fund.

|  |  |  |  |
| --- | --- | --- | --- |
| SECTOR 4 | Transport |  | 9 642 250 EUR |
| Action 3 | EU Support to Transport Development | Indirect management by Montenegro | 9 642 250 EUR |

(1) Description of the action, objective, expected results and key ***performance*** ***indicators***

Description of the action and objective:

This action benefits the railway, maritime/inland water land and road transport modes in terms of capacity building and acquis alignment. This action aims to combine support to the railway and maritime and inland waterways transport mode. In addition to supporting key infrastructure improvements and safety and security equipment, the Action aims also to strengthen capacities within the main relevant stakeholders in the transport sector (Ministry of Transport and Maritime Affairs of Montenegro, Railway companies, Maritime Safety Department and Directorate for Public Works among others) as well to align national legislation with the acquis in order to complete the necessary steps for the EU accession. Finally, past EU funding experience through IPA 2007-2013 has highlighted the necessity to concentrate on building a wider and better prepared consolidated project pipeline reaching sufficient level of maturity for investment projects. The Single Project Pipeline has now defined the way to prioritize the infrastructures in line with the ***strategic*** planning and programming mechanisms, on both the Core and Comprehensive networks, with a particular focus on quick gains and removing bottlenecks at the borders with neighbours.

The general objective of the action is:

* To improve the transport system in Montenegro in terms of quality, efficiency and safety by ensuring alignment to EU standards and facilitating inter-connection of Montenegro with the neighbouring countries and the EU

The specific objective of the action is:

* To ensure alignment of the national legislation with the EU transport acquis and to increase the capacities for its implementation, as well as to improve rail, maritime and inland waterways transport

Expected results:

* Improved transport conditions and travel times on the railway corridor Bar–Vrbnica;

1. Improved safety standards concerning maritime and inland transport;
2. Improved capacity within national transport institutions and alignment with EU acquis.

Key ***performance*** ***indicators***: Progress will be measured according to a number of key ***indicators***, including:

* Logistics ***performance*** Index (LPI) for infrastructure

1. Overall assessment of level of preparations of Montenegro under chapters 14 and 21

 (2) Assumptions and conditions:

This action comes to support Montenegro in the process of improving its transport sector in the context of the Berlin Process and the Connectivity Agenda. Montenegro will also undertake to ensure that the conditions underlying the action are fully met throughout its implementation, as well as after its completion:

* Effective cooperation among the Ministry and the other competent authorities in the Transport sector;

1. Continued implementation of the soft measures identified in the context of the Berlin process and the Connectivity Agenda;
2. Successful continuation and realization of planned activities and commitment of all involved (Ministry and other stakeholders) to actively participate in the project;
3. Montenegro remains committed to undertake horizontal public administration reforms;
4. Costs of maintenance and operation for new institutions and equipment, as well as salaries of new staff are envisaged and ensured.

(3) Implementation arrangements for the action:

This action will be implemented in indirect management by Montenegro.

(3)(a) Entity entrusted with budget implementation tasks:

This action will be managed under indirect management by the Directorate of Public Works (DPW).

(3)(b) Short description of the tasks entrusted to the entity:

The entrusted entities shall be responsible for carrying out all the tasks relating to the implementation of the Action. In particular, the entrusted entities shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

DPW, as the Implementing Agency under IPA, bears the sole responsibility for the proper implementation of all contracts in line with the relevant contractual provisions and the requirements governing the indirect management of EU assistance. Railway Infrastructure of Montenegro (ZICG AD) will provide support to the DPW whereby ensuring the proper technical implementation of the contract activities. In this regard, the DPW and Ministry of Transport and Maritime Affairs (MTMA) will closely cooperate throughout the contracts implementation process.

The MTMA and the Maritime Safety Department (MSD) will be the leading institutions concerning project execution.

The overall responsibility for the development, management and coordination of the transport sector in Montenegro lies within the MTMA, which will coordinate activities among stakeholders and define the time frame for the implementation of activities. Allocation of infrastructure facilities to all interested railway undertakings lies within the ZICG AD joint-stock company, established according to the Strategy of restructuring of the Railways of Montenegro.

The MDS will ensure conditions for, and actual ***performance*** of tasks stemming from the international obligations that the State has agreed to by signing conventions, agreements and protocols, related to the safety and security of navigation in the area of responsibility of the Contracting Government. They will actively participate in project implementation and will be final beneficiary of response equipment.

* Budget

* Indicative budget table - Annual Action Programme for Montenegro for the year 2017

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Indirect Management with the IPA II beneficiary | Other implementation arrangements |  |  |  |  |  |  |  |  |  |
|  |  | EU Contribution | IPA II beneficiary Co-financing | Total expenditure |  | EU Contribution | IPA II beneficiary Co-financing | Total expenditure | MM | Total programme | Total EU Contribution |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Objective 1 | Sector 1 - Democracy and Governance | 3 868 853 | 943 852 | 4 812 705 |  |  |  |  |  | 4 812 705 | 3 868 853 |
| Action 1 'EU Integration Facility' | 2 898 000 | 0.00 | 2 898 000 |  |  |  |  | Indirect |  |  |  |
| Action 2 'Support to participation in Union Programmes' | 970 853 | 943 852 | 1 914 705 |  |  |  |  | Indirect |  |  |  |
| Objective 2 | Sector 4 -  Transport | 9 642 250 | 1 701 574 | 11 343 824 |  |  |  |  |  | 11 343 824 | 9 642 250 |
| Action 3 'EU Support to Transport Development' | 9 642 250 | 1 701 574 | 11 343 824 |  |  |  |  | Indirect |  |  |  |
|  | TOTALS | 13 511 103 | 2 645 426 | 16 156 529 |  | 0.00 | 0.00 | 0.00 |  | 16 156 529 | 13 511 103 |

* Implementation modalities and General rules for procurement and grant award procedures

indirect management:

This programme shall be implemented by indirect management by Montenegro in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the Financing Agreement and the relevant delegation agreements between the Commission and the entrusted entity implementing such action.

* ***performance*** Monitoring arrangements

As part of its ***performance*** measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable ***indicators***. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect ***performance*** data (process, output and outcome ***indicators***) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Co-ordinators (NIPACs) will collect information on the ***performance*** of the actions and programmes (process, output and outcome ***indicators***) and coordinate the collection and production of ***indicators*** coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by DG Enlargement and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

[1] C(2014)5771 of 18.08.2014 – Commission Implementing Decision adopting an Indicative Strategy Paper for Montenegro for the period 2014-2020'

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**End of Document**



[***Council of the European Union:COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS The Future of Food and Farming ST 14977 2017 INIT***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R89-XVM1-JDG9-Y2M0-00000-00&context=1516831)

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The EU's farmers are also the first stewards of the natural environment, as they care for the natural resources of soil, water, air and biodiversity on 48% of the EU's land (foresters a further 36%) and provide essential carbon sinks and the supply of renewable resources for industry and energy. They also depend directly on these natural resources. Large numbers of jobs depend on farming, either within the sector itself (which provides regular work for 22 million persons) or within the wider food sector (farming, food processing and related retail and services together provide around 44 million jobs). The EU's ***rural*** areas as a whole are home to 55% of its citizens1 while serving as major bases for employment, recreation and tourism. Figure 1 1 Covering predominantly ***rural*** and intermediate areas (OECD definition). 4 None of these benefits can however be taken for granted. Unlike most other economic sectors, farming is strongly affected by the weather; it is also frequently tested by volatile prices, natural disasters, pests and diseases – with the result that, every year, at least 20% of farmers lose more than 30% of their income compared with the average of the last three years. At the same time pressure on natural resources is still clearly present partly as a result of some farming activities. Climate change threatens to make all of the above-mentioned problems weigh more heavily. The Common ***Agricultural*** Policy (CAP) should therefore lead a transition towards a more sustainable ***agriculture***. The CAP enabled the development of the most integrated single market. It is thanks to the CAP that the EU farm sector is able to respond to citizens' demands regarding food security, safety, quality and sustainability. However, at the same time the sector faces the challenges of low profitability - due inter alia to the EU's high production standards, the high costs of production factors and the fragmented structure of the primary sector. The sector now competes at world market prices in most sectors, leads the field in terms of food product diversity and quality and achieves the globe's highest agri-food exports (worth EUR 131 billion in 20162) Solid ***performance*** but further work to be done Direct payments currently shore up the resilience of 7 million farms, covering 90% of farmed land. While they make up around 46% of the income of the EU farming community, the proportion is much higher in many regions and sectors. They thereby provide relative income stability to farmers facing significant price and production volatility - which helps to keep the EU's vital high-quality food production base spread around the Union3. Their impact is supplemented by market instruments. Areas with Natural Constraints are also the object of specific support. ***Rural*** development policy makes a substantial contribution to the farm economy and vital ***rural*** livelihoods in various ways. It supports investments; knowledge-building; supply chain organisation; environmental protection and climate action. ***Rural*** development programmes in 2014-2020 build on this and widens provision for innovation and risk management. The creation of the European Innovation Partnership for ***Agricultural*** Productivity and Sustainability (EIP-AGRI) gave an impetus to knowledge creation and sharing. However, important efforts still need to be done to facilitate the access of farmers to knowledge4. 2 See [*https://ec.europa.eu/****agriculture****/trade-analysis/statistics\_en*](https://ec.europa.eu/agriculture/trade-analysis/statistics_en) 3 Ecorys et al. (2016) Mapping and analysis of the implementation of the CAP, p 76-94 4 See Evaluation study of the implementation of the European Innovation Partnership (EIP), November 2016:   [*https://ec.europa.eu/****agriculture****/external-studies/2016-eip\_en*](https://ec.europa.eu/agriculture/external-studies/2016-eip_en) 5 There are lessons to be learned from the public consultation carried out in the first half of 2017 on 'modernising and simplifying the CAP'5 which confirmed a widespread consensus that the current CAP tools successfully addresses current challenges to some extent only. This covers also environmental and climate challenges, where a majority of farmers and other stakeholders consider that the CAP should do more. At the same time, the excess of bureaucracy has been highlighted as a key obstacle preventing the current policy from successfully delivering on its objectives. Figure 2 Land-based measures are pivotal to achieving the environmental and climate-related goals of the EU, and farmers are the primary economic agents in delivering these important societal goals. In this context, we need to look at direct payments in order to ensure that a large portion of the EU's actively farmed area is managed with practices beneficial for the environment. The current area-based ***Rural*** Development payments build on this foundation. Partly thanks to the CAP, organic farming expanded significantly, to cover 6% of UAA in 2015 compared to 2% in 2000. 5 See   [*https://ec.europa.eu/****agriculture****/consultations/cap-modernising/2017\_en*](https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en) 6 The implementation of “greening6” is qualified as sometimes less ambitious than intended, and is identified in the public consultation as the most burdensome and complex element of the CAP which limits its effectiveness. Climate change has in the meantime become an even more urgent priority, with important costs to be faced by the farming community in the future.7 This view has also been highlighted by the REFIT Platform, which has put the focus on the excessive administrative burden of the current greening measures, the control and audit system and the growing overlaps between pillar I and II8. As indicated by the REFIT Platform, there is a need to reduce the regulatory burden of the CAP and improve its value for money while ensuring the achievement of the objectives and increase its integration with other policy areas. A first report on the implementation of the current common monitoring and evaluation framework of the CAP, including first results on the ***performance***, will be presented to the European Parliament and the Council in 2018. The Impact Assessment that will underpin the Commission proposal for the post-2020 Common ***Agricultural*** Policy will take into account all available evidence on the ***performance*** of the policy so far (including results of evaluations and input from the REFIT Platform) and will use this information when analysing specific solutions for the future. 6 European Commission staff working document: Review of greening after one year   [*https://ec.europa.eu/****agriculture****/sites/****agriculture****/files/direct-support/pdf/2016-staff-working-document-greening\_en.pdf;*](https://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/pdf/2016-staff-working-document-greening_en.pdf;) also Report from the Commission to the European Parliament and the Council on the implementation of the ecological focus area obligation under the green direct payment scheme (COM/2017/0152 final) of 29.3.2017 7 See Ecampa2 study (2016) with the most updated assessment of greenhouse gas mitigation policy options for EU ***agriculture***:   [*http://publications.jrc.ec.europa.eu/repository/bitstream/JRC101396/jrc101396\_ecampa2\_final\_report.pdf*](http://publications.jrc.ec.europa.eu/repository/bitstream/JRC101396/jrc101396_ecampa2_final_report.pdf) 8 REFIT Platform Opinions on 'Cross Compliance', 'Greening', 'Overlaps between pillar I and II', 'Control and Audit', '***Rural*** Development support' and 'EU legislation on the Farm subsidies reform'. Available at:   [*https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/reducing-burdens-and-simplifying-law/refit-platform/refit-platform-recommendations\_en*](https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/reducing-burdens-and-simplifying-law/refit-platform/refit-platform-recommendations_en) 7 A future- proof CAP While addressing the CAP Treaty objectives, the CAP has kept evolving, increasing the EU added value. It has also substantially increased its emphasis on the environment, climate and the wider ***rural*** context in which farming operates. This enabled the sector to increase its productivity by nearly 9% since 2005 while cutting greenhouse gas (GHG) emissions by 24% since 1990 and reducing fertiliser use with a positive impact on water quality. However, in the absence of stronger and more ambitious policy support it is unlikely that EU ***agricultural*** emissions will continue to decrease at the same pace. The CAP must continue stepping up its response to these challenges and it also shall play an essential role in realising the Juncker priorities in full coherence with other policies, especially: • boosting quality employment, growth and investment; • harnessing the potential of the Energy Union, the circular economy and the bio-economy while bolstering environmental care and fighting and adapting to climate change; • bringing research and innovation out of the labs and onto the fields and markets; • fully connecting farmers and the countryside to the digital economy; and • contributing to the European Commission's agenda on migration. At the same time, the EU is strongly committed to action on the COP21 Paris Agreement and the United Nations Sustainable Development Goals (SDGs). Notably, the CAP underpins the policies spelled out in the 2030 Climate and Energy framework, which calls upon the farming sector to contribute to the economy-wide emission reduction target of -40% by 2030 and EU Adaptation strategy. European farming also needs to step up its contribution towards the EU environmental objectives. These commitments cannot be met without farmers, foresters and other ***rural*** actors who manage over half of the EU's land, are key users and custodians of the related natural resources and provide large carbon sinks as well as renewable resources for industry and energy. This is why a modernised CAP should enhance its EU added value by reflecting a higher level of environmental and climate ambition, and address citizens' concerns regarding sustainable ***agricultural*** production. The Cork 2.0 Declaration of 2016, A Better Life in ***Rural*** Areas, gave voice to ambitious aspirations for the future success of the EU's ***agriculture*** and countryside and the contributions they could make to society as a whole. It presents an agenda for reforming the CAP to improve its delivery and bring it up to date to the current day challenges In particular there is a need to invest in skills, public services, infrastructure and capacity building in order to generate vibrant ***rural*** communities. 8 Figure 3 The public consultation underlined the importance of the three dimensions of sustainability (economic, environmental and social) and linked them to a broader need to modernise and simplify the policy. The Commission's White Paper on the Future of Europe of 1 March 2017 set in motion a wide-ranging debate on tomorrow's EU, calling on the Union and its Member States to interact better with citizens, be more accountable to them and deliver faster and better on what has been collectively agreed, such as the European Pillar of Social Rights. The Commission's Reflection paper on the Future of EU Finances of 28 June 2017 stimulates further this debate, setting out options and scenarios for the future direction of the EU budget, including among other options a degree of co-financing of the CAP and its implications. As recalled in the Reflection Paper, the EU budget should continue dealing with current trends that will shape the EU in the coming years. There are also a number of new challenges in which the EU budget will need to do more than today. In this context, all existing instruments including the CAP will need to be looked at. Hence, this Communication does neither pre-empt the outcome of this debate nor the proposals for the next multiannual financial framework (MFF). The Reflection Paper on the future of EU finances called for a shift towards new, sustainable growth that combine economic, social and environmental considerations in a holistic and integrated way and stronger focus on the provision of public goods. 9 This is the backdrop against which the CAP must take the next steps in its evolution – modernising and simplifying, and working hand in hand with other EU policies – to meet a wide range of pressing challenges and bring out the very best from the Union's farm sector and ***rural*** areas, with a greater focus on high standards and actual results, and to support farmers in anticipating and dealing with future relevant challenges and developments. 2. TOWARDS A NEW DELIVERY MODEL AND A SIMPLER CAP The CAP needs to evolve in various ways and sharpen its responses to the challenges and opportunities as they manifest themselves at EU, national, regional, local and farm levels. This also includes for the CAP to streamline its governance and improve its delivery on the EU objectives, and to significantly decrease bureaucracy and administrative burden. The current CAP delivery system relies on detailed requirements at EU level, and features tight controls, penalties and audit arrangements. These rules are often very prescriptive, down to farm level. In the Union's highly diversified farming and climatic environment, however, neither top-down nor one-size-fits-all approaches are suitable to delivering the desired results and EU added value. In the delivery model of the future CAP, the Union should set the basic policy parameters (objectives of the CAP, broad types of ***intervention***, basic requirements), while Member States should bear greater responsibility and be more accountable as to how they meet the objectives and achieve agreed targets. The CAP objectives would fulfil the EU Treaty obligations but also the already agreed objectives and targets on for instance the environment, climate change (COP 21), and a number of the SDGs. When preparing CAP ***strategic*** plans, the Member States will take into account their planning tools adopted emanating from EU environmental and climate legislation and policies.9 At the same time, Member States would be accountable for providing credible ***performance*** monitoring and reporting, underpinning the assurance of the budget. Greater subsidiarity would make it possible to better take into account local conditions and needs, against such objectives and targets. Member States would be in charge of tailoring CAP ***interventions*** to maximise their contribution to EU objectives. While maintaining current governance structures – that must continue to ensure an effective monitoring and enforcement of the attainment of all policy objectives - the Member States would also have a greater say in designing the compliance and control framework applicable to beneficiaries (including controls and penalties). 9 Such as the Management Plans and Prioritised Action Frameworks for Natura 2000, River Basin Management Plan, Air Quality and Air Pollution Programmes, Biodiversity Strategies. 10 To enhance EU added value and to preserve a functioning ***agricultural*** internal market Member States would take their decisions not in isolation, but in the framework of a structured process that would materialise in establishing a CAP ***strategic*** plan, which would cover ***interventions*** in both pillar I and pillar II, thus ensuring policy coherence across the future CAP and with other policies. The delivery model will thus continue to ensure a level playing field, preserving the common nature and the two pillars of the policy. The Commission would assess and approve such plans with a view to maximising the contribution of the CAP towards the EU priorities and objectives and the achievement of Member States' climate and energy targets. This is important to ensure the maintenance of a common approach to the delivery of environment and climate objectives across Member States. Increased ambition is the only viable policy option in this regard. The planning process should be shaped in a much simpler way, remaining clearly below the levels of complexity exemplified by the current ***rural*** development programming. This means in particular that prescriptive compliance elements such as measures' details and eligibility rules at the level of EU legislation should be eliminated. Such simplification would also favour integrated and innovative approaches and render the policy framework more adaptive and innovation friendly. This means the CAP and the Member States plans should focus above all on the objectives and expected results while leaving sufficient room for Member States and regions to address their specificities. In line with the logic of the Commission's 'budget focused on results' approach, a future delivery system should thus be more result-driven, boost subsidiarity by giving Member States a much greater role in rolling out CAP schemes, pursue agreed realistic and adequate targets, and help reducing the EU-related administrative burden for beneficiaries. In such a context simplified cost options and modern technologies offer huge opportunities to reduce this burden, in particular as regards controls. Both farmers and citizens should be enabled to benefit from such advances with a less prescriptive framework. In this way, as proclaimed by the Cork 2.0 Declaration, the architecture of the CAP as a whole would provide for targeting ***interventions*** to well-defined economic, social and environmental objectives while reflecting the needs and aspirations of the territories concerned. Another crucial function of the Commission would of course consist in supervising the delivery on results and the respect of basic EU rules and international commitments in the framework of a well-designed audit and assurance system. To this end the assurance process would need to be adapted to the requirements of a result-driven policy design including the development and application of solid and measurable ***indicators*** and of a credible ***performance*** monitoring and reporting. 11 3. A SMARTER, MODERN AND SUSTAINABLE CAP European citizens should continue to have access to safe, high quality, affordable, nutritious and diverse food. The way this food is produced and marketed should adapt to citizens' expectation, in particular concerning the impact on their health, the environment and the climate. To ensure this in a context of growing world population, increased environmental pressure and climate change, the CAP has to continue evolving, maintaining its market orientation and its support to the EU family farm model across all the regions of the Union. Similarly, the CAP needs to support and be compatible with efforts that address the root causes of migration towards the EU. Figure 4 Fulfilling these goals will be made possible by building on what the CAP has already achieved through its policy objectives, in a new economic, climate, environmental, social, technological, industrial and political context. The section below sets out the main objectives of the future CAP: • to foster a smart and resilient ***agricultural*** sector; • to bolster environmental care and climate action and to contribute to the environmental and climate objectives of the EU; • to strengthening the socio-economic fabric of ***rural*** areas. To fulfil these objectives the ***agricultural*** sector and the EU ***rural*** areas will need to be better linked to human capital development and research and support for innovation will need to be stepped up. 12 The future CAP will also need to continue to address societal expectations regarding sustainable food production, in particular concerning food safety, food quality, environmental and animal welfare standards. 3.1 Using research and innovation to better link what we know to what we grow Innovations in various fields (agronomy such as nature based solutions, breeding, vertical farming, zootechnics, biological, technological, digital, organisational and product related) are within reach and can serve the multi-functionality of EU ***agricultural*** and food systems. Research and innovation are part of the foundation of progress concerning all the challenges which confront the EU's farm sector and ***rural*** areas: economic, environmental and social. The needs and contributions of ***rural*** areas should be clearly reflected on the research agenda of the European Union and the future CAP will need to enhance even more synergies with the Research and Innovation Policy in fostering innovation. Technological development and digitisation make possible big leaps in resource efficiency enhancing an environment and climate smart ***agriculture***, which reduces the environment-/climate impact of farming, increase resilience and soil health and decrease costs for farmers. However, the uptake of new technologies in farming remains below expectations and unevenly spread throughout the EU, and there is a particular need to address small and medium-sized farms' access to technology. Not only technology but also access to sound, relevant and new knowledge is very patchy around the Union. This impedes the ***performance*** of certain CAP instruments as well as the farm sector's overall competitiveness and development potential. By contrast, the CAP's capacity to increase the flow of knowledge between partners from different parts of the EU offers strong added value as it will save costs, increase the impact of EU funding and speed up innovation in the different parts of the EU. 13 Figure 5 Support for knowledge, innovation and technology will be crucial to future-proofing the CAP. Schemes that aim at enhancing economic, social or environmental ***performance*** as well as climate change adaptation and mitigation will be linked to the advisory services providing knowledge, advice, skills and innovation. The European Innovation Partnership for ***Agricultural*** Productivity and Sustainability (EIP-AGRI) and the European Innovation Partnership on Water have proven their value in mobilising the ***agricultural*** sector for innovation. It has funded multi-participant pilot projects and is networking across Europe to make new knowledge generally available. Its success depends on the combined ***performance*** of advisors, ***agricultural*** training and educational systems, researchers and farmer organisations often referred to as the ***Agricultural*** Knowledge and Innovation System (AKIS) – which operates very differently from one Member States to another. The role of the farm advisor stands out as particularly important. A modern CAP should support the strengthening of farm advisory services within the AKIS systems. This should become a condition for the approval of CAP ***Strategic*** Plans. This should be facilitated by strengthening the support for peer-to-peer exchange, networking and cooperation amongst farmers including through Producer Organisations ('POs'), as these can be important vehicles of knowledge sharing, innovation as well as cost savings for the farmers on a very regular basis. 14 3.2 Fostering a smart and resilient ***agricultural*** sector 3.2.1 A fair income support to help farmers to make a living As emphasised in the Reflection paper on the future of EU finances, direct payments partially fill the gap between ***agricultural*** income and income in other economic sectors. They provide an important income safety net, ensuring there is ***agricultural*** activity in all parts of the Union including in areas with natural constraints (which also receive income payments under ***Rural*** Development Policy) with the various economic, environmental and social associated benefits, including the delivery of public goods. Therefore, direct payments remain an essential part of the CAP in line with its EU Treaty obligations. Figure 6 15 Although the role of direct payments in stabilising farm income is generally welcomed, the fact that 20% of farmers receive 80% of the payments sometimes prompts accusations of 'unfairness'. These numbers are a reflection of a system where payments are linked to land which is concentrated among a minority of farmers. Half of CAP beneficiaries are very small farms and most of the payments go to medium-size professional family farms, however a more balanced distribution of support should be promoted. Direct payments will fulfil their mission more effectively and efficiently if they are simplified and better targeted. Any change would however have to preserve one of the key assets of the policy: the protection of the well-functioning internal market the CAP has created over the years. Figure 7 To target direct payments more effectively to ensure income to all farmers across the EU, as evoked in the above-mentioned Reflection paper, without being exhaustive the following possibilities in order to ensure a fair and better targeted support of farmers' income should be further explored: – A compulsory capping of direct payments taking into account labour to avoid negative effects on jobs; – Degressive payments could be introduced as well, as a way of reducing the support for larger farms; – Enhanced focus on a redistributive payment in order to be able to provide support in a targeted manner e.g to small-medium sized farms; 16 – Ensure support is targeted to genuine farmers, focussing on those who are actively farming in order to earn their living. At the same time, the CAP needs to play its role in following the principles of 'Equality between its Members, big or small, East or West, North or South', which were recalled by President Juncker in his State of the Union address of 2017. In this sense, it should reduce differences between Member States in CAP support. Even if the wide diversity of relative costs of labour and land as well as the different agronomic potentials across the EU should be acknowledged, all EU farmers face similar challenges. 3.2.2 Investing to improve farmers' market reward The CAP should play a larger role in helping farmers make more money from the market. There is a clear need to boost investments into farm restructuring, modernisation, innovation, diversification and uptake of new technologies and digital-based opportunities such as precision ***agriculture***, the use of big data, and clean energy in order to improve individual farm sustainability, competitiveness and resilience, including against the negative impacts of climate change. The position of farmers in the food chain is an important factor, and will also be addressed by the scheduled proposal to improve the EU food supply chain10. Additional reflections are needed on the role and effective functioning for ***agricultural*** producer organisations. Recognised producer organisations can be a useful tool to enable farmers to strengthen their bargaining position in the value chain and to cooperate to reduce costs and to improve their competitiveness to improve market reward. As producer organisations are particularly relevant for small farmers, it is important that they are organised so they offer opportunities for them. Emerging sustainable ***rural*** value chains in areas such as bio-based industries, bio-energy and circular economy, as well as ecotourism offer opportunities for farmers and ***rural*** businesses to diversify their businesses, hedge risks and provide additional income: the policy should increasingly focus on supporting such efforts. The ***performance*** of investment support under the CAP should also be improved through better integration of business advice and promotion of collective investments and mechanisms to get effective synergies with research and innovation. The current investment gap in ***agriculture*** needs to be addressed, also through more use of innovative financial instruments that take into account the specificities of farming as well as more integrated projects that link various EU instruments (EFSI, ESIF). Further work with the European Investment Bank (EIB) may point the way. 10 Commission Work Programme 2018 – An agenda for a more united, stronger and more democratic Europe, COM(2017)650 final of 24.10.2017 17 3.2.3 Risk Management In the context of a greater market orientation of the CAP, more market exposure led to higher risks of price volatility and an increasing pressure on incomes. Risks also stem from climate change, the associated increased frequency and severity of extreme events and more frequent sanitary and phytosanitary crises affecting the EU livestock and agronomic assets. While farmers, as entrepreneurs, are ultimately responsible for designing their own on-farm strategies, it is important to set up a robust framework for the farming sector to successfully prevent or deal with risks and crises, with the objective of enhancing its resilience and, at the same time, providing the right incentives to crowd-in private initiatives. Figure 8 The CAP already offers a layered set of tools helping farmers to prevent and manage risks, from direct payments and market ***intervention*** to post-crises compensations and the present second pillar measures in particular an Income Stabilisation Tool (IST) and insurance support. For example sector specific stabilisation tools with a 20% trigger level for income loss can be effective. It is important to consider whether to further adjust its design to improve its functioning. Furthermore, it should be explored how existing possibilities as regards risk management can be better exploited, for instance by the use of indexes to calculate farm income losses, reducing red tape and costs. 18 The understanding and consideration by the farming community of risk management instruments in general and ***agricultural*** insurance in particular can be improved. There is an opportunity to increase knowledge of the benefits of those systems through ***rural*** development training, knowledge transfer initiatives and the inclusion in the farm advisory service. In the short run, a permanent EU-level platform on risk management will be set up, providing a forum for

farmers, public authorities and stakeholders to exchange experiences and best practices, with the objectives of improving implementation of the current tools and informing future policy developments. At the same time, it is worthwhile exploring how to further develop an integrated and coherent approach to risk prevention, management and resilience, which combines, in a complementary way, EU-level ***interventions*** with Member States' strategies and private sector instruments which address income stability as well as climate risks. A flexible approach, in this context, is a necessary condition to allow tailored solutions for the different types of regional and sectoral needs of farmers and to support their market orientation. New avenues should however be explored. Financial instruments stimulating the inflow of private capital can help to overcome temporary cash flow shortages. Other complementary measures to the current risk management toolkit, such as support for re-insurance of mutual funds or incentives for precautionary savings, may also be envisaged. Beyond the CAP toolbox, certain actions at Member State level could help provided that they are compatible with state aid rules. This concerns for instance provisions in taxation policy that currently discourage farmers to make from savings in good years to cope with bad years. 3.3 Bolstering environmental care and climate action and contributing to the achievement of EU environmental and climate objectives Climate change and constraints on natural resources will continue affecting farming and driving food security challenges. The EU 2030 Climate and Energy targets set ambitious goals.As all sectors, ***agriculture*** should make a fair contribution to these targets, as outlined in the Commission proposals on Effort Sharing and Land-Use, Land Use Change and Forestry (LULUCF). At the same time, ***agriculture*** is one of the sectors most vulnerable to climate change. Water scarcity, changing precipitation patterns, overall temperature increases and variation, increased intensity and frequency of climate-related extremes, presence and persistence of (new) pests and diseases, and fire risks are already challenging current ***agricultural*** and forestry practices and production. However, farmers and foresters are not only users of natural resources, but also, indispensable managers of ecosystems, habitats and landscapes. Any new CAP should reflect higher ambition and focus more on results as regards resource efficiency, environmental care and climate action. 19 The future CAP should make the best use of research results, ensure that knowledge is shared and implemented and support proliferation of modern technologies to maximise the contribution of ***agriculture*** to the EU and global objectives. Climate-smart farming supported by training, advice and innovation is one part of the answer; but this requires an ***agricultural*** policy with strong commitment to deliver public goods and ecosystems services related to soil, water, biodiversity, air quality, climate action and the provision of landscape amenities. It is also important that the contribution of the CAP to these objectives is ***strategic*** and measurable. The current green architecture of the CAP, that primarily relies on the complementary implementation of three distinct policy instruments – cross compliance, green direct payments and voluntary agri-environmental and climate measures will be replaced and all operations integrated into a more targeted, more ambitious yet flexible approach. The new delivery model will allow Member States to devise a mixture of mandatory and voluntary measures in Pillar I and Pillar II to meet the environmental and climate objectives defined at EU level. Member States will need to define quantified targets which will ensure that the agreed environmental and climate objectives defined at EU level are achieved. Member States will have the flexibility to formulate ***strategic*** plans allowing for addressing climate and environmental needs at local level. It should be explored how an obligatory EU-wide requirement to have a nutrient management plan and incentives for precision ***agriculture***, forming part of any Member State CAP ***strategic*** plan, could improve results. The Commission will explore inter alia how to cater for measures that yield high EU environmental added value, such as conservation of permanent pastures, maintenance and creation landscape features, ***agriculture*** in areas with natural constraints, organic farming, as well as individual or collective schemes aimed at soil health, biodiversity and /river basin stewardship. The granting of income support to farmers will be conditioned to their undertaking of environmental and climate practices, which will become the baseline for more ambitious voluntary practices. The new conditionality will rely on the implementation of a streamlined set of environmental and climate conditions, providing environmental and climate public goods. These practices would be further defined by Member States in order to better take account of their specific situation, climate risks and needs, while ensuring that these practices adequately contribute to the objectives agreed at EU level. Member States would have to ensure that the agreed targets are met and monitor ***performance*** in a robust and credible way. Additional environmental / climate benefits will be achieved through voluntary entry level schemes and more ambitious agro-environment-climate schemes that will allow Member States/Regions to target their specific concerns. Such approach will lead to simplification - one layer of requirements for direct payments, a single set of management and control rules and a reduction of administrative burden to the Member State and the farmer. Greater subsidiarity will remove 'the one size fit all' approach and ensure a clear environmental link for actions taken. However, to ensure coherence with the overarching EU objectives, all actions and targets put forward by the Member State will be approved by the Commission within an EU framework agreed as part of the CAP ***strategic*** plan. 20 The overall ***performance*** of the new green architecture should encourage the promotion of co-operative/collective approaches, involving Farmers and Stakeholders in a result-oriented delivery of environmental and climate public goods and developing schemes that integrate the provision of knowledge and environmental investments. 3.4 Strengthening the socio-economic fabric of ***rural*** areas 3.4.1 Growth and jobs in ***rural*** areas Many ***rural*** areas in the EU suffer from structural problems, such as a lack of attractive employment opportunities, skill shortages, underinvestment in connectivity and basic services and a significant youth drain. In a Union of equals the potential and aspirations of ***rural*** citizens and communities must be better addressed in EU policies. The CAP, and in particular ***Rural*** Development Policy, has an important role to play to promote ***rural*** jobs and growth as well as to preserve the environmental quality of ***rural*** areas. Joint EU and national investment in infrastructure, natural and human capital development is paramount to support sustainable, quality employment in ***rural*** areas. The ***rural*** communities should have better access to public services, health care, vocational training, programmes to develop new skills notably in the digital sector, quality education, and connectivity. The CAP is one of several EU policies that contribute to prosperous ***rural*** areas and it must improve its complementarity with other EU policies such as Cohesion Policy - which also provides substantial EU funding in ***rural*** areas - and the Connecting Europe Facility as well as national funds and strategies. Improved coordination between these policies would result in simpler delivery mechanisms and less red tape for administrations and citizens. New ***rural*** value chains such as clean energy, the emerging bio-economy, the circular economy, and ecotourism can offer good growth and job potential for ***rural*** areas. By-products from agri-food and forestry could find new value as inputs for bio-energy and bio-based industries, while manure can turn into biogas and fertiliser thus supporting both the energy transition and the wider nutrient recycling. This also contributes to the substitution of more polluting and non-renewable resources and materials, and to a reduction of food losses and waste. Sustainable ***agriculture*** and forestry are both ***strategic*** sectors to develop this potential. Growth of the bio-economy in a sustainable business model should therefore become a priority for the CAP ***strategic*** plans, and support the EU circular economy strategy and the development of new business models which will benefit farmers and foresters whilst creating new jobs. This would also boost the CAP's potential to contribute to the Energy Union and the EU Industrial Policy by promoting clean and efficient energy production, including sustainable biomass mobilization in respect of the core principles of the EU circular economy strategy. The EFSI and other financial instruments should leverage additional support from ***Rural*** Development programmes in order to provide low cost and longer term loans for entrepreneurs that are willing to invest in ***rural*** areas. 21 Figure 9 One priority for this future joint work across policy areas is development of 'Smart Villages' throughout the Union. This emerging concept, currently developing through a number of initiatives and pilots, will help local communities address issues of inadequate broadband connectivity, employment opportunities and service provision in a clear and comprehensive manner. The Commission is committed to reinforcing support for ***rural*** communities and local authorities that wish to develop Smart Villages through capacity building, investments, innovation support, networking as well as through the provision of innovative financing tools for improving skills, services and infrastructure. Continued joint EU and national investment in human capital development in ***rural*** areas is needed to support sustainable and quality employment and to help people living in these areas fulfil their potential, and their community's potential by helping them acquire new skills, and have improved access to quality key services, including access to quality education. The bottom-up, locally led approach LEADER has proven to be an effective means to local capacity building and to promoting social inclusion, poverty reduction and job creation in the local economy. There is a need for better synergy and coordination with municipal authorities and local agencies to fully mobilise ***rural*** potential. 22 Through its ***rural*** development policy, the CAP is the '***rural*** champion' of the Union. However, while all macro and sectorial policies have a potential impact on ***rural*** communities and many EU funds the capacity to promote ***rural*** prosperity, this capacity for ***rural*** regeneration is not always maximised. The Commission is therefore committed to promoting a '***rural*** proofing' mechanism, which systematically reviews relevant policies through a '***rural*** lens', considering possible impacts on ***rural*** communities. 3.4.2 Attracting new farmers A prosperous ***agricultural*** sector can develop only if a real change of generation takes place: our aging ***agricultural*** community needs new blood to make the sector more dynamic and open to on-going technological transformations. However, young farmers and other new entrants face considerable obstacles to starting up farming activity, among them economic ones such as high land prices but also societal ones such as the perception of farming as an unattractive or old fashioned occupation, sometimes with inappropriate social protection. Figure 10 23 Generational renewal should become a priority in a new policy framework, but it must be recognised that Member States are in the best position to stimulate generational renewal using their powers on land regulations, taxation, inheritance law or territorial planning11. Taking this into account, there is a need to improve the consistency between EU and national actions. The CAP should give flexibility to Member States to develop tailor made schemes that reflect the specific needs of their young farmers. The new delivery system will facilitate Member States' actions to assist young farmers. The CAP ***strategic*** plans could include support for skills development, knowledge, innovation, business development and investment support. Producer Organisations can play a valuable role here. To increase learning opportunities abroad for young people living in ***rural*** areas, Erasmus exchange possibilities for young farmers should be bolstered. Setting up in ***agriculture*** implies high risk with large capital requirements and uncertain income. The CAP should help mitigate this risk in the first years after launching a farming business by providing an EU-wide system of support to the first installation with necessary support in a simpler and better targeted way: this could be achieved with a simplified top-up payment for new entrants (tailored by Member States according to the specific needs) and/or the reinforcement or extension of current lump-sum payments. Access to financial instruments to support farm investments and working capital should be facilitated and better adapted to the investment needs and higher risk profiles of new entrants. Support to the new generation of farmers could be combined with the appropriate incentives to facilitate the exit of the older generation and increase land mobility. Furthermore, there is a growing need to support actions that stimulate the transfer of knowledge among generations (through partnerships and other new business models) and facilitate succession planning (i.e advisory services, mentoring and the preparation of “farm succession plans”). 3.5 Addressing citizens' concerns regarding sustainable ***agricultural*** production, including health, nutrition, food waste and animal welfare The CAP is one of the EU policies responding to societal expectations regarding food, in particular concerning food safety, food quality, environmental and animal welfare standards. Farmers are the real gatekeepers of food production systems; as such the contribution they can give to a sustainable food chain is crucial. 11 In this context, the European Commission has recently published guidance on how to protect ***agricultural*** land (Interpretative Communication on the Acquisition of Farmland and EU law, 2017/C 350/05 of 18.10.2017). 24 Citizens are also increasingly valuing access to a wide variety of food that carries broader benefits for society, such as organic produce, products with geographical indications (GIs), local specialities and innovative food. In synergy with other EU policies, the CAP must continue to respond to these concerns, for instance by modernising organic rules, continuing to make GIs more attractive to farmers and consumers and easier to manage, or supporting the objectives of the Sustainable Use of Pesticides directive12. The CAP should become more apt at addressing critical health issues such as those related to antimicrobial resistance (AMR) caused by inappropriate use of antibiotics. In line with an ambitious and encompassing approach with regard to human and animal health - as embodied by the 'One Health' concept13 – it should also promote the use of new technologies, research and innovation to reduce risks to public health. Identically the CAP can help farmers to improve the application of EU rules on animal welfare and to further increase standards through voluntary initiatives aimed at promoting the market value of animal welfare both within and outside the EU. The CAP should continue to support production with specific and valuable characteristics through ***Rural*** Development as well as to promote and improve its international recognition. The CAP also has a role to play in promoting healthier nutrition, helping to reduce the problem of obesity and malnutrition, making nutritious valuable products such as fruits and vegetables easily available for EU citizens. A good example is the Schools schemes, under which free fruit, vegetable and dairy products are subsidised in schools and by using these schemes to promote class room activities related to healthy eating. Campaigns to promote healthy dietary practices and increasing the consumption of fruit and vegetables should be a focal point in the CAP promotion activities. Consumers' food choices depend on a number of factors going far beyond the remits of the CAP. The most important role for the policy is therefore to help farmers anticipate developments in dietary habits and adjust their production according to market signals and consumers' demands. Strengthening the knowledge triangle in ***agriculture*** and forging better links to relevant initiatives such as the European Institute for Innovation and Technology's Food Partnership and the EU Food 2030 research strategy will also help maximise the contribution of the CAP to future-proofing our food system. . Finally, the CAP can help to reduce food waste and food losses by stimulating better production and processing practices (e.g promoting new technologies that extend the shelf life of perishable products or better matching supply and demand through increased transparency) and by supporting initiatives that transform traditional produce-use-discard consumption patterns into a circular bio-economy. 12 Directive 2009/128/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for Community action to achieve the sustainable use of pesticides. 13 See also [*https://ec.europa.eu/health/amr/sites/amr/files/amr\_action\_plan\_2017\_en.pdf*](https://ec.europa.eu/health/amr/sites/amr/files/amr_action_plan_2017_en.pdf) 25 4. THE GLOBAL DIMENSION OF THE CAP The CAP is a policy for the EU but it obviously has global implications and linkages. Close attention must be paid to these when decisions are taken about the policy's future. The linkages between the CAP and Sustainable Development Goals are presented in figure 3. The EU is committed to support partner countries achieving the same goals through external policies and instruments. Therefore it will seek coherent action among its policies in line with the 2030 Agenda, and with its commitment to enhance policy coherence for sustainable development14. The latter requires taking into account the objectives of development cooperation in policies which are likely to affect developing countries. To this regard, the CAP is and will continue to be coherent with the EU development policy15, which recognises the important role sustainable ***agriculture*** plays for poverty eradication and sustainable development in developing countries and promotes also the development of ***agricultural*** markets and inclusive value chains which benefit the poor and encourage the agro-industry to generate jobs. 4.1 Trade Thanks to the efforts of the EU's ***agricultural*** and food processing sector, with support of EU trade agreements and the CAP (including its promotion policy) the EU is the world largest agri-food exporter. Further liberalisation of trade and increased participation in global value chains will allow the EU agri-food sector to develop exports even further, responding to growing middle-class demand worldwide, as well as dietary changes. For citizens, further growth in international trade will improve the accessibility, variety and affordability of food. Maintaining the market-orientation of the EU agri-food sector and the compatibility of CAP measures with international trade law will also allow the EU to retain its leading role in international bodies such as the World Trade Organisation (WTO), promoting open trade and advocating strict disciplines on trade-distorting forms of support. At the same time, it cannot be ignored that specific ***agricultural*** sectors cannot withstand full trade liberalisation and unfettered competition with imports. We therefore need to continue to duly recognise and reflect the sensitivity of the products in question in trade negotiations and explore ways how to address the geographical imbalances of advantages and disadvantages that affect the farm sector within the Union as a result of EU trade agreements. 14 Cf. art. 208 TFEU 15 The new European Consensus on Development signed on 07/06/2017, and available on   [*https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626\_en.pdf*](https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf) 26 Currently, the EU faces export restrictions from many important agri-food markets of third countries due to unjustified sanitary and phytosanitary (SPS) barriers. The EU will continue seeking a fair and balanced relationship with our trading partners and, where appropriate, promoting the EU SPS 'Single Entity' concept. The high standards of the EU will in no case be compromised. Furthermore, the EU, through its different cooperation and technical assistance tools, should foster increased cooperation with EU partner countries and regions, in particular when facing new and emerging animal health and phytosanitary threats. 4.2 Migration The future CAP must play a larger role in implementing the outcome of the Valetta Summit16, addressing the root causes of migration. Knowledge and know-how gained from CAP-supported projects should be used to develop employment opportunities and revenue-generating activities in regions of origin and transit of migrants, including through the EU External Investment Plan Pilot projects for training young farmers - with the involvement of European farmers' organisations. Furthermore, EU-Africa Union exchange schemes are avenues to explore. Cooperation on ***agricultural*** research and innovation must be deepened through the relevant EU policies and instruments. The Commission is also committed to enhancing ***strategic*** policy cooperation and dialogue with the Africa Union on issues related to ***agriculture*** and ***rural*** development so as to help the region develop its agri-food economy. Within the EU, ***agriculture*** offers oportunities for seasonal workers. Moreover, through its ***rural*** development arm, the CAP can play a role in helping to settle and integrate legal migrants, refugees in particular, into ***rural*** communities. Experience shows that Community-Led Local Development/LEADER is particularly apt for this. 16 See   [*http://www.consilium.europa.eu/en/meetings/international-summit/2015/11/11-12/#*](http://www.consilium.europa.eu/en/meetings/international-summit/2015/11/11-12/#)

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Brussels: Public Register European Parliament has issued the following document:

[1] ANNEX of the Commission Implementing Decision on the Annual Action Plan 2017 and 2018 part I for Bolivia Action Document for “Integrated Water and Natural Resources Management” 1. Title/basic act/ CRIS number “Integrated Water and Natural Resources Management” - CRIS number: DCI-LA/2017/039-032 financed under Development Cooperation Instrument 2. Zone benefiting from the action/location Latin America and Caribbean, Bolivia The action shall be carried out at the following location: Bolivia 3. Programming document Multiannual Indicative Programme 2017-20 for Bolivia 4. Sector of concentration/ thematic area Sector 3: water, sanitation and natural resource management DEV. Aid: YES 5. Amounts concerned Total estimated cost: EUR 51 million Total amount of EU budget contribution EUR 51 million of which EUR 51 million for budget support The contribution is for an amount of EUR 25 million from the general budget of the European Union for 2017 and for an amount of EUR 26 million from the general budget of the European Union for 2018, subject to the availability of appropriations following the adoption of the relevant budget. 6. Aid modality(ies) and implementation modality(ies) Budget Support Direct management –Budget Support: Sector Reform Contract 7 a) DAC code(s) 14040 – River basins’ development 31210 – Forestry policy and administrative management 41040 – Site preservation 41030 – Biodiversity 74010 – Disaster prevention and preparedeness b) Main Delivery Channel Recipient Government- 12000 [2] 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance ☐ ☐ x Aid to environment ☐ ☐ x Gender equality (including Women In Development) x ☐ ☐ Trade Development x ☐ ☐ Reproductive, Maternal, New born and child health x ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity ☐ ☐ x Combat desertification ☐ x ☐ Climate change mitigation ☐ x ☐ Climate change adaptation ☐ ☐ x 9. Global Public Goods and Challenges (GPGC) thematic flagships Global Climate Change Alliance Plus (GCCA+) flagship (for issues of sustainable land use, risk management planning, ecosystem based management, adaptation and mitigation synergies) Biodiversity for life (B4LIFE) and Forest Law Enforcement Governance and Trade (FLEGT) flagships (for issues of land degradation, deforestation and biodiversity loss) SUMMARY In a context of climate change and increased pressure on natural resources, there is need to act on the close link between environment preservation and conservation and the availability and sustainability of water resources for human consumption as well as for productive activities.

EU experience in the country through past and current ***interventions*** in the areas of river basins and protected areas management shows the need for further integrate these sub-sectors, as also auspicated by the Bolivian Ministry of Environment and Water. In this framework, the Action proposes to improve sustainable and climate resilient management of natural resources ensuring availability of quality water and the protection of critical ecosystems (general objective) through the improvement of water governance and management of water-related risks and the protection and sustainable use of critical ecosystems and their biodiversity (specific objective). To do so, the Action will support the Ministry of Environment and Water’s Integrated Plan for Sector Development and the relevant sub-sector policies to: improve governance of natural resources at local level; increase resilience to water-related natural disasters; continue investment for protection and sustainable use and management of natural resource; support monitoring systems for water quality, forest and protected areas; and increase knowledge and improve practices of the general population in relation to water and environment. The action is in line with the Bolivian Economic and Social Development Plan 2016-20 and the related sector policies, as well as with the priorities set by the European Consensus for Development, the EU principle of green growth, the Union Environment Action Programme to 2020, the EU commitments to step up contribution to averting global biodiversity loss by 2020 and to addressing at least 20 % of the its budget to low carbon and climate resilient society, and the EU Gender Action Plan II. It is set in the framework of the European Joint [3] Strategy for 2017-20 and of the EU Multiannual Indicative Programme (MIP) 2017-2020 for Bolivia and aims to contribute to the progressive achievement of the Sustainable Development Goal (SDG) 5 (on gender equality) and 6, 12, 13 and 15 (on environment issues). 1 CONTEXT 1.1 Sector/Country/Regional context/Thematic area 1.1.1 Public Policy Assessment and EU Policy Framework The 2009 Constitution and the Ley de la Madre Tierra (Law of Mother Earth) of 2012 set out Bolivia´s endorsement of the human right to water and sanitation and its vision about natural resource management. In these documents, the Government states as its main objective the promotion of integrated development to guarantee the well-being of the population while protecting the regenerative and adaptive capacity of the environment. This vision is translated into pillars 6 and 9 of the Government´s Economic and Social Development Plan (PDES from its Spanish acronym) 2016-2020: “Productive sovereignty with diversification” and “Environmental sovereignty with integrated development”, which are further articulated around wood and Amazonian products, sustainable productive systems, water resources and natural disasters prevention, forests and protected areas, and waste management. Significant alignment can be found between the PDES, the Institutional ***Strategic*** Plan 2014-18 of the Ministry of Environment and Water (MEW) and Bolivia's Nationally Determined Contribution (NDC) on climate change, especially in the sectors of water and forestry. A planning exercise was completed to operationalize the goals set in the PDES, both at central and sub-national level, including the formulation of a new plan to integrate actions in environment and water– the Sector Plan for Integrated Development (PSDI, Spanish acronym) representing the new sector policy. Existing national programmes are being revised to ensure alignment and a new integrated monitoring system is to be established. In the water sub-sector, the Vice Ministry of Water Resources and Irrigation (VRHR, Spanish acronym) continues to pursue its successful strategy of fostering decentralised and integrated watershed management while working on governance and capacity building with a variety of stakeholders (communities, productive sector, universities, municipalities, departments and NGOs). This focus on local-level management includes attention to the different situation and impacts on men and women, which is translated in project design. The National Watershed Plan (PNC, Spanish acronym) is currently being adjusted to reflect the ambitious targets defined in the PDES, which will require additional funding and implementation capacity to be achieved. An element of novelty is represented by the increasing attention and investment in large scale, multi-sector and infrastructure-heavy ***interventions*** in key basins, which are in line with the EU Nexus Initiative. The preparation phase of these new programmes has highlighted the importance of transparent and effective management of water resources in order to guarantee equity in water services provision and prevention of social conflict. In the environment sub-sector, the PDES emphasises poverty reduction for people living in protected areas and demands an increased contribution of the forest sector to the national economy. Supreme Decree 2366 of 2015, allowing hydrocarbon exploration in protected areas, was an early indication of this new approach. The Vice Ministry of Environment, [4] Biodiversity, Climate Change and Forest Management and Development (VMA, Spanish acronym) and related entities as the National Service for Protected Areas (SERNAP, Spanish acronym) and the Forest and Land Authority (ABT, Spanish acronym) are in the process of defining new strategies and reviewing their implementation mechanisms. It is of outmost importance to support the Ministry in sustainably combining poverty reduction and environmental protection. Although the national policy on gender equality, the “Plan of Equal opportunity: Women constructing the new Bolivia for Vivir Bien” (2009) and the gender equality-related objectives of the PDES do not target or identify specific links with the water and environment sector, the MEW is in the process of developing its own guidelines. Differences between Bolivia and the EU on climate change (e.g on climate justice, share of responsibilities between nations, assessment methodologies and mechanisms for actions) do not hinder collaboration at country level on topics as water, forestry and energy. Achieving Bolivia's extremely ambitious NDC targets will require strong political will and external support in terms of funding and technical assistance. Changing the energy matrix would represent a main paradigm shift for a country dependent at 36 % on hydrocarbons1, and require private sector negotiations as well as a new regulatory and incentive framework. For the proposed 13-fold increase in forested area2, new regulations, a good incentive structure, widespread technical assistance and a monitoring system based on nationally-agreed sector definitions are necessary. Dialogue among ministries in charge of environment, energy, infrastructure and ***agriculture*** will be key to ensure coherence of the respective policies. In this context, this Action will support the MEW's PSDI which is considered by the delegation to be a relevant, credible and measurable policy, hence eligible for sector budget support. This action is in line with the priorities set by the European Consensus for Development, as it contributes to inclusive and sustainable growth for human development through improved natural resources management. It is also aligned to EU principle of green growth, the Union Environment Action Programme to 2020, and the commitments to step up contribution to averting global biodiversity loss by 20203 and to addressing at least 20 % of the its budget to low carbon and climate resilient society4. The environment sector, including water issues, has also been identified as one of the main cooperation areas under the Joint European Strategy in Bolivia 2017-20. Finally, the action is in line with the the EU Gender Action Plan 2016-2020, specifically the thematic priority “Economic, Social and Cultural Rights - Economic and Social Empowerment” – objectives 15 and 16. 1.1.2 Stakeholder analysis The VRHR is the leading actor in the watershed management sector, setting policy, implementation strategies and guidelines for ***interventions***. It leads a number of national and subnational platforms for the planning, financing and implementation of integrated water 1 Bolivian Ministry of Economy, figure related to budget year 2015 2 VMA – Forest Directory, draft forestation plan, 2016 3 EU Biodiversity target as part of EU ***Strategic*** Plan for Biodiversity 2011-2020 4 DCI regulations, recital 20 [5] resource ***interventions***, and it coordinates with the National Meteorology and Hydrology Service for the functioning of an early warning system in flood-prone areas. The VMA is in charge of all environmental regulations and licensing processes, biodiversity strategies and programmes, biotechnology and biosecurity, wildlife trafficking issues, supervision of the National System of Protected Areas and forestry plans. Responsibilities for climate change issues are shared with the Mother Earth Multinational Authority, which is the ***strategic*** entity in charge of climate change-related funding and reporting through its mitigation and adaptation (funding) mechanisms. The management of the 22 national level protected areas is under the responsibility of the SERNAP, the licensing and monitoring of forest use is responsibility of the ABT, while the funding of forest projects is supervised by the National Fund for Forest Development. Coordination between MEW viceministries and between the viceministries and their decentralised entities is not optimal. While foreseen by law, the delegation of decision making powers to sub-national level governments is expected to be a long term process. The nine Autonomous Departmental Governments (GADs, Spanish acronym) constitute the intermediate level of government structure and perform a central role in development planning exercises, e.g through their Plans for Soil Use (PLUS) and in river basin management in the case of major ***strategic*** watersheds shared by more than one municipality. Among the responsibilities of the GAD is the co-financing of investments and the support of Autonomous Municipal Governments in the implementation of their competencies. A few GADs have institutionalised specialized services for water resource management (the Departmental Watershed Service of Cochabamba and the Water Channelling and Pirai River Regulation Service of Santa Cruz) and environment/ protected areas management (the Sustainable Development Secretary of Santa Cruz, the Departmental Service of Protected Areas of Beni). Levels of capacity and availability of resources differ significantly among GADs, with Potosí, Chuquisaca, Beni and Pando ranking as the most vulnerable5. Autonomous Municipal Governments (GAMs, Spanish acronym) have their own development plans, which, while attending local needs, are required to align and contribute to national strategies and plans. Responsibilities of GAMs include, among others, the identification, design and implementation of water management projects, the management of municipal protected areas, and disaster prevention and management. Responsibilities, however, do not always match with the municipal level of capacities, both in technical and financial terms. The recent decrease in hydrocarbon-proceeding income and long procedures for transfers from the national treasury have further complicated GAMs' work. Other key actors within the government structure are the Ministry of Development Planning, through the Vice Ministry of Public Investment and External Financing, because of its role in the coordination of international cooperation, the Ministry of Economy and Public Finance, responsible for allocations of financial resources from the national treasury, and the Vice Ministry of Civil Defence (VIDECI, Spanish acronym) in charge of the response to natural disasters (floods, droughts, fires). As main beneficiaries of investment projects, women and men of ***rural*** communities and indigenous territories take part in the decision making processes and management of natural resources through local watershed management organizations, protected areas management committees, etc. In the valleys, women are typically represented through the strong social and political voice of the Bartolina Sisa group, while in the highlands women traditionally share leadership roles with their husbands according to the chacha-warmi system. Indigenous 5 VIDECI, “Documento Pais Bolivia”, 2014 [6] communities have their traditional ways of relating with nature and benefit from a higher level of autonomy, which often translates in having their own local level development plans. Civil society organisations, including NGOs, women’s groups (such as Bartolina Sisa and the National Confederation of ***Rural***, Indigenous, and Native Women of Bolivia) and organizations working on women’s right (specifically members of the Women’s Alliance in Defence of Mother Earth, and the Women Coordinator), universities and study centres, play a crucial role in providing professional training, research and information dissemination (e.g through pedagogic watersheds), address specific concerns of women and other disadvantaged groups, and at times implement projects directly. The past few years have seen a shrinking operational environment for NGOs, due to both reduced external funding and tighter controls from the government side, but the EU maintains a close collaboration on the basis of its civil society roadmap. Donors participating in the river basin donor group and the GRUS environment sub-group represent a strong voice in policy dialogue and advocacy, besides being a major source of technical and financial support for the implementation of national programmes. Besides the EU, currently Belgium, Sweden, Germany, Switzerland, the World Bank and the Inter-American Development Bank (IDB) financially contribute to the PNC, while Belgium, Germany and Sweden also support the VRHR with technical assistance programmes. Denmark, Switzerland, Japan, IDB and CAF are the main donors to the environment sector, although the Danish programme on forest and protected areas will end in 2017, and the Swiss climate change portfolio will considerably be scaled down in the coming years. Alongside the donors, there are the UN agencies and other actors such as the Foundation for the Development of the Protected Areas National System which attract and canalise additional resources especially in the environment sector. Finally, it is worth mentioning the role of neighbouring countries. For example, the implementation of depuration ***interventions*** on the Peruvian side will be crucial for the success of the Bolivian programme for the environmental sanitation of the Titicaca Lake, while the ***agriculture*** policies in Brazil and Argentina are pushing large scale producers to cross into the Bolivian territory for soy farming. On the other hand, water management on the Bolivian side has important repercussions on neighbouring countries as Bolivia hosts water sources and the upstream part of important Latin American rivers (such as Pilcomayo). While transboundary ***interventions*** are not foreseen under this Action, the benefits will be felt also in downstream countries. 1.1.3 Priority areas for support/problem analysis Bolivia is rich in water resources and biodiversity6, but both climate variability and human activities are impacting on this abundance. Temperature increase, coupled with higher frequency of El Niño phenomenon, is expected to lead to the disappearance of 80 % of the small glaciers in the Andean mountain range in the coming 20 years, with important consequences on water availability and hydrological ecosystems of the high lands, including the Titicaca and Poopó lakes. Since 1970, annual rainfalls have increased by 15 % in the Amazon region and decreased by 20-25 % in the Santa Cruz valleys.7 At the same time, incompliance with land use plans, deforestation (including through illegal bush fires), inadequate planning of human settlements, infrastructure and economic activities, and river course alteration, further increase the physical vulnerability of 6 According to the UN Environment Programme - World Conservation Monitoring Centre, Bolivia ranks 12th in the list of most biodiverse countries. It has 12 ecoregions and 199 ecosystems represented on its territory. 7 VIDECI, “Documento Pais Bolivia”,2014 [7] river basins that already are prone to degradation and erosion due to the sandy nature of their soil at source. As a consequence, frequency and intensity of natural disasters have been increasing and Bolivia has the worst possible value in ECHO natural disaster index. Different ecoregions suffer from different hydro-meteorological hazards (typically floods in low lands, flash floods in the Andean valleys, hailstorms and droughts in the highlands, dry valleys and Chaco region, and landslides in urban areas). Since 2002, on average 100,000 families per year have been affected by natural disasters, mostly in the departments of La Paz, Beni, Pando, Cochabamba and Santa Cruz8. The 2016 drought affected over 400,000 people in the capital city alone. The newly settled neighbourhoods of medium and large cities and the northern low lands (especially the Mamoré, Rio Grande, San Julian and Beni- Itenez and Madre de Dios basins) are the most vulnerable and exposed to floods and landslides. Women are disproportionately affected by natural disasters, such as floods, as a result of gender inequalities regarding political and economic status, human rights, education and health. Competition for scarcer water resources is increasing due to population growth; given the still weak water governance in most basins, social conflicts are on the rise. Practitioners recognize that scarcity and conflicts often cause heavier repercussions on the most disadvantaged population categories, including the poor, ethnic minorities and women. More water and sewage connections in the urban and peri-urban areas, but also inappropriate water use in industrial and mining activities, result in high levels of pollution. Problems are particularly acute in the high lands of the Lake Titicaca – Desaguadero River – Lake Poopò9 – Coipasa Salt Flats (TDPS, Spanish acronym) system where, alongside old environmental liabilities from mining, other types of contamination and water deviation through illegal channels have resulted in rivers and lakes drying up, damages to the ecosystems10, loss of livelihoods and human health problems. In other departments like Cochabamba, Tarija and Sucre local communities have initiated actions to solve land degradation and water scarcity problems but with limited effectiveness due to lack of proper orientation, follow-up and technical assistance under comprehensive and integrated plans. Forests and protected areas are equally object of conflicts and subject to increasing pressure. While deforestation is mainly due to expanding livestock and ***agriculture*** production and creation of new settlements, degradation is linked to wood extraction, mining and fires. Nine11 of the threatened national protected areas, and many sub-national ones, are located in the sub Andean corridor, where most of the country's rivers originate. In the low lands of Santa Cruz, Beni and Pando, protected and forested areas play a crucial role for climate change mitigation and adaptation – by retaining water and humidity and capturing carbon – besides representing a source of food and income opportunities. These environmental functions benefit greatly the ***agriculture*** sector in the Santa Cruz department, source of 70 % of Bolivian ***agriculture*** produce, where approximately 40 % of ***agriculture*** land is at less than 50 km from a protected 8 VIDECI “Documento Pais Bolivia”, 2014, ECHO Integrated Analysis Framework for Bolivia, 2016, and Oxfam “Atlas. Amenazas, vulnerabilidades y riesgos de Bolivia”,2010 9 In October 2015, water quality monitoring revealed high levels of metals, arsenic, clorure, sulfate and ammoniac in the Poopó basin, due to mining activities, and high levels of nitrite due to organic contamination from the urban areas, making water inadequate for human consumption or even irrigation in downriver communities. 10 In the Lake Titicaca the increase in pollution and temperature has caused the growth of algae that, in turn, affect the natural production of forage as well as the habitat of birds, frogs and fishes. 11 Apolobamba, Madidi, Pilon Lajas, TIPNIS, Amboró, Tunari, Tariquía, Aguarague and Iñao. [8] or forested area. This notwithstanding, Santa Cruz suffered 76 % (or over 1.3 million hectares) of the total forest loss experienced by Bolivia in the period 2000-201012. ***Interventions*** in protected and forested areas bring about social consequences as well, as a large part of the forested land overlaps with indigenous territories, and over 30 indigenous groups depend on these areas and their biodiversity for their livelihoods. Despite the announced government efforts to diversify the economy13, ore, gas and soy exports will continue to represent important sources of income for the country. Moreover, investment in most of the economic sectors identified as key in the PDES - energy, infrastructure, hydrocarbon, ***agriculture***, mining and tourism – can have considerable environmental consequences. Therefore, it can be expected that pressure on and conflict for water and other natural resources will continue in the coming years. The MEW will need support to face these challenges. Despite a good environmental legal framework (which includes demanding protection and conservation standards), till date its enforcement has been weak, with poor quality environmental impact assessments, unutilised environmental management plans and low monitoring capacity. Limitations have been due partly to insufficient human and financial resources and partly to an excessive and partially ineffective “licensing approach”, whereby attention was placed on paper-based administrative compliance rather than on ground reality monitoring. There is hope that ongoing reforms will lead to improvements in environment quality management. Another key aspect will be the dialogue with other sectors and institutions whose goals risk reducing the applicability and effectiveness of environmental policies. For example, coordination will be crucial between the MEW and the Ministry of ***Rural*** Development and Land, as they are developing their forestation and ***agriculture*** expansion plans14, respectively, targeting the same areas. Furthermore, in the forest sub-sector, technical and financial support will be needed for communities to manage and benefit from forests under their property. Finally, awareness is low among the population on the importance and benefits of environmental services (as an example, in Bolivia, one third of the population depends on protected areas for their water supplies). Adequate communication to inform the population and engage them in sustainable consumption practices is still missing. 1.2 Other areas of assessment 1.2.1 Fundamental values Bolivia has ratified the main universal treaties and international agreements in the field of human rights. The Constitution and national legal framework provide strong human rights guarantees, including on non-discrimination and fundamental freedoms. In 2013 and 2014 the Government passed new legislation on violence against women, trafficking and sexual violence, family, children and adolescents, and a national plan to address racism and discrimination. The challenge ahead is the effective implementation of these laws. The 2009 Constitution also provided unprecedented protection of the rights of indigenous people and the Afro-Bolivian minority, but natural resource exploitation on indigenous lands remains a main cause of conflict. The 2015 Supreme Decree 2298 modified the conditions for 12 “Mapa de Deforestación de las Tierras Bajas y Yungas de Bolivia 2000-2005-2010”, FAN 2012 13 2016-20 national Social and Economic Development Plan 14 Based on the 2015 ***agriculture*** summit “Sembrando Bolivia”, the plan foresees an increase in ***agriculture*** surface from 3 to 13 million hectares till 2025. [9] consultation with indigenous groups (aligned to the standards set in the International Labour Organization Convention 169) in case of hydrocarbon exploitation activities on their territory, and specifically allowed the competent authority to proceed with the process of obtaining the environmental licence after 45 days, regardless of the realization and outcome of the consultation. The adoption of a law in 2013, imposing a number of new legal requirements for civil society organisations to obtain legal status, was perceived by many as an attempt to restrict and control Bolivia’s broadly-based and active civil society15. Environment organisations have been among the most criticised by the government. Despite the country's legal, regulatory, and institutional framework covers all aspects linked to the enforcement of anti-corruption activities, Bolivia ranks worse than the regional average in terms of corruption, and compared to previous years the situation is deteriorating16. The weak and under-resourced judiciary is vulnerable to political and economic pressures. 1.2.2 Macroeconomic policy According to the IMF, after a decade of substantial economic and social progress, underpinned by sound macroeconomic management, Bolivia is being challenged by low commodity prices. Bolivia recorded strong growth accompanied by a substantial build-up of fiscal and external buffers, and achieved significant reductions in poverty and inequality. However, Bolivia now faces the challenge of adjusting to a scenario of low commodity prices while preserving and building on the economic and social gains achieved in the past. The Central Bank reports a sizable amount of international reserves that equalled almost 31 % of GDP in 2016 (40 % of GDP in 2015), but in an environment where the trade balance continue with growing deficits and an overvalued currency, some forecasts are not as positive as three years ago (i.e growth, total debt, trade balance, NIR, etc.). A 4 % annual inflation rate at end of 2016, a preliminary 6.9 % non-financial public sector fiscal deficit and a non-inflationary GDP growth of 4.3 % were reported. The positive economic context during the last decade has helped in the reduction of moderate and extreme poverty, and inequality. In accordance with the IMF, the Gini coefficient dropped down from 0.62 in 2000 to 0.49 in 2014, while according to the National Institute of Statistics (INE) moderate and extreme poverty rates were reduced from 66 % and 45 % to 38.6 % and 16.8 % in 2015. Bolivia's earnings from hydrocarbons dropped by 41 % in 2015 and 46 % in 201617, erasing the country's 12 years of trade surplus. Oil prices have a delayed effect on natural gas export prices, which explains why Bolivia felt the decrease in commodity prices stepwise. The public sector has been changing at a rapid pace in Bolivia. After 2006 the government reinforced the role of the State, creating a number of new state-owned enterprises (SOEs) and 15 Law n. 351. In May 2015, the United Nations Special Rapporteur on the rights to freedom of peaceful assembly and of association described the law as a restriction on the freedom of association. The Ombudsman appealed to the Constitutional Tribunal, though so far without response. 16 World Bank Governance ***Indicator*** 17 Preliminary figure [10] broadening the influence of the government in all areas, especially in those related to economic and productive activities. The exchange regime is a crawling peg and has not been adjusted since November 2011, which turns it into a 'de facto' fixed regime. The local currency is overvalued. Bolivian economy is considered to be a price-taking, small, open economy. Gross public debt is relatively low in Bolivia, representing 43 % of GDP in 2016 with around 19 % corresponding to external debt. The main creditors are multilateral agencies such as the CAF, IADB and the WB. Following the decline in international oil prices, Bolivia faces several challenges that include reducing the non-hydrocarbons primary deficit, improving the business climate, promoting the non-commodity sectors, streamlining expenditures while increasing their efficiency, ensuring the financial health of SOEs, among others. Based on the analysis performed, the review of the latest IMF Article IV mission and updated information gathered from different relevant sources, it is concluded that the government of Bolivia is pursuing a credible and relevant macroeconomic policy, aimed at stability, promoting fiscal and external sustainability. Nevertheless, important challenges need to be addressed in order to adjust to less favourable external environment. 1.2.3 Public Financial Management (PFM) The Bolivian PFM reform responds to the overriding need to strengthen existing financial management systems so that they contribute to a more effective and efficient management of public resources. The 2009 PEFA assessment was the first step towards this objective; the second step was the drafting and the implementation of an Action Plan for the Improvement of Public Finance Management - PAMGFP (approved in December, 2010). Technically, with 95 % progress, t

he reform plan already concluded but several activities are still under implementation. All the above will lead to a new cycle which should start with a new PEFA assessment that hopefully can be initiated during 2017. The EU, WB and IADB are willing to support the initiative, but an official request has not been yet received. Some specific developments, among others, should be highlighted, such as:  Significant progress on fiscal transparency (according to the IMF)  Elaboration of the new Comprehensive State Planning System - SPIE  Development of the new State System of Public Investment and Financing for Development (SEIF-D)  Elaboration of a Debt Management Improvement Plan based on the WB's DeMPA  Design, development and implementation of the Public Management System (SIGEP)  Elaboration of the new 2016-2020 Economic and Social Development Plan (PDES)  The implementation of the Medium-Term Macro Fiscal Framework in the budgeting process during 2012 - 2017  The preparation of the National Treasury and Public Credit System Bill, the Tax Reform and regulations, the Public Trust Funds bill and the the Organic Law for the Supreme Audit Institution (CGE)  Key gender priorities are integrated into the PDES and funded under the State budget. However, the related expenditure framework is not public and a gender budgeting [11] exercise (for programmes others than gender-specific) is not systematically carried out in Bolivia Improvements in public financial management systems have taken the right direction, without significant external resources, which demonstrate the strong commitment the GoB holds with the reform. The Delegation considers that all improvements, strategies and plans, including PAMGFP drawn from the PEFA study, are relevant and credible. It also raises some concerns regarding the willingness of the GoB of a new PEFA assessment that could corroborate all the improvements in the local public finance system since 2009. Bottom-line, Bolivia is making satisfactory progress in improving its PFM system, which needs to be consolidated in the near future. With the above mentioned information, the Delegation considers that the country remains eligible for Sector Reform Contracts (SRC). 1.2.4 Transparency and oversight of the budget Concerning budgetary transparency, the Ministry of Economy and Public Finance regularly publishes on its website the complete state budget approved by law. Annual reports on budget execution of all Nonfinancial Public Sector (NFPS) disaggregated by entity are also available for revision. In addition, monthly cash flow reports of the Treasury are available to the public. On the other hand, the Fiscal Dossier is uploaded in the ministry´s website portraying information related to the central government, state-owned enterprises, public debt, fiscal balances, and sub-national levels. The quality, integrity and exactness of information are sufficient and it is an example of the improvement of management systems of public institutions, especially those of the Ministry of Economy and Public Finances and the Developing Planning Ministry which coordinates everything concerning the programming of investments and foreign financing. Thus, the government of Bolivia complies with the requirements concerning the eligibility associated to budget transparency. 2 RISKS AND ASSUMPTIONS Risks Risk level (H/M/L) Mitigating measures Low international gas prices reduce government resources and in turn allocations to the environment sector M Policy dialogue with the Government to maintain key investments in the sector. Support the gov.t in the prioritization of key environmental issues thanks to leverage given by the BS programme. Insufficient capacities at local level to articulate and monitor water and environment ***interventions*** lead to H Adequate selection of implementation areas and complementary technical assistance [12] poor results Social conflicts at local level (including on issues related to indigenous people’s rights) delay or hinder programme implementation in specific areas M Strong focus of the programme on governance, policy dialogue with the Government in the field of human/ indigenous rights, and flexibility in the selection of programme implementation sites Extreme climate conditions and mayor natural disasters divert attention and resources M Incorporation of climate/ disaster risk analysis and mitigation measures in both local level planning (municipal plans) and investments (feasibility studies); coordination with VIDECI in case of disasters Poor coordination between MEW viceministries and entities significantly decreases efficiency and effectiveness of ***interventions*** M Centralized technical assistance to ease communication and coordination among stakeholders Inadequate implementation tools inhibit ***performance*** in the environment sub-sector M Technical assistance to the VMA for the development of tools and a ***performance*** assessment framework A gender blind implementation could reinforce existing gender inequalities in the sector and hinder the efficiency and sustainability of the action M Gender awareness training to stakeholders, inclusion of women and women’s organizations in the implementation of the action, introduction of gender-sensitive ***indicators*** to assess progress Assumptions - MEW integrated sector plan and related sub-sector plans and programmes, currently under development, are ready and actionable. - Political commitment to ongoing ***intervention*** is maintained following 2019 presidential elections. - Hydrocarbon exploration and exploitation, as well as other major ***interventions*** (e.g large hydroelectric plants), do not cause major environmental disasters. [13] 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES 3.1 Lessons learnt The experience of past and current Sector Budget Support programmes and Programme Estimates in the areas of river basins and protected areas management has highlighted the need for further integration between the different sub-sectors under MEW’s responsibility. Currently, there is very limited geographical overlapping between ***interventions*** under the National Watershed Plan (PNC) and activities of the Environment Vice Ministry. This has limited synergies and the possibility to work on the close link between environment preservation and conservation and the availability and sustainability of water resources. In consideration of decreasing financial contributions from both national budget and international cooperation, investments need to focus in the geographical areas at higher risks and with greater opportunities, as those more affected by natural disasters, the water sources along the sub Andean corridor, and the forest areas with the highest contribution to the national economy. The most successful actions have been those combining different levels of ***intervention***, from central level (policy) to local level (practical implementation), especially in a context where decentralisation is clear in the laws but only partially implemented in practice. The PNC has developed good practices for decentralised implementation under central supervision and assistance. The 2012 evaluation of the first phase of the PNC praised the progress made in terms of ownership of investments in watershed management by community-level organizations and local governments, and the effectiveness of the technical and administrative guidance delivered by national institutions18. The 2017 evaluation of the second phase of the PNC reiterates the relevance of the policy and the need for its expansion. The EU experience in the Poopó basin19 has revealed the challenges and high costs of preserving or restoring water quality in main mining areas, and developed good practices on livelihood diversification for affected communities. The 2014 floods and 2016 drought have showed the need to increase and expand work on river basin management, adapt ***agriculture*** practices, utilise monitoring and early warning systems (EWS), and implement forestation in river protection areas while reducing uncontrolled and illegal deforestation. Thanks to ECHO and other donors’ ***strategic*** investments in the field of disaster risk reduction (DRR), the Government has adopted a new DRR Law20 and municipalities have started to create their Risk Management Units. However, changing from a merely response-oriented system to broader risk reduction will take time and the capacity building process at municipal and departmental level will require additional support. Information management and usage is still weak, with EWS mostly lacking a component of information dissemination and to trigger response21. The PACSBio programme22 has allowed important improvements in terms of protected areas management and biodiversity conservation, and highlighted the need to target protected areas as part of larger ecosystems rather than isolated units. Complementarily, the work of the Danish cooperation in the forest sector has highlighted the need to focus not only on long term forest protection but also on the most pressing causes of deforestation as ***agriculture*** and 18 Vuurmans, J., P. de Vries y R.Gutierrez, 2012. Evaluación final PNC1. 19 Programme Estimates DCI/ALA/2009/021-614 20 Law n 602, adopted in October 2014 21 ECHO Integrated Analysis Framework for Bolivia, 2016, and VIDECI “Documento Pais Bolivia”, 2014 22 Support Programme for the Sustainable Conservation of Biodiversity, DCI/ALA/2011/022-834 [14] livestock activities. Till date, government-funded reforestation actions have been limited in size and quality, underestimating the importance of proper site planning and technical support to the beneficiary communities. Finally, the current frequency and criticality of conflicts over natural resources is an ***indicator*** of the importance of civil society engagement, through both education / communication actions and participatory planning. In this context, participation of all individuals – men, women, young and elderly – shall be strengthened. The 2017 EU Gender Analysis revealed that, while formal participation takes place as foreseen in the sectorial policy, specific actions targeting women concerns and needs are still limited. Specific measures shall therefore be identified to fulfil the above-mentioned gaps. 3.2 Complementarity, synergy and donor coordination Further to supporting the integration of the water and environment subsectors of the MEW, a number of complementarities and synergies can be identified between this action and the following programmes funded by the EU:  ECHO’s ***interventions*** on disaster risk management: important lessons can be learnt from past projects in drought-affected areas and the presence of ECHO partners in the flood-affected low lands can assist ***intervention*** design at local level. The DRR capacity building project funded by ECHO is a building stone for the governance and investment components of this action.  Other EU Delegation’s budget support programmes: the proposed action may have a geographical overlapping with the food security and integrated development with coca programmes, generating positive mutual reinforcement effects. Coordination and complementarities will be sought, as it has already been the practice with PACSBio programme. Additional synergies could be identified with future ***interventions*** in the sector of sanitation – new budget support programme being designed in 2017. The action will also allow to address increasing environmental issues in the Poopó Lake basin, which has been object of various EU programmes in the past years.  The 2016 call for proposal for Civil Society Organisations (lot 1) and Local Authorities (lot 2)23 with a focus on civil society participation to national policy making and monitoring, and sub-national level governance and planning for the use of natural resources (territorial approach) respectively. Besides reinforcing each other, it is foreseen that an exchange of experiences and good practices will be possible between this action and the projects which resulted from the call for proposals, of which one is focused on making government programmes and budget more gender-sensitive.  EU-funded and UNDP-implemented project on conflict management24: the project aims to strengthen MEW’s capacities in conflict prevention, analysis and resolution, thus contributing to the governance and communication components of this proposed action. Moreover, the project will specifically target some of the areas identified as priority for the proposed action: the Lake Titicaca basin, the Lake Poopó basin and the Tunari national park. 23 Call for Proposals EuropeAid/151790/DD/ACT/BO 24 IFS project 358-830 [15]  Regional programmes LAIF and INPANDES25: both programmes are currently funding studies and small-scale ***interventions*** in the Lake Titicaca basin.  Global programmes EUROCLIMA+ and Biodiversity for Life: should projects be funded in Bolivia under the thematic areas of forests, biodiversity and disaster risk management, these global and regional programmes and the proposed action would complement each other by focusing on different geographical areas, reinforcing results and targeting different types of actors, while working along the same lines and with the same overarching objectives.  Upcoming technical assistance programme to the MEW (under Decision DCI-ALA/2013/025-058): technical assistance will be key to the achievement of the proposed action results, particularly the sub-sectors integration process and the capacity building at local level. The objective of the new TA programme is to contribute to a more effective sector policy funded through sector budget support, by strengthening the Ministry’s capacity to design and implement sector strategies and programmes. The new TA programme is expected to begin in September 2017 (offer evaluation ongoing as of June).  Programme for the Environmental Sanitation of Lake Titicaca: one of the MEW’s flagship initiatives, this programme is mostly funded through a loan from the Inter-American Development Bank (IDB). The proposed action is expected to reinforce the effectiveness of the programme by contributing to its governance and monitoring components. Additional funds from IDB or other donors may be leveraged thanks to this Action.  Potential future ***intervention*** of the European Investment Bank in forestry sector: should negotiations between the Bank and the Government of Bolivia be successful, European institutions may become the main donor to the sector in Bolivia. Complementarities and synergies with other donors and actors will be sought through continuous engagement in the existing donor coordination mechanisms. Under the Joint European Strategy for Bolivia, seven Member States (Belgium, Denmark, France, Germany, Italy, Spain, and Sweden) are involved in the water and environment sector, as well as Switzerland. Ad-hoc meetings are called to coordinate joint European positions if needed vis-a-vis larger donor groups. The Delegation takes part to the PNC and the environment and climate change donor groups. The PNC platform is one of the most effective donors' coordination mechanisms in the country, whose role has been key at crucial times of development of the subsector policy as well as for evaluations and policy reviews. Currently, Belgium, Sweden, Switzerland, Germany are supporting the sector via a basket fund completely aligned to our support through a common ***Performance*** Assessment Framework. Individual programmes by the World Bank and France are also aligning to national priorities and plans. Together with the EU contribution, these financial allocations allow the resourcing of the Vice Ministry of Water Resources’ plan at 75 % till 2020. Within the environment group, maximum coordination has been sought particularly with Denmark and Switzerland, the two countries with the most significant ***interventions*** in this field. Donors´ financial support to the environment subsector saw a reduction in the last 3 years due to progressive withdrawal from the country; currently minor contributions come from Germany and the UN system. The MEW plans to use EU funds also to leverage resources from multilateral funds such as the Global Environment Facility and the Green Climate Fund, which may contribute to mitigate potential lower government allocations to the sector due to reduced hydrocarbons related revenues. 25 DCI/ALA/2013/319-515 and DCI/ALA/2011/022-123, respectively [16] 3.3 Cross-cutting issues Governance (at local level), environment and climate change are targeted as main and significant objectives of this action. Based on lessons from previous experiences, strengthening of governance will be promoted with particular attention to the weaker sub-national level institutions. Both mitigation and adaptation to climate change will be pursued through actions in water and forestry, while a disaster risk management approach is expected to contribute to increasing people and systems resilience. Human rights considerations are embedded in the Bolivian sector policy, which recognises and internationally promotes the right of all human being to water. Considering that the different roles and responsibilities of women and men in water resources use and management are closely linked to environmental changes and water-related risks, an in-depth gender analysis has been carried out at the formulation stage. Based on the recommendations of the study, gender planning will be considered and female participation will be promoted in all decision-making bodies and in investment projects resulting in tangible economic benefits for women. Specifically, the Action will contribute to promote equal access and control over clean water, and equitable engagement in its management26, through both mainstreaming of gender considerations in local level investment planning (as already foreseen in the national policy guidelines) and specific actions aimed at piloting approaches for effective women participation (***indicator*** 5). Moreover, the programme will support the recovery and use of local knowledge and solutions, where gender and age perspectives are included through a mixed composition of the responsible government teams (***indicator*** 5). Access to information and participation of local population, and especially vulnerable groups such as disabled people, will be promoted to the extent possible, in line with the EU right-based approach. 4 DESCRIPTION OF THE ACTION This action takes place in the framework provided by the MIP 2017-2020 for Bolivia, focal area 3 'Water, sanitation and natural resource management'. It will support the implementation of the new Integrated Sector Plan of the MEW, the PSDI, which was formally approved at the end of January 2017. Specifically, the programme will support the PSDI components related to water governance, integrated basin management and disaster risk reduction (already included in the National Basins Plan), reforestation/ regeneration, protection of key areas (such as national parks), community-based forestry and sustainable use of biodiversity. Monitoring, women's participation and sensitization/ education actions will be additional horizontal themes. 4.1 Objectives/results This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG targets 6 (“Ensure access to water and sanitation for all”) and 15 (“Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss”), but also promotes progress towards Goals 5 (gender equality), 12 (“Ensure sustainable consumption and production patterns”) and 13 (“Take urgent action to combat 26 Objective n. 16 of the EU Gender Action Plan II [17] climate change and is impacts”). This does not imply a commitment by the country benefiting from this programme. General objective To improve sustainable and climate-resilient management of natural resources, including forests and their biodiversity, ensuring availability of quality water and the protection of critical ecosystems (MIP 2017-20, sector 3, SO2). Specific objective To improve water governance and management of water-related risks, integrated forest management, and protection and sustainable use of critical ecosystems (MIP 2017-20, sector 3, ERs 2 and 3). Expected Results ER1: improved governance of natural resources at local level ER2: increased climate resilience to water-related natural disasters in selected areas ER3: continued investment for protection and sustainable use and management of natural resource, leading to climate change mitigation and adaptation and biodiversity preservation ER4: functioning monitoring systems for water quality, forest and protected areas ER5: increased knowledge and improved practices of the general population in relation to water and environment 4.2 Main activities 4.2.1 Budget support The main activities to implement the budget support package are policy dialogue, financial transfer, ***performance*** assessment and reporting. Additional activities related to capacity development will be undertaken under a separate technical assistance programmes, funded under the Financing Agreement DCI-ALA/2013/025-058. Main activities will include: - Transfer of up to EUR 51 million over the period 2017-2021; - Continued policy dialogue with the Government with a particular focus on areas reflected in the programme's objectives; - Policy dialogue with sector institutions to advance in achieving gender equality within sectoral ***interventions***, and to follow a rights-based approach; - Regular monitoring of progress towards expected results and other budget support eligibility criteria; - Coordination with the donors in the water and environment and climate change sector, and particularly the related working group under the Joint European Strategy, in order to avoid duplication of activities, identify potential synergies and relieving the Government from multiple reporting duties; - Continued effort to reinforce Government's capacities in the context of complementary support programmes. [18] 4.3 ***Intervention*** logic The action focuses on renewable natural resources. Water availability and environment protection are closely linked and interdependent. Water provision is one of the main environmental functions played by forests, together with soil conservation, climate regulation and air purification. Similarly, water management actions can not only be effective if they target the elements of water, soil and forest jointly, thus including soil recuperation, planning of land use and forest coverage into the programming. This action aims to improve year round availability and quality of water by protecting its main sources, sustainably managing and/or restoring its physical spaces (basins) and regulating its uses, and to benefit communities through the sustainable use of natural resources and biodiversity (e.g of non-timber forest products of the protected areas) and equitable gain sharing with appropriate governance mechanisms. As specific to the modality of budget support, the EU inputs will be in terms of financial contributions (yearly disbursements based on ***performance***) and technical advice through both policy dialogue conducted by the Delegation’s own staff and contracted support (through a complementary technical assistance programme). The expected direct outputs of these inputs are the increased financing of the sector, better quality of the public policy and enhanced coordination among actors of the sector. In the programme’s ***intervention*** logic, it is expected that the MEW will manage its financial and technical resources to improve sector governance, sub-national level capacities, sustainable management of its natural resources, water quality in key basins, resilience to climate risks and information management – corresponding to the programme’s induced outputs – and through them, achieve the specific and overall objectives. The programme components, corresponding to its expected results, will focus on the geographical areas offering the most needed environmental services: the main water sources of the country and the areas with highest forest coverage capturing carbon. The Andean corridor (also affected by significant soil erosion processes) is the place of origin of the main country’s rivers, while in the highlands water needs are met through wetlands. Most of the latter – including Lake Titicaca and Lake Poopó – are also identified as biodiversity hotspots and included in the RAMSAR Convention. The forested areas of the lowlands act as Bolivia’s lungs and are the most vulnerable vis-a-vis the development agenda. In the context of climate change adaptation, the zones most affected by natural disasters will also be targeted with locally-adapted resilience actions. Water basins, forests and protected areas will be considered in their relation with needs of the population, namely assessing the specific needs of women and men, and economic activities, as part of functioning ecosystems (or “life zones” as per Bolivian definition) to be managed at local level in line with a territorial approach. Efforts will be made to maximise benefits to the most disadvantaged groups, including women, in line with the overall Bolivian government’s objective of reducing poverty levels. 5 IMPLEMENTATION 5.1 Financing agreement In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Budget Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. [19] 5.2 Indicative implementation period The indicative operational implementation period of this action, during which the activities described in section 4.12 will be carried out and the corresponding contracts and agreements implemented, is 48 months (plus 24 months for closure) from the date where financing agreement is concluded. Extensions of the implementation period may be agreed by the Commission’s authorising officer by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute Budget technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 Implementation of the budget support component 5.3.1 Rationale for the amounts allocated to budget support The amount allocated for budget support component is EUR 51 million. This is in line with the support offered by the EU to Bolivia in the past eight years in the field of river basin management and environment and represents 7 % of the estimated budget for the implementation of environment and basin-related actions under the PSDI. This represents a relative reduction27, mainly due to the ambitiousness of the sector plan, requiring significant financial resources, and the increasing financial responsibility of the Bolivian government. No amount is allocated for complementary support as this is foreseen under a separate action and Financing Agreement (ref section 4 – complementarities). The proposed amount includes a fixed tranche (to be disbursed at the end of 2017 after signature of the FA) and three variable tranches (in 2019-21). Based on this timing the only overlap with ongoing programmes would be between the fixed tranche of the proposed action and the last variable tranche of the FA 025-046 in support to the National Basin Plan. Given the greater scope of this new action, this is not considered a problem. Conditions and ***indicators*** are designed as to avoid double financing of specific results/actions. The timing of the variable tranches (starting in 2019) will also allow the MEW to recalculate the baselines for the proposed ***indicators***. As per geographical areas, the coverage of the new programme is expected to be national as in the case of previous budget support programmes, although the analysis of government plans already indicates some priority areas such as the Poopó and Titicaca lake basins, and Amboró and Tunari national parks, which have also been object of EU support in the previous years. 5.3.2 Criteria for disbursement of budget support a) The general conditions for disbursement of all tranches are as follows: - Satisfactory progress in the implementation of the relevant public policy (the PSDI) and continued credibility and relevance thereof. Particular emphasis will be placed on: the coordination for the design and implementation of integrated actions by VRHR and VMA; the implementation of the capacity building plan; and coordination for policy coherence with Ministry of ***Rural*** Development and Land, Ministry of Mining, and Ministry of Energy; 27 Budget support operations in the sub-sector of water resource management have contributed 21% to the PNC budget for 2013-8, while the PACSBio programme was covering up to 60% of SERNAP’s financial needs. [20] - Satisfactory progress in the maintenance of stable macroeconomic-oriented policies; - Satisfactory progress in the implementation of its program to improve public financial management; - Continued satisfactory public availability of timely, comprehensive and sound budgetary information. b) The specific conditions for disbursement of the variable tranches are related to the level of achievement of the ***performance*** ***indicators***: Programme results ***Indicators*** ER1: improved governance of natural resources at local level Hydric and environmental governance in zonas de vida index Environmental ***performance*** index of hydrocarbon activities in protected areas Cumulative number of municipalities with adequate capacity for water and environment management ER2: increased climate resilience to water-related natural disasters in selected areas Cumulative number of municipalities with a functioning hydrological early warning system Cumulative number of hectares of areas protected against floods ER3: continued investment for protection and sustainable use and management of natural resource, leading to climate change mitigation and adaptation and biodiversity preservation Deforestation control and integrated fire management indexes Number of zonas de vida with integrated water management, forest and/or biodiversity conservation actions Number of sustainable management modalities which achieved the agreed target (including soil conservation measures) Index of implementation and financing of sector programmes ER4: functioning monitoring systems for water quality, forest and protected areas Water quality management index Index of implementation of a national information and monitoring system for water and environment ER5: increased knowledge and improved practices of the general population in relation to water and environment Number of actions for the recovery of local knowledge for solidary and equitable management of sistemas de vidas [21] Each ***indicator*** is described in details in Annex 1 of the Technical and Administrative Procedures – “***Performance*** ***Indicators*** for Disbursement”. Additional impact-related ***indicators*** (such as those included in the AD logical framework) will be monitored through the annual Government reports on the sector policy implementation. It shall be noted that gender-specific actions and targets are foreseen under ***indicator*** 5, through the sub-***indicators*** “number of gender analysis” and “number of projects with gender focus” – please refer to Annex 1 of the TAPs. The ***performance*** targets and ***indicators*** to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the MEW may submit a request to the Commission for the targets and ***indicators*** to be changed. The changes agreed to the targets and ***indicators*** may be authorised by exchange of letters between the two parties. In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement. 5.3.3 Budget support details Budget support will be provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Bolivian pesos will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement. 5.4 Implementation modalities It does not apply as there is no complementary support. 5.5 Scope of geographical eligibility for procurement and grants It does not apply as no procurement or grant contracts are foreseen. 5.6 Indicative budget EU contribution (amount in EUR) Indicative third party contribution, in currency identified 5.3 Budget support - Sector Reform Contract 51 000 000 - 5.9–Evaluation, 5.10 – Audit - N.A Contingencies - N.A Totals 51 000 000 - [22] 5.7 Organisational set-up and responsibilities The implementing partner of the action will be the Government of Bolivia, and specifically the MEW, VRHR and VMA. The MEW may sign inter-governmental agreements with departments, municipalities and specialised entities for delegating implementation responsibilities. Overall action coordination, monitoring and reporting duties will lay with the Planning Department of MEW. 5.8 ***Performance*** monitoring and reporting The disbursement of the tranches will depend on compliance with the eligibility criteria mentioned under section 5.3.2 For each of the mentioned ***indicators***, the baseline will be defined by the Government – Ministry of Environment and Water, with information available from national statistics as well as the Ministry’s own information management system. Moreover, the national policy’s ***Performance*** Assessment Frameworks will enable the ***strategic*** monitoring of sector policy in conjunction with the government of Bolivia and donors, a process already ongoing within the PNC framework and to be agreed upon for the overall sector policy. ***Performance*** assessment exercises are expected to take place yearly with a review of results achieved in Y-1. Institutional and capacity assessments will be part of the Delegation’s policy progress reports, and policy dialogue issues will be reported as part of BS disbursement dossiers. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate annual progress reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the list of result ***indicators***. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.9 Evaluation Having regard to the nature of the action (budget support), evaluations may be carried out for this action or its components through a joint mission with the partner country. The Commission may, during implementation, decide to undertake an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner [23] country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. 5.10 Audit Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. 5.11 Communication and visibility Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6above In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. No specific contracts for communication and visibility are foreseen under this action. The Delegation will conclude a contract under another decision for communication and visibility of its overall portfolio of operations in Bolivia.

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[***Gender Equality in Land Rights, Ownership Vital to Realizing 2030 Agenda, Women’s Commission Hears amid Calls for Data Collection on Tenure Security***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RX7-CHT1-JDG9-Y17R-00000-00&context=1516831)

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**Body**

New York: United Nations has issued the following press release:

Unless gender equality extended to land rights and ownership, the 2030 Agenda for Sustainable Development would become an impossible vision, the Commission on the Status of Women heard today during a panel discussion, continuing its sixty-second session. The landscape needed focused attention, panellists agreed. Nearly half the world resided in ***rural*** areas, with one third depending on ***agriculture*** for survival. Yet, of 161 countries surveyed, only 37 had specific laws granting equal rights for men and women to own, use and control land. Indeed, landlessness was among the best predictors of poverty, said Tzili Mor, of the Board of the International Action Network for Gender Equity and Law.

Of urgent concern was that women had been excluded from owning property in many communities around the world, lacking the same rights as men. Moreover, as some participants pointed out, even when land rights for women existed, some were afraid to stake their claims. To address those and other concerns, panellists outlined challenges and proposed strategies of converting pledges made in international instruments to progress on the ground. Ms. Mor was among several expert panellists leading the interactive discussion on the role of ***rural*** women’s land rights and land tenure security in reaching the Sustainable Development Goals. She said advancing women’s land rights could catalyse progress to empowering women. Providing several examples, she said reducing the gap between laws and implementation was a way to trigger progress, as was leveraging the Sustainable Development Goals’ land ***indicators***. Suggesting additional ways to address land-related concerns, Rea Abada Chiongson, Senior Legal Adviser on Gender at the International Development Law Organization, said efforts must ensure ***rural*** women’s participation in developing and implementing laws and policies. Land ownership was vital and educating people about their rights was equally important, said Yolanda Teran Maigua, Coordinator of Education and Culture, Indigenous Women's Network on Biodiversity from Latin America and the Caribbean. Agreeing, Naela Gabr, Member of the Committee on the Elimination of Discrimination against Women (CEDAW), said tools to help countries to realize the 2030 Agenda included aligning national legislation with Goal 5, on gender equality, and addressing gender disparities of land ownership, access to credit and participation in political decision-making bodies. Data collection on those issues remained key, said Robert Ndugwa, Officer-in-charge of the Global Urban Observatory Unit in the Research and Capacity Development Branch of UN-Habitat. Of more than 200 ***indicators*** involved with the 2030 Agenda, some focused exclusively on ***rural*** women for the first time, including land rights. Underlining the importance of supporting data collection on tenure security and gender-based rights, he said Governments and stakeholders must support data collection to enable the creation of a strong evidence base that could be used for discussions at future sessions of the Commission on the Status of Women. In the afternoon, the Commission held a panel discussion on innovative data approaches for measuring progress on gender equality and women’s empowerment. Experts examined themes including gig data and the modernization of national statistical systems, data governance and the role of State and non-State actors in supporting gender equality. The Commission on the Status of Women will meet again at 10 a.m on Monday, 19 March, to continue its work. Interactive Panel 1 In the morning, the Commission held a panel on “The role of ***rural*** women’s land rights and land tenure security in reaching the Sustainable Development Goals”, chaired by Commission Vice-Chair Shah Asif Rahman (Bangladesh). Presentations were made by: Naela Gabr, Member of the Committee on the Elimination of Discrimination against Women (CEDAW); Tzili Mor, of the Board of the International Action Network for Gender Equity and Law; Yolanda Teran Maigua, Coordinator of Education and Culture, Indigenous Women's Network on Biodiversity from Latin America and the Caribbean; Rea Abada Chiongson, Senior Legal Adviser on Gender at the International Development Law Organization; and Robert Ndugwa, Officer-in-Charge of the Global Urban Observatory Unit in the Research and Capacity Development Branch of UN-Habitat. At the outset of the panel, Alicia Buenrostro Massieu (Mexico), Chair of the Commission on Narcotic Drugs, addressed participants via videoconference. Ms. BUENROSTRO MASSIEU explained how gender perspectives were mainstreamed in ongoing efforts, emphasizing that achieving gender equality was a common goal. Expressing her appreciation for the Commission on the Status of Women and its guidance on related issues, she said the Narcotic Drugs Commission had adopted resolutions on such issues and had stepped up efforts to make progress on Sustainable Development Goal 5. Alternative development initiatives implemented by the United Nations Office on Drugs and Crime (UNODC) had a strong gender component, empowering ***rural*** communities while ensuring that men and women benefited equally from ***interventions***. They often included targeted ***interventions*** to foster women’s empowerment and entrepreneurship, such as supporting women’s business groups by providing vocational training and start-up grants. Mr. RAHMAN, introducing the panellists, encouraged participants to examine how different stakeholders could ensure ***rural*** women’s rights to land and tenure security, provide examples of national efforts and show evidence of how those issues contributed to the achievement of the Sustainable Development Goals. Ms. GABR said recommendations for progress included encouraging States to adopt legislation, awareness-raising and policies to achieve ***rural*** women’s substantive equality. In taking such measures, she emphasized that a low percentage of ***agricultural*** land was owned by women, while a high percentage of ***rural*** women made up the world’s ***agricultural*** labour force. Environmental degradation was another pressing issue that harmed production, affected food security and encouraged migration. Pointing to a microcredit project in Egypt as an example of protecting women’s land rights and tenure security, she said the international community must take action. Tools to help countries realize the 2030 Agenda for Sustainable Development included aligning national legislation with Goal 5 and addressing gender disparities of land ownership, access to credit and participation in political decision-making bodies. Ms. MOR said nearly half the world resided in ***rural*** areas, with one third of people depending on ***agriculture***. Landlessness was among the best predictors of poverty, and women had been excluded from owning property in many communities. As such, they lacked the same rights as men. Advancing women’s land rights could help empower women, she said, providing several examples, including filling the normative gap with a binding legal framework defining land rights. Indigenous peoples had made some progress, but no clear framework existed alongside an accountability vacuum. Reducing the gap between laws and implementation was another way to trigger progress, as was leveraging the Sustainable Development Goals’ land ***indicators***. Combining a development approach with a human rights-based one was essential. She suggested a closer examination of related issues, including land conservation, pointing out that most of the world’s 6,000 national parks and 100,000 protected places had been created by the removal of tribal and indigenous peoples. Ensuring secure land rights for ***rural*** women and their communities could ignite one of the most promising sparks for catalysing positive development and human rights outcomes. Ms. TERAN MAIGUA said Mother Earth was the bedrock of life. Throughout the year, indigenous peoples implemented ancestral practices that respected Earth. Indigenous peoples also had rights, she said, presenting a slideshow of ways land was used in farming. Turning to the Sustainable Development Goals, she said none had explicitly mentioned indigenous peoples. However, all the Goals were interlinked and formed part of a broad vision to ensure that the needs of ***rural*** indigenous women were addressed. Women’s rights were enshrined in international instruments, but action was needed to ensure progress on the ground. Citing a number of challenges, she said mobile phones, for instance, were expensive in some areas, where costs would be $100 when the average daily income was $1. In addition, all women required access to education at all levels, as well as quality and culturally-sensitive health services, including sexual and reproductive health. Land ownership was vital, she said, emphasizing the importance of women’s full participation in the drafting of agreements and policies. Ms. ABADA CHIONGSON said land represented economic and social assets, with ownership rights having broad development impacts. Discriminatory laws and policies, for example, constrained ***rural*** women’s rights to land. Of 161 countries, only 37 had specific laws granting equal rights for men and women to own, use and control land. Implementation gaps often resulted from a failure to consider the interaction between different policies and how they collectively affected women’s land rights. Titling and registration programmes often required processes that were inaccessible to ***rural*** women who had limited time, money and networks to engage with administrative bodies. Problems also arose between formal and informal legal systems, whereby overlapping rights, contradictory rules and competing authorities threatened women’s land rights. For instance, a neglected area of inquiry was between customary law and statutory law. Sometimes, the marginalization of customary law worked against women, as when formalization programmes did not recognize various tenure systems. To address those concerns, efforts must ensure ***rural*** women’s participation in developing and implementing laws and policies. In addition, gender-relevant data must be collected and considered, women’s access to justice must be improved and more resources provided. Mr. NDUGWA said land, a key resource for ***rural*** women, had been the focus of data ***indicators*** to monitor development achievements. Of more than 200 ***indicators*** involved with the 2030 Agenda, some exclusively targeted ***rural*** women for the first time, including their land rights. Until now, such ***indicators*** had not been broadly monitored, leaving policies mismatched with investments based on scant information. He underlined the importance of supporting data collection of flagship ***indicators***, including on tenure security and gender-based rights. Raising several issues that deserved close attention, he said Governments and stakeholders must support data collection so as to enable the creation of a strong evidence base that could be discussed at future sessions of the Commission on the Status of Women. New tools now examined the male-female dichotomy in household surveys, with a view to providing more meaningful results, supported by new technologies, such as geospatial studies, to gather more detailed information. Much work remained to be done, however, with all stakeholders, from Governments to civil society groups, playing their part. Following the presentations, participants provided national examples of achievements and challenges. Iran’s representative said her Government had allocated land to ***rural*** women cooperatives to support their productivity as important members of society. Colombia’s delegate said land ownership and reform had benefited women, particularly those who had been displaced by conflict. Many participants agreed that strengthening land rights for women was vital to achieving progress on the Sustainable Development Goals. More must be done to enhance ***rural*** women’s understanding of the process of land titling and ownership, Switzerland’s representative said, describing her country’s support for projects with Governments and civil society groups in developing nations. Holistic approaches were needed as well. A representative of Public Services International said well-funded public services must include a gender perspective. Women’s right to land meant nothing without respect for their rights to justice, education and human rights. Some said scant data had been a barrier to shaping effective policy. The representative of the United Republic of Tanzania, noting that Member States must come up with viable solutions to enhance data collection to inform policies, asked how best that could be done. Others noted that even when rights existed, women were afraid to act, with Egypt’s representative asking the panel how best to empower women to fully enjoy their rights without any fears. Ms. GABR responded that, with regard to legal literacy, non-governmental organizations and Government partners must help women become fully aware of their rights. Spotlighting examples of ways that was being done, she said further efforts were needed. For its part, CEDAW was exploring ways to implement the 2030 Agenda to ensure the protection and promotion of ***rural*** women’s rights. Ms. ABADA CHIONGSON, describing the interconnectedness of the 2030 Agenda Goals, said the links had been examined and it was clear that some were mutually beneficial. Women must be empowered to take their own rights into their hands and efforts must continue in that regard. Offering one example of action, she said access to justice must be ensured. Mr. NDUGWA said current guides on land ***indicators*** were ready for the next phase in the collection of information led by a multi-stakeholder approach. That included internalizing those ***indicators*** and participating in the data collection and validation, which required national-level engagement focused on local, national and global reporting. To advance efforts, he said local projects should be supported. Ms. MOR said the Food and ***Agriculture*** Organization (FAO) had already unrolled a new related data collection module. Answering a question on land expropriation, she said Governments, for their part, should hold corporations accountable outside their countries, while host countries should act to prevent exploitation. Going forward, she said addressing land degradation was key. Ms. TERAN MAIGUA underlined the importance of effectively educating people about their rights. When a person understood her own rights, there was a freedom to pursue them. Education was vital, especially for women. Educating women meant educating a nation. Qualitative and quantitative data must better inform decision making. Also participating in the dialogue were representatives of Kenya, Mexico, Gambia and Zambia. The following two non-governmental organizations also participated: Women’s Freedom and Democracy and Catholic Women of Australia. Interactive Panel 2 This afternoon, the Commission held a second interactive expert panel, on the theme “Innovative data approaches for measuring progress on gender equality and women's empowerment”. Chaired by Commission Vice-Chair Koki Muli Grignon (Kenya), it featured five panellists: Steve Macfeely, Head of Statistics, United Nations Conference on Trade and Development (UNCTAD); Jaime Sebastian Lobo Tovar, National Administrative Department of Statistics of Colombia; Nandini Chami, Senior Research Associate, IT for Change; Nnenna Nwakanma, Senior Policy Manager, World Wide Web Foundation; and Irena Krizman, co-Chair of ISI Statistical Capacity Building Committee. Ms. GRIGNON, at the outset, said the need to advance the availability of gender statistics and their use — especially in the context of achieving the Sustainable Development Goals — was an important part of the session’s review of its 2003 Agreed Conclusions on women’s access to and participation in media and information and communications technology (ICT). Noting that information was currently available for less than one quarter of the ***indicators*** needed to monitor the gender-specific elements of the Goals, she asked panellists to assess lessons learned and actions needed to improve the production, analysis and dissemination of gender data in the context of monitoring and implementing the 2030 Agenda; identify best practices for using ICTs in monitoring the implementation of global, regional and national commitments around gender equality and women’s empowerment; and examine how data governance in the digital age could be strengthened to empower women and girls everywhere. Mr. MACFEELY, noting that there were 232 ***indicators*** selected to monitor the implementation of the Sustainable Development Goals — compared to only 60 for Millennium Development Goals — said those were ranked according to how much was known about them and how much related data were available. As data remained unavailable for many of those ***indicators***, a main question was whether global ***performance*** in implementing the new Goals would be better or worse than that in implementing the previous Goals. There existed not only a digital divide but a “data divide” between developed and developing countries, with the latter often struggling to collect information. That gap also existed in the case of “big data”, he said, which emerged from almost every facet of modern life — from the use of credit cards to security surveillance, and from cellular phones, science technology and GPS to online shopping. Pointing out that the “wiki experience” in which people generated their own data had shifted the conversation, he nevertheless warned against the assumption that data were widely accessible to all or that they accurately represented the world. Many new challenges were emerging in the governance and use of data, he said, adding that new norms and standards had yet to be enshrined and more thought should be given to ethical and privacy issues. “We need to be really careful,” he stressed. Mr. LOBO TOVAR, noting that the body he led was charged with Colombia’s national data collection, said its work fell under the National Statistics Plan. Some of its considerations included the use of smart data, management capacity and the role of big data. Regarding the latter, new methodologies had been designed to complement more traditional data sources, with major innovations emerging in the areas of gender mainstreaming and analysis. For example, big data had helped the Government study various facets of gender-based violence, resulting in more targeted responses and victim support structures. One main goal was to identify and spotlight the gender dimension of violence, he said. Ms. CHAMI said one lofty goal elaborated by the United Nations was that “no one should be able to say we didn’t know” about development challenges. That put pressure on data collection, she said, calling for efforts to capitalize on the big data revolution to ensure a robust policy response that promoted equal rights for women and girls everywhere. However, she warned against submitting to the “big data dogma”, including the idea that it could fully capture a full view of the world. Big data was not completely representative in nature, and it was important to remember that the global gender digital divide showed no signs of receding. Citing examples where the use of big data had proven challenging or misleading, she asked how big data could instead be deployed to improve global understanding of women’s and girls’ lives. “Small” and traditional data, including census data, still remained critical, and experts must guard against discriminatory or exclusive results in data stemming from lack of representation. Calling on Governments to put in place strong transparency standards to ensure broad representation, she added that women’s individual privacy must also be safeguarded. Ms. NWAKANMA, recalling that 12 March 2018 had marked the twenty-ninth anniversary of the Internet, said today’s data explosion was a direct result of that historic innovation. Nevertheless, the divide between those who had Internet access and those who did not was deepening inequalities and posing serious global threats. “To be offline today is to be excluded from the opportunities to learn, earn, access valuable services and participate in democratic debate,” she stressed, adding that about 50 per cent of the world’s population still lacked access, most of them women. In response, she said, a group of organizations had joined together under the umbrella of the Africa Data Consensus, which called for data to be legally and technically open to everyone by default. Noting that countries in Africa were embracing more communities into their data systems, she said it was working to develop a Consolidated Africa Gender Index and ensure all women and girls were able to realize their right to access information. In 2016, a group of women shea butter producers had attended the National Data Forum in Côte d’Ivoire, where they had stressed the need for on-the-ground data “that matters to us”, such as how many shea producers died annually from snake bites in the course of their work. “Data is not what matters, what matters is every woman,” she concluded. Ms. KRIZMAN joined other speakers in raising questions about the ethical principles underlying statistics used to measure development targets around the world. A report titled, A World That Counts had proposed a set of standards in that regard and the European Union had recently agreed on a new general data protection regulation. In her native Slovenia, good administrative infrastructure had also been an excellent source of disaggregated data, she said, drawing attention to the role of national statistical offices, especially in the area of gender statistics where they frequently lagged behind. In many developing countries, she continued, methodological challenges, limited resources and generally weak institutional capacity often threatened the collection of quality data. Multi-stakeholder and cross-sectoral partnerships that involved the private sector could help address some of those challenges, she said, citing one relevant example from Slovenia. Calling for political support and strong national commitments to smart, gender-informed policymaking, she urged gender experts to learn to speak the language of policymakers. In the ensuing dialogue, several speakers echoed the panellists’ concerns about a global tendency to overinflate the importance of big data. Some warned that, instead of seeing big data as a “fashionable trend”, it must be harnessed as a tool to complement traditional data and provide new insights where possible. Many delegates also outlined their Governments’ efforts to integrate big data into national statistical systems and further disaggregate information based on gender. A number of speakers also described innovative projects — aimed at promoting gender equality and empowering women — that were inspired by big and “small” data. A representative of We Power (Israel) said her group was engaged in a project meant to influence cities and other municipalities to promote women to leadership positions. We Power had used big data collected at the local level to learn more about women in management and senior leadership positions, including in private companies and on city boards of directors. That information was gathered, analysed and then used to publish a country-wide index on gender gaps. Moreover, municipalities received a rating on their degree of female leadership, which served as an incentive structure as cities competed to get the best scores. A representative of the group Project 1948 Foundation (Bosnia and Herzegovina) said her organization donated cameras to women to help magnify their experiences, providing both a form of therapy and empowerment. Its Photo Voice project also employed predictive networks and other innovative technological tools and was working to build the capacity of evidence-based policymaking structures. The representative of Afghanistan described her Government’s establishment of a television channel — run largely by women — which reported exclusively on women’s issues. She asked the panellists to provide examples of other countries that had used traditional media to draw attention to gender-related topics, and how Afghanistan’s women’s channel could achieve better results. Several delegates also voiced concern about challenges their countries faced in developing the capacity to collect useful data aligned with the global development agenda, or posed questions to the panellists on related administrative and technical issues. In that vein, the representative of Namibia said hers was among the many countries struggling with generating gender-disaggregated data. While her Government was working to harmonize its national surveys with the Sustainable Development Goal ***indicators***, she asked the panellists to provide more information on the use of administrative data sources. The representative of Canada, noting that her country was committed to pursuing feminist policies across its work, asked the panellists for their opinions on how to integrate big data and gender equality objectives — which often fell under the auspices of different national ministries — at the Government level. Ms. KRIZMA, responding to that question, said in Slovenia the national statistical office led the way on gathering all data, including those related to gender. Various interministerial committees had been established on specific topics, she said, noting that one met monthly on media-related issues, tackling such topics as gender inclusion. In response to the question posed by the representative of Namibia, she said that while Slovenia had decided to do away with its national census, relying more on administrative data sources required excellent organization and posed different challenges for its statisticians. On the question about media and gender, Ms. NWAKANMA shared case studies from Indonesia, Côte d’Ivoire and Ghana, while Ms. CHAMI said that in India — home to a vibrant civil society — there were numerous examples of intersections between traditional media and community journalists in the promotion of gender equality.

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Single Support Framework for EU support to Armenia

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  Single Support Framework for Armenia 2017-2020

Introduction

The Republic of Armenia (further referred to as Armenia) is a lower middle-income country with a projected GDP per capita of USD 3,511[1] in 2016 with a resident population of 2.9[2] million people. There is alsoa large historical Armenian diaspora all over the world.

Armenia’s economic ***performance*** has slowed down from a growth rate of7% GDP in 2012 to nearly 0% in 2016. This was largely due to the economic crisis in Russia as well as structural challenges within Armenia.The consequences of the conflict over Nagorno-Karabakh also weigh heavily on the economic development.

Armenia'sunemployment rate is estimated to have reached18.8% in 2016[3]. Unemployment and lack of economic opportunities have contributed to significant emigration. Remittances from migrant workers play an important role for Armenia’s economy, constituting 16.1% of GDP in 2015 and 14.3% in 2016[4].

The geography of poverty in Armenia shows substantial gaps between the capital city of Yerevan (25.6%) and other urban areas (39.4%). Today the key social challenges that Armenia faces are – unemployment (18.8% in 2016); poverty (29.8% in 2015[5]); and emigration (1% annuallyin the last five years).

Despite the country's commitments to ensuring the rule of law and positive recent achievements,challenges remainin the area of good governance, rule of law and democracy and further efforts are needed for the application of international commitments related to respect to human rightsand the independence of the judiciary. Armenia ranked 106 out of 140 countries in judicial independence in the Global Competitiveness Report 2016. Armenia has shown modest progress in the Worldwide Governance ***Indicators***, notably in regulatory quality and control of corruption, but there has been regression between 2013 and 2015 on Government Effectiveness, while the country remains 'partly free' according to Freedom House 2016 ratings, given the many media freedom challenges.

In 2015, Armenia voted for aconstitutional reformin a referendum. The new Constitution will modify the current semi-presidential model of government into a parliamentary one. In December2015, the EU and Armenia opened negotiations on a new agreement to replace the 1999 EU-Armenia Partnership and Cooperation Agreement. In March 2017, Armenia and EU initialled the new Comprehensive and Enhanced Partnership Agreement (CEPA).

Following electoral reforms, which were agreed in 2016 by Government of Armenia,the opposition and civil society,the parliamentary elections held in April 2017 werewell-administered and fundamental freedoms were generally respected; however, as noted by the election observation mission, important shortcomings remained (including vote-buying and misuse of administrative resources), which contributed to an overall lack of public confidence and trust. Further commitment to implementing electoral reform is needed to address this.

1.       EU Response

  1.1 ***Strategic*** objectives of the EU's relationship with the partner country

The stabilisation and resilience of neighbouring countries are the EU's main political priorities outlined in the European Neighbourhood Policy (ENP) review[6]of November 2015 and in the Global Strategyfor the European Union’s Foreign and Security Policyof 29 June 2016. The framework for EU-Armenia relations is embodied in the above-mentioned CEPA.

The priorities and indicative allocations for financial assistance to be included in the Single Support Framework for 2017-2020(SSF) are directly linked to the policy objectives outlined in the EU-Armenia Partnership Priorities, the priorities identified during the Riga Summit, the '20 Deliverables for 2020'[7], as well as tothe Joint Programming[8]which is also building on the Republic of Armenia’s Government Programme 2016.

EU's cooperation with Armenia aims at supportingthe country'sresilience, security and prosperitybuilt on democracy, human rights, rule of law and sustainable economic growthand its connection with the EU and the region through enhanced connectivity and mobility and people-to-people contacts.

1.2       Choice of sectors of ***intervention***

The sectors of ***intervention*** in the SSF 2014-17 were private sector development, public administration reform and justice reform. The first of these objectives was well served by the projects that developed the equity financing and improved the organisation of ***agriculture***, but a need for further support to economic development remains. Similarly, the public administrative reform registered an important success in the electoral reform and has helped establish a strategy for further work, which will be addressed under the priority 'strengthening institutions, where also the findings of the recent peer review of the Armenian judiciary may be addressed to build on the achievements of the previous period.

The priority sectors reflect the revised ENPand the Partnership Priorities,and are coherent with the Eastern Partnership priorities set in Riga and withthe'Eastern Partnership Deliverables'.

The SSF identifies key actions within these priority areas and ismoreover in line withthe key global policy goals set by the UN 2030Sustainable Development Goals and the Paris Agreement on Climate Change. Gender equality, care for vulnerable populations, civil society participation and environment and climate issues are mainstreamed across the sectors.

Consultations have taken place with the Government, Civil Society Organisations, multilateral and bilateral donors including EU Member States, International Financial Institutions and International Organisations. The choice of priority sectors has also been guided by theEU Joint Analysis[9], presented to the Government in October 2016.

The indicative budget allocations reflect the focus on delivering tangible and visible results for citizens. In order to maximize the impact of EU assistance both in terms of promoting sustainable change and reforms and ensuring visible improvements in the daily life of citizens, a cluster of ***interventions*** could be focused on specific regions of Armenia, whilst recognising sustainable development and reform needs across the wholeterritory.Specific efforts will be made to foster communication on EU policies and support..

To enhance the impact and visibility of EU support, the EU will identify, together with the Government of Armenia, one or two pilot regions. In each pilot region, the EU will aim to concentrate support from a number of cross-sectoral initiatives to maximise impact. This will also allow new initiatives to be piloted in the selected regions, where appropriate.

The approach of pilot regions does not mean that EU assistance will be limited to these regions. It will permit concentration of EU support, where appropriate.The aim is to ensure that EU support is as close to citizens as possible.

The sectors selected for support are:

Sector 1:         Economic development and market opportunities

(indicatively 35% of total budget)

Given the economic growth constraints facing Armenia, including the economic crisis in Russia and its effects on the country, further improvements in the business environment, including fair competition between economic actors, easier access to finance with appropriate financial infrastructure, and development of human capital are necessary to ensure sustainable and inclusive economic growth.

Continued improvement of the business environment with sound economic governance, level playing field and non-discriminatory support to industries with high sustainable economic growth potential and value-added is the key to economic development. Moreover, the transition to a more green and circular economy could not only boost competitiveness, but also provide new jobs.Finally, better cross-border interconnections are important for fostering exports.

Sector 2:         Strengthening institutions and good governance

(indicatively 15% of total budget)

The necessary structural reforms require political stability and governance capacities. There are several important general constraints to the country’s sustainable growth linked to flaws in governance, including: in the functioning of judicial system; respect of human rights; the corruption situation; and the inefficient public administration, including at local government level. Additionally, civil society and media should be further supported to build their capacities, in their efforts to strengthen rule of law and  fighteffectively against corruption.

Sector 3:         Connectivity, energy efficiency, environment and climate change(indicatively 15% of total budget)

Reforming the energy sector in Armenia has the potential to bolster Armenia’s resilience and economic development as well as protect the environment and reduce dependenceon external energy sources[10].Improved energy efficiency and increased use of renewable energy sources wouldallow Armenia to save up to 4% GDP.The Metsamor nuclear power plant contributes to around one third of total electricity generation in Armenia, however itcannot be upgraded to meet internationally recognised nuclear safety standards and itsclosure and safe decommissioning remains a key objective for the EU.

In the area of transport, investment projects on the TEN-T core network will be prioritised. Armenia has committed to cooperate inan EU-launched study to determine the most optimal investment scenario to improve the core road links between Armenia and Georgia. Road safety also needs improvement, with nearly600 people killed in accidents every year.Furthermore, to ensure effective connections and market development, in March 2017 the negotiations between Armenia and the EU on a Comprehensive Air Transport Agreement have been launched; this is also a potential target for support.

Armenia is still in transition towards a full and competitive market economy and facing environmental challenges that require immediate attention.There is also a need to better integrate environment into all other policy areasand strengthen environmental governance and achieve better public access to environmental information in the policy making process.   Improvements in this field can have a positive spill-over effect on numerous sectors of economy, especially ***agriculture*** and tourism.

Sector 4:         Mobility and people-to-people contacts

(indicatively 15% of total budget)

The EU-Armenia Visa Facilitation and Readmission agreements, in force since 2014,and the Mobility Partnership with the EU are overall effectively implemented. The parties shall continue to promote mobility of citizens through visa facilitation and consider in due course the opening of a visa dialogue, provided that conditions for well-managed and secure mobility are in place.

Development of stronger ties between the labour market and the education system and between the private sector and research should be further enhanced in Armenia to support smart and sustainable economic development. Armenia isa committed member of the Bologna process and is actively engaged in the Erasmus+ programme, but further attention must be paid to the quality of education.

Armenia is also associated to Horizon 2020, the EU’s research and innovation funding programme, with access for Armenia’s research institutes, universities and individual researches to funding, particularly through the SME Instrument.

The regional and multi-country programmes will continue to provide key complementary support to implement results for citizens in the context of the key areas of cooperation agreed in Riga and the regional multiannual indicative plan.

* Financial overview

The indicative allocation for 2014-2020 is EUR 252,000,000 to EUR 308,000,000.

For the programming period 2017 - 2020 it is EUR 144,000,000 to EUR 176,000,000.

The indicative breakdown by sector is the following:

|  |  |  |
| --- | --- | --- |
|  | Indicative amounts | Indicative % of total bilateral allocations |
| 1.Economic development and market opportunities | EUR 50,400,000 ? 61,600,000 | 35 % |
| 2.Strengthening institutions and good governance | EUR 21,600,000 ? 26,400,000 | 15 % |
| 3.Connectivity, energy efficiency, environment and climate change | EUR 21,600,000 ? 26,400,000 | 15% |
| 4.Mobility and people-to-people contacts | EUR 21,600,000 ? 26,400,000 | 15 % |
| Complementary support for capacity development/institution building and ***strategic*** communication | EUR 21,600,000 ? 26,400,000 | 15 % |
| Complementary support for civil society development | EUR 7,200,000 ? 8,800,000 | 5 % |

Armenia may also benefit from allocations under the umbrella programmes. Such allocations will be granted on the basis of progress towards deep and sustainable democracy and agreed reform objectives contributing to the attainment of that goal.

Armenia is also eligible for support under a number of other EU instruments, such as the Instrument contributing to Stability and Peace, Humanitarian Aid, the Partnership Instrument, the European Instrument for Democracy and Human Rights, the Instrument for Nuclear Safety Cooperation, Macro-Financial Assistance, Development Co-operation Instrument thematic programmes and external actions under EU internal programmes for research and innovation, energy, transport, education and youth, and culture.

* EU support per sector

3.1Economic development and market opportunities (35%)

3.1.1    The following overall and specific objectives will be pursued:

Theoverall objective is enhancing economic resilience and promoting inclusive and sustainable growth.

Specific objectivesinclude:

* further enhance Armenia’s business environment and investment climate;

1. support Small and Medium Sized Enterprises (SMEs) with special emphasis on sectors with high value-added, high growth potential in the regions and in ***agriculture***, while ensuring a level playing field;
2. enhance human capital, including through better links between the education system and the labour market;
3. enhance Armenia's trade links in order to integrate the Armenian producers into  the international value chains;
4. support structural reforms and economic governance in close cooperation with the IMF and World Bank;
5. support the development of green and circular economy;
6. support the development of innovative digital economyand the harmonization with the EU's Digital Single Market.

3.1.2    The main expectedresults include:

* improved business environment, including fair competition between economic actors; improved financial infrastructure;

1. enhanced access to finance and business advisory services; more balanced and inclusive development of the economy in the regions; increased diversification of the agro-food sector; increased farmer income in selected regions through improved competitiveness and diversification of production;
2. improved skills and competences of work force; improved mechanisms to match labour supply with demand;
3. increased integration of the Armenian economy into regional and international markets, by securing and facilitating trade through simplified trade procedures and enhanced border agency cooperation;
4. strengthened macro-financial stability, public finance management, and budget transparency;
5. improved regulatory framework and enabling environment for transition to a greener and more circular economy;
6. enhancedharmonisation ofArmenia's digital market with the EU's Digital Single Market.

3.1.3    The main ***indicators*** are:

* established and functioning public-private dialogue platform;

1. improved score in international rankings for business environment;
2. financial services meeting business needs;
3. affordability of financial services;
4. number of alternative sources of financing for SMEs;
5. number of SMEs benefitting from EU assistance;
6. number of client-oriented business support organisations providing to their SME development services in relations to the global market requirements;
7. number of ***agricultural*** SMEs benefitting from finance; number of banks offering ***agricultural*** credit;
8. reduction of the dominance of exports of the main exported products of agro-food products; increase in the average monthly income of ***rural*** households in selected areas;
9. ease of finding skilled employees; rate of employment;
10. percentage of trade with neighbouring countries;
11. GDP growth;
12. number of actions implemented towards circular economies;
13. independence of the telecom regulator; level of harmonisation on eCommerce, eCustoms and eLogistics;
14. well-structured, mapped and interconnected ICT innovation and start-up eco-systems.

3.1.4    Donor coordination andpolicy dialogue

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated by the Deputy Prime Minister through the development partners’ forum organized on a quarterly basis, and different thematic donor groups (economic development and regional development). The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on shared recommendations. In particular, at the technical level, donors have agreed on a “joint analysis” in the sector of regional development.

In addition to the EU and its Member States, WB, ADB, USAID, UN are involved in direct support to SMEs and industrial sector development with special emphasis on ***agriculture***, and continue investing in education (especially higher education).

3.1.5    Armenia’sfinancial and policy commitments

The Government Program adopted in October 2016 contains commitments in support to further improvements in the business environment, promotion of restructuring and development in ***agriculture*** sector and broader support to the SME development in Armenia; investment in education at all levels; labour force mobility and linkages with Armenians abroad, as well as Armenia’s integration to regional and international markets. These themes also feature as priorities in Armenia’s National Development Strategy.

Specific relevant sectorial strategies include the Annual Programmes on the Improvement of Business Environment; the Annual State Programmes for SME State Support; Export-Led Industrial Policy; Investment Policy Concept; Strategy of Reform of the Quality Infrastructure; IT Sector Development Concept Note; the E-Governance Strategy Plan from 2014; the Concept Note on the Digitalization of the Activities of Local Self-Government Bodies in Armenia and the Development of Information Society, also from 2014; Education Development State Programme (in process of finalizing); the Concept Paper on the Initial Strategy for Formation of the Innovation Economy (2011); the Strategy on the Development of Science in Armenia for 2011-2020; Priorities for Development of Science and Technologies for 2015-2019; Employment Strategy for 2013-2018 and the Armenian Regional Development Strategy adopted in 2016.

Government’s fiscal commitment to support reforms under this priority is reflected in the Medium Term Expenditure Framework (MTEF); 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance. Special attention is to be paid to establishing a unified system for the Government and Development Partners / IFIs on identification, selection, prioritization, and financing of the infrastructure projects.

3.1.6    When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out according to EU standards. These environmental assessments will be used with a view to ensure approach to implementing EU financing actions in environmentally sustainable and resource efficient way while contributing to sustainable development.

3.1.7    The overall risk assessment of the sector ***intervention*** is:

The main risk to achieving progress vis-à-vis the above-defined objectives is the lack of government commitment to the promotion and coordination of the relevant policy measures especially concerning business environment and fair play. In addition, the limited interest and capacity for involvement of the key stakeholders, such as enterprises, their associations, youth, academia and civil society at large poses a further risk that needs to be controlled in the context of the EU involvement in this priority sector. Moreover, any further regional tensions and conflicts could undermine socio-economic stability in Armenia and therefore also pose a threat to the achievement of the objectives within this priority sector.

The above-mentioned risks need to be carefully monitored. Risk mitigation can include:

* Close cooperation and ongoing policy dialogue with the Government especially on joint priorities to be agreed within the new legal framework between the EU and Armenia, including monitoring of the Government's fiscal commitment;

1. Enhanced cooperation among Armenia’s Development Partners, EU Member States and the EU Delegation to Armenia including through continuous commitment to the Joint Analysis process, regular exchange of information and coordination;
2. Engagementnot only with the government but also with the main target groups – entrepreneurs and their associations, youth groups and academia, civil society organizations. Capacity building support and knowledge transfer to them;
3. Effective use of various aid modalities, such as budget support, twinning, technical assistance, and grants.

3.2Strengthening institutions and good governance, the rule of law and security (15%)

3.2.1    The following overall and specific objectives will be pursued:

Theoverall objective is the improvement of good governance through public administration[11] reforms at central and local levels including evidence-based decision-making, human rights promotion, independent, efficient and predictable judiciary, and fight against corruption.

Specific objectivesinclude:

* support reforms and capacity development in public administration in line with the Principles of Public Administration;

1. support implementation of efficient and democratic structure of administrative-territorial organization;
2. support further strengthening of efficiency and predictability of the judiciary;
3. improve democratic governance, including on elections, and fight against corruption;
4. increase capacity in fighting organised crime, including money laundering and cybercrime;
5. support statistical services to produce high quality official statistics.

3.2.2    For each of the specific objectives the main expected results are:

* the Principles of Public Administration are implemented in selected areas; services meet the needs of the citizens and are provided in an efficient way including through further advancement of e-solutions;

1. functional and sustainable local government units established through the measures of further consolidation and decentralization; ***performance*** and capacity of local government units strengthened;
2. the independence of the judiciary is strengthened; the judicial system becomes more efficient and predictable;
3. functional system of fight against corruption including a system for asset-declaration and for preventing conflict of interest is in place; enhanced protection of human rights;
4. increased capacity to fight organised crime including with effective asset recovery and financial investigation tools; money laundering legislation is effectively implemented, enhanced capacity to fight cybercrime;
5. the availability and quality of official statistics is improved and supports improved policy making and governance; improved and increased usage of official statistics for evidence-based decision-making;
6. enhance transparency of civil society support in Armenia and emphasize accountability towards beneficiaries.

3.2.3    The main indicatorsare:

* extent of compliance with the Principle of Public Administration;

1. citizens satisfaction with service delivery;
2. number of municipalities; judicial independence;
3. backlog of civil and criminal cases;
4. independent anti-corruption institution fully operational;
5. number of asset declarations introduced and verified;
6. number of corruption cases reported; Global Gender Gap Index;
7. number of human rights cases brought to Court and examined within regulated timeframe;
8. track record of convictions for organized crime, trafficking and smuggling offences;
9. level of international police cooperation for fighting against cybercrime.

3.2.4    Donor coordination and policy dialogue

While donor coordination in this sector requires further improvement, the efforts of Development Partners have been well coordinated by the Deputy Prime Minister through the development partners’ forum organized on a quarterly basis, and its development assistance coordination group on democratic governance. The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on a shared recommendations. In particular, at the technical level, donors have agreed on a “joint analysis” in the sector of public finance management, public administration reform and gender.

Reforms in public administration and service delivery, public financial management, administrative-territorial administration, judiciary as well as anti-corruption efforts are the key areas of the EU involvement in Armenia. Also other major Development Partners present in Armenia continue to support this sector.

Policy Dialogue is also taking place in the framework of the PCA sub-committee and within the steering committee meetings of sectoral budget support programmes.

3.2.5 Armenia’s financial and policy commitments

Specific objectives proposed under this priority are in line with the Government of Armenia policy including the Government Program adopted in October 2016. Reforms in public administration, including service delivery, based on trusted statistics, and electronic governance, public financial management, justice sector development and anti-corruption are included in the Armenia Development Strategy as priorities. With the adoption of the new Constitution in 2015, Armenia has entered into a new phase of reforms. This reform will lead to significant changes in public administration system with increasing role for the Parliament / Government vis-à-vis that of the President. There is no strategy for institutional reforms in public administration, but there is Civil Service Strategy, E-Governance Strategy, PFM System Reform Strategy 2016-2020, Anti-Corruption Strategy 2015-2018, Open Government Action Plan 2016-2018, ***Strategic*** Programme on Legal and Judicial Reforms in Armenia for 2012-2016, the Statistical Law of the National Statistical Service of the Republic of Armenia of 2001 and the Programme for State Statistical Work for the period 2016-2018. The Concept on Enlargement of Municipalities and Intercommunity Cooperation adopted by the Government in November 2011 foresees gradual enlargement of municipalities through consolidation.

Government’s fiscal commitment to support reforms under this priority will have to be regularly monitored and assessed within the MTEF, and 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance.

3.2.6    When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried according to EU standards out as part of annual programming of financing actions under this priority sector.

3.2.7    The overall risk assessment of the sector ***intervention*** is:

The main risks to achieving a successful sector ***intervention*** are related to ensuring a consistent government commitment to reforms in public administration, but especially in the judicial sector, fighting corruption and promoting human rights as well as the lack of resources for modernising the statistical service and the statistical system of Armenia. Political will to ensure transparent, open and truly inclusive decision-making represents another risk area. Overall, any further regional tensions and conflict could undermine socio-economic stability in Armenia and therefore also pose a risk on achievement of objectives within this priority sector.

Risk mitigation can include policy dialogue with the Government, including monitoring of the Government's fiscal commitment, and close coordination among the Development Partners and other stakeholders. Particular risk mitigating factor could be enhanced support to cross-cutting measures (civil society capacity development; promotion of gender equality; addressing corruption risks; engaging with youth; involving Diaspora; and ensuring ***strategic*** communication of the EU role and support).

3.3Connectivity, energy efficiency, environment and climate change (15%)

3.3.1    The following overall and specific objectives will be pursued:

Theoverall objectiveis to support development of the transport, energy and environment sectors through the enhancement of sectoral governance and policies, regional connectivity, energy efficiency,use of renewable energy, and environment and climate action policy.

Specific objectivesinclude:

* improve sectoralgovernance in transport and energy (including nuclear safety);

1. improve energy efficiency and usage of renewable energysources;
2. prioritise infrastructure investment in line with the extended core TEN-T;
3. develop the potential of the aviation sector (Open Skies Policy);
4. enhance environmental protection and resilience.

3.3.2    For each of the specific objectives the main expected results are:

* institutional structure informing the Government investment planning fully operational; improved road safety; improved energy sector governance; implementation of the Stress Tests nuclear safety upgrades,early adoption of a roadmap for the closure and safe decommissioning of Medsamor nuclear power plant;

1. enhancedenergy efficiency; increased share of energyfrom renewable sources in the energy mix;
2. improved infrastructure taking into account the extended core TEN-T;
3. improved accessibility of Armenia;
4. enhancedenvironmental governance; enhanced support to green growth; improved waste management; improvedwater and wastewater management.

3.3.3    The main indicatorsare:

* number of fatalities due to road accidents reduced;

1. energy data management system established and  functioning at the central and local levels;
2. standards and instruments for measuring energy efficiency projects of buildings are in place and applied;
3. share of renewable energy sources in total power generation;
4. increased number of passengers flying to and from Armenia;
5. improved on-line access to data and state of the environment analysis;
6. percentage of cost savings realised by enterprises due to cleaner production;
7. number of inhabitants covered by waste/separate waste collection;
8. number of inhabitants connected to main potable water and wastewater systems.

3.3.4    Donor coordination and policy dialogue

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated through the transport and energy thematic donor groups gathering International Financial Institutions present in Armenia and the EU Delegation, which is also providing targeted technical assistance including on prioritization of the investment pipeline.Other opportunities of cooperation with IFIs could be explored by means of increased coordination making use of blending, e.g in the areas of SME support, transport and energy / energy efficiency.

3.3.5    Armenia’sfinancial and policy commitments

Specific objectives proposed under this priority are in line with the Government policy, including the Government Program adopted in October 2016. It emphasizes energy independence and advancing of renewable energy as well as promotion of energy efficiency measures and energy inter-connectivity with other countries of the region.

Government’s fiscal commitment to support reforms under this priority is reflected in the MTEF;the 2018-2020 / 2019-2021 / 2020-2022 MTEFs will be of particular relevance.

3.3.6    When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out according to EU standards as part of annual programming of financing actions under this priority sector.

3.3.7    The overall risk assessment of the sector ***intervention*** is:

In this investment intensive sector, the main risks are linked to governance, in particular the strategy and prioritization of investments. As the borrowing capacity of the Government of Armenia is limited (reduced fiscal space), it is of high importance to focus on investments that generate sustainable growth and that leverage private sector involvement through transparent and competitive Public Private Partnerships. The effort to ensure optimal regional integration both for transport (TEN-T) and energy corridors is also critical to optimize investments. In Energy, a major risk or missed opportunity would be to underinvest in energy efficiency and renewables, whereas in transport a key risk could be to build infrastructures that do not integrate well into the agreed indicative TEN-T network.

3.4Mobility and people-to-people contacts (15%)

3.4.1    The following overall and specific objectives will be pursued:

Theoverall objective is to facilitate movement of people,diversify professional cross-regional networks as well as empower the young generation. In addition, create better links between research and innovationactors and the business community, and between education and the labour market.

Specific objectivesinclude:

* support to the Mobility Partnership and the future potential visa liberalisation dialogue;

1. improve border management system;
2. modernise the education system, improve skills and competences development and support enhancing Vocational Education and Training;
3. supportto innovation development.

3.4.2    For each of the specific objectives the main expected results are:

* gradual implementation of the visa liberalisation benchmarks based on a visa liberalisation Action Plan and continued implementation of the Mobility Partnership;

1. enhanced mobility through integrated border management;
2. strengthened quality of vocational education and training; enhanced employability of graduates;
3. enhanced research, innovation and commercialisation; improved research and innovation ecosystem.

3.4.3    The main indicatorsare:

* track record of implementation of EU-Armenia Visa Facilitation and Readmission Agreements, including number of reintegrated migrants maintained;

1. continued implementation of the Mobility Partnership;
2. modernised border crossing points in Meghri;
3. proportion of population having completed at least upper secondary educations;
4. percentage of VET graduated in employment or further study after 6 months of graduation;
5. number of Armenian institutions or companies participating in Horizon 2020;
6. smart specialisation strategies identifying key priorities for economic modernisation developed.

3.4.4    Donor coordination and policy dialogue

The EU-Armenia Visa facilitation and Readmission agreements came into force in January 2014. The CEPA stipulates that the parties shall continue to promote mobility of citizens through visa facilitation and consider in due course the opening of a visa dialogue provided the condition for well managed and secure mobility are in place. European Union has been strongly engaged in the reforms in a number of areas such as Justice, Migration and Border management. The EU4Innovation initiative in the Eastern Partnership looks to consolidate EU support in the area of innovation.

While donor coordination in this sector requires further improvement, the efforts of Armenia cooperation partners have been well coordinated by the Deputy Prime Minister through the development partners’ forum organized on a quarterly basis, and different thematic donor groups (social services; migration and asylum management; and gender). The EU Joint analysis conducted in 2016 under Joint Programming offers a good basis to further support coordination and complementary of stakeholders building on a shared recommendations. In particular, at the technical level, donors have agreed on a “joint analysis” in the sector of migration and border management.

3.4.5    Armenia’sfinancial and policy commitments

The Armenian Ministry of Foreign Affairs, as the national co-ordinator for this process, has done a preliminary analysis of requirements in the area of Visa Liberalisation. This analysis will be used to start addressing the requirements as soon as the Commission elaborates the Action Plan upon request from the EU Member States and presents it to Armenia. Thus, in the mid-term perspective, government priorities are likely to be influenced by the possible advent of the Visa Liberalisation Action Plan.

Armenia will have to fulfil a number of requirements in the fields of document security, illegal migration, public order and security (including anti-corruption, money laundering, international legal cooperation, and data protection) and fundamental human rights.

3.4.6    When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried outaccording to EU standards as part of annual programming of financing actions under this priority sector.

3.4.7    The overall risk assessment of the sector ***intervention*** is:

The main risk to achieving progress vis-à-vis the above-defined objectives is the lack of government commitment to promotion and coordination of the relevant policy measures and criteria,especially regardingthe future potential Visa Liberation Dialogue. This risk will be mitigated through policy dialogue, including monitoring of the Government's fiscal commitment.

3.5 Complementary support for capacity development and institution building (indicative 15% of total budget)

Capacity development and institution building measures will be integrated into sector reforms where necessary. In addition to sector-related assistance, this complementary provision for capacity development and institution building activities will address the implementation of priority commitments deriving from EU agreements or emerging challenges that are not covered under the three principal priority sectors.

Capacity development and institution building activities – either through sector-related assistance or from this complementary provision – may also address participation in EU programmes and in the work of EU agencies.Furthermore, the complementary provision will participate to foster communication on EU policies and activities in Armenia.

    3.6 Measures in favour of civil society (indicative 5% of total budget)

In addition to sector specific support additional measures to support civil society will be made available under this complementary envelope. Funding from this component will be geared towards strengthening the role of civil society in policy processes and accountability systems in other sectors than the priority sectors. This can include measures aiming to strengthen the CSOs’ overall organisational capacity, to improve CSOs’ financial sustainability through diversification of funds and capacity building, to promote purposeful and effective interaction between CSOs and other stakeholders, and to improve CSOs’ ***performance*** in terms of service provision and engagement with beneficiaries.

Actions supported through this envelope are meant to address a broader range of civil society actors, including by reaching out to smaller and newer organisations particularly outside the capital city, or working on confidence- and peace-building activities in conflict and post-conflict situations. Pursuing tangible results for citizens, support to develop technical knowledge and expertise will go hand in hand with efforts to capitalise on the added value of civil society work.

* Complementary support for capacity development/institution building and ***strategic*** communication (indicatively 15% of total budget)

The complementary provision for capacity development and institution building activities will address the implementation of priority commitments deriving from agreements with the EU or other emerging needs. Such measures will explicitly support sector reforms with a focus on government challenges.Funding under this heading may also facilitate participation in EU programmes and in the work of EU agencies.

Furthermore, through this complementary support communication on EU policies and assistance will be fostered, with a focus on effective communicationwith various audiences and on reducing the risk of fragmented communication. Support will also be provided to the emergence and consolidation of sustainable independent media.

* Complementary support to civil society (indicatively 5% of total budget)

In addition to sector specific support, measures to support civil society will be made available. These will be geared towards promoting the development of social enterprises, and strengthening the role of civil society in contributing to and monitoring implementation of policy processes and accountability systems in sectors other than the priority sectors, including on confidence- and peace-building activities in conflict and post-conflict situations.This can include measures aiming to strengthen the CSOs’ overall organisational capacity, to improve CSOs’ financial sustainability through diversification of funds and capacity building, to promote purposeful and effective interaction between CSOs and other stakeholders, and to improve CSOs’ ***performance*** in terms of service provision and engagement with beneficiaries.

* Complementary and reinforced support at regional level

The regional and multi-country programmes will continue to provide key complementary support to implement results to citizens in the context of the EaP priorities set in Riga and the regional multi-annual indicative plan. With regards to strengthening market opportunities, support will continue under the EU4Business Initiative the EU4Business Initiative to strengthen the business friendly regulatory environment, as well as EU4Digital, which will provide support to strengthening the digital economy within and across the region. It also includes complementary programmes in the area of governance targeting specific needs from the security sector to the rule of law. Support to strengthening the international and regional connectivity agenda including on transport in line with the TEN-T network, energy and climate change and the environment will be provided both through relevant regional programmes (i.e EU4Energy) as well as the Neighbourhood Investments Facility. Similarly, EU4Youth as well as continued programmes such as Erasmus+ will continue to benefit the mobility and people to people contacts.

Attachments

* Sector of ***intervention*** framework and ***performance*** ***indicators*** (see template in annex)

* Indicative timetable for commitment of funds (see template in annex)

Attachment 1.   Sector of ***intervention*** framework

Sector 1:         Economic development and market opportunities

Specific objective 1:    Further enhance Armenia’s business environment and investment climate

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| --- | --- | --- |
| Expected Outcomes | ***Indicators*** | Means of verification |
| a) Improved business environment including fair competition between economic actors | 1) WB Doing Business ranking (baseline 2017: 38 out of 189) 2) SME Policy Index: (1) regulatory framework for SMEs, (2) operational environment for SMEs and (3) support services to SMEs and start-ups, baseline 2015: (1) 3.38, (2) 4.05, (3) 3.93 3) Established and functioning public-private dialogue platform (\*)[12] 4) Industrial production Index (NACE Rev. 2) (2010=100) ? 143.1 (2015) | WB Doing Business,   OECD SBA assessment Report,   Government accountability report   ESTAT |
| b) Improved financial infrastructure | 1) Financial services meeting business needs (Global Competitiveness Report, baseline 2016-2017: 99 out of 138) 2) Affordability of financial services (Global Competitiveness Report, baseline 2016-2017: 87 out of 138) 3) Number of alternative sources financing for SMEs (\*) | Government accountability report,   Reports of the Central Bank,   SME Survey Global Competitiveness Report |
| Specific objective 2: Support SMEs with special emphasis on sectors with high value-added, high growth potential in the regions and in ***agriculture***, while ensuring a level playing field |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Enhanced access to finance and business advisory services | 1) Number of SMEs benefitting from EU assistance (\*) 2) Number of client-oriented business support organisations providing to their SME members with business development services in relation to the global market requirements 3) Contribution to GDP (baseline 2012: 40%) 4) Economic complexity index 5) Number of ***agricultural*** SMEs benefiting from finance 6) Number of banks offering ***agricultural*** credit | National Statistics,   Government accountability report, Atlas of Economic Complexity |
| b) More balanced and inclusive development of the economy in the regions | 1) Regional share in Armenia GDP in the region 2) Implementation of regional development strategies through projects | National Statistics |
| c) Increased diversification of the agro-food sector | Reduction of the dominance of exports of the main exported products in relation to overall exports of agro-food products | National statistics |
| d) Increased farmer income in selected regions through improved competitiveness and diversification of production | Increase in the average monthly income of ***rural*** households in selected areas | National statistics |
| Specific objective 3: Enhance human capital, including through  better links between the education system and the labour market |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved skills and competences of work force | 1) Ease of finding skilled employees? male and female | Global Competitiveness Report |
| b) Improved mechanisms to match labour supply with demand | 1) Rate of employment (baseline 2015: 50,9%) 2) Rate of economically active population (baseline 2015: 62,5%)? male and female 3)Labour Market Information System (LMIS) accessibility to providers of education, social partners and wider population (\*) 4) Satisfaction rate of the LMIS direct users (\*) 5) Economic Activity Rate (15-64) % ? 65.1 (2015) ? males and females | ESTAT |

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| Specific objective 4: Enhance the links of Armenia?s production and trade potential to the value chains of regional and international markets |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Increased integration of Armenian trade into regional and international markets | 1) Index of Export market penetration 2) Volume of exported goods (baseline 2015: 1,487 mil USD) 3) Percentage of trade with neighbouring countries (12% 2016) | WB report WITS,   National statistics |
| Specific objective 5: Support structural reforms and economic governance in close cooperation with the IMF and World Bank |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Strengthened macro-financial stability, public finance management, and budget transparency | 1) GDP growth (baseline 2016: 2.4) 2) Public and publicly guaranteed debt (baseline 2016: 54.7% of GDP) 3) Current account balance (percent of GDP, negative 2.9) 4) Score of PEFA report (Public Expenditure and Financial Accountability) 5) World Bank Budget Transparency Index | National statistics,   IMF and WB reports |
| Specific objective 6: Support the development of green and circular economy |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved regulatory framework and enabling environment for transition to circular economy | 1) Number of actions implemented towards circular economy | Reports |
| Specific objective 7: Support the development of innovative digital economy and the harmonisation with the EU's Digital Single Market |  |  |
| a) Enhanced harmonization of Armenia?s digital markets with the EU's Digital Single Market | 1) Independence of the telecom regulator; progress in spectrum coordination and roaming pricing harmonisation; 2) Pilot for cross-border eSignature and cross-border eServices for businesses; establishment of a CERT - Computer Emergency Response Team; 3) Level of harmonisation on eCommerce, eCustoms and eLogistics legislation; pilot for cross-border eTrade; 4) National coalition for digital skills and jobs in place; 5) Well-structured, mapped and interconnected  ICT innovation and startup ecosystems; 6) Level of harmonisation in eHealth legislation; pilot for cross-border eHealth. | European Commission, DG CONNECT, DG NEAR Relevant AM ministries, agencies EaP Panel on Harmonisation of Digital Markets EU4Digital Implementation Monitoring Reports Studies, national AM statistics. |

Sector 2:         Strengthening institutions and good governance

Specific objective 1:    Support reforms and capacity development in public administration in line with the Principles of Public Administration

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| --- | --- | --- | --- |
| Expected Results | ***Indicators*** | Means of verification |  |
| a)The Principles of Public Administration are implemented in selected areas | 1) Extent of compliance with the Principles of Public Administration 2) Government effectiveness (baseline 2015: 49 percentile rank) 3) Regulatory quality (baseline 2015: 61 percentile rank) | Assessment Report   World Bank Worldwide Governance ***Indicators*** report SIGMA inputs |  |
| b) Services meet the needs of the citizens and are provided in an efficient way including through further advancement of e-solutions | 1) Citizen satisfaction with service delivery | Armenia country survey |  |
| Specific objective 2: Support implementation of efficient and democratic structure of administrative-territorial organization |  |  |  |
| Expected Results | ***Indicators*** | Means of verification |  |
| a) Functional and sustainable local government units established through the measures of further consolidation and decentralization | 1) Number of municipalities 2) Number of decentralized functions | National Statistics |  |
| b) ***Performance*** and capacity of local government units strengthened | 1) Local Democratic Governance (baseline 2016: 5,75 out of 7) | Freedom House, Nations in Transit Report |  |
| Specific objective 3: Support further strengthening of efficiency and predictability of the judiciary |  |  |  |
| Expected Results | ***Indicators*** | Means of verification |  |
| a) The independence of the judiciary is strengthened | 1) Judicial Independence (baseline 2016-17: 101 out of 138) | Global Competitiveness Report Peer Review Mission Report |  |
| b)The judicial system becomes more efficient and predictable | 1) Backlog of civil and criminal cases (\*) 2) Case disposition time (\*) | Government accountability Report Peer Review Mission Report |  |
| Specific objective 4:Improve democratic governance and fight against corruption |  |  |  |
| Expected Results | ***Indicators*** | Means of verification |  |
| a)Functional system to fight against corruption including asset-declaration and mechanism to prevent conflict of interest in place | 1) Independent anti-corruption institution fully operational (\*) 2) Worldwide governance ***indicator*** and TI Corruption Perception Index (baseline 2015: 35 out of 100) 3) Continued implementation of OECD-ACN and GRECO recommendations (3rd-4th monitoring rounds), including in relation to business integrity and public procurement. 4) Number of asset declarations introduced and verified 5) Number of corruption cases reported, disaggregated by source (State or non-State actors), as well as number of investigations and convictions of these cases. 6) Asset Recovery Office in place with track record for identification, freezing, management and confiscation of unjustified wealth (number of cases and value). | Government accountability report   Worldwide Governance ***Indicator*** and Transparency International report   GRECO and OECD Anticorruption network (Istanbul Anti- Corruption action Plan) reports   Justice, Freedom and Security sub-committee meetings   Reports by the Police and Anti-Corruption Council |  |
| b) Enhanced protection of human rights | 1) Global Gender Gap Index (baseline 2015: 102 out of 144) 2) Number of implemented recommendations of Universal Periodic Review 3) Number of Human Rights cases brought to Court and examined within regulated timeframe 4) Number of judgements taken to the European Court of Human Rights | World Economic Forum Report,   UN/Council of Europe/OSCE/EU reports,   Reports by international and national watchdog CSOs and Ombudsman,   Ministry of Justice Reports |  |
| Specific objective 5: Increase capacity in fighting organised crime, including money laundering and cybercrime |  |  |  |
| a) Increased capacity to fight organised crime including with effective asset recovery and financial investigation systems | 1) Track record of convictions for organized crime, trafficking,  and smuggling offences | Justice, Freedom and Security Sub-committee meetings Police Reports |  |
| b) Money laundering legislation is effectively implemented | 1) Number of investigations and convictions of money-laundering cases. | MONEYVAL Reports FATF monitoring reports Reporting by the Office of the Prosecutor General |  |
| c) Enhanced capacity to fight cybercrime | 1) Level of international Police Cooperation for fighting cyber crime 2) National Cybersecurity Strategy and/or Action Plan developed and implemented. 3) Level of implementation Convention on Cybercrime of the Council of Europe (Budapest Convention) | Government Reports   Police reports/National Security Service Reports   Council of Europe reports |  |
| Specific objective 6: Support statistical services to produce high quality official statistics |  |  |  |
| Expected Results | ***Indicators*** | Means of verification |  |
| The availability and quality of official statistics is improved and supports improved policy making and governance; improved and increased usage of official statistics for evidence-based decision-making | More statistical ***indicators*** produced by the Statistical Office of Armenia in 2020 than in 2017 | National statistics on the web site of the National Statistical Institute or in publications in the period 2017-2020 |  |
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Sector 3:         Connectivity, energy efficiency, environment and climate change

Specific objective 1: Improve governance of the transport and energy sectors

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| --- | --- | --- |
| Expected Results | ***Indicators*** | Means of verification |
| 1) Institutional structure informing the Government investment planning fully operational. | 1) Prioritized infrastructure investment plan approved and implemented by the Government | Government accountability report |
| 2)Improved road safety | 1) Number of fatalities due to road accidents reduced (\*) 2) National road safety action plans adopted and national road safety agencies/platforms established (\*) 3) Road design standards in line with EU standards and vehicle technical inspection services operational according to EU standards (\*) |  |
| 3) Improved energy sector governance (including in nuclear safety) | 1) Energy data management system established and functioning at the central and local levels  (\*) 2) Armenian energy market, sustainable energy and nuclear safety rules harmonized with the EU rules (\*) 3) Standards and instruments for measuring energy efficiency ***performance*** and implementing energy efficiency projects of buildings are in place and applied (\*) 4) Stress Tests nuclear safety upgrades implemented, roadmap for the closure and safe decommissioning of Medsamor nuclear power plantadopted. | Government accountability report |
| Specific objective 2: Improve energy efficiency and usage of renewable energy |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved energy efficiency | 1) Energy intensity 2) All Energy products net imports (Thousand TOE) ? 2040 (2013) | National Statistics   ESTAT |
| b) Increased share of renewable energy | 1) Share of renewable energy sources in total power generation | National Statistics |
| Specific objective 3: Prioritise infrastructure investment in line with the extended core TEN-T |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved infrastructure taking into account the extended core TEN-T | 1) Logistics ***Performance*** Index (baseline 2016 ? 141 out of 160) | World Bank report |
| Specific objective 4: Develop the potential of the aviation sector (Open Skies Policy) |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved accessibility of Armenia | 1) Increased number of passengers flying to and from Armenia 2) Finalisation of Common Aviation Area Agreement with the EU (\*) 3) Liberalisation of aviation fuel market | Government accountability report |
| Specific objective 5: Enhance environmental protection and resilience |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) enhanced environmental governance | 1) Improved on-line access to data and state of the environment analysis (\*) 2) Environmental considerations are effectively integrated into other sectorial legislation, planning and laws. | Government accountability report |
| b) Enhanced support to green growth | 1) Number of SMEs trained (\*) 2) % of cost savings realised by enterprises due to cleaner production (\*) | Government accountability report |
| c) Improved waste management | 1) The share of waste recycled 2) Number of inhabitants covered by waste/separate waste collection 3) Total greenhouse gas emission (CO2 equivalent (1990=100) ? 39.4 (2012) 3) Municipal waste collected (Kg/person/year) ? 200.4 (2014) | National statistics   ESTAT |
| d) Improved water and wastewater management | 1) Number of water supply networks and systems improved 2) Number of inhabitants connected to main potable water and wastewater systems 3) Improved water monitoring | National statistics |

Sector 4: Mobility and people-to-people contacts

Specific objective 1: Support to the Mobility Partnership and thefuture potential Visa Liberalisation dialogue

|  |  |  |
| --- | --- | --- |
| Expected Results | ***Indicators*** | Means of verification |
| a) Gradual implementation of the Visa Liberalisation benchmarks based on a Visa Liberalisation Action Plan and continued implementation of the Mobility Partnership | 1) Track record of implementation of EU-Armenia Visa Facilitation and Readmission Agreements including number of reintegrated migrants maintained 2) Track record of asylum requests in the EU 3) Number of Visa Liberalization criteria met (\*) 4) Continued implementation of  the Mobility Partnership | Assessment report |
| Specific objective 2: Improve border management system |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Enhanced mobility through implementation of integrated border management | 1) Regional trade flows 2) Modernised Border Crossing points in Meghri (\*) | Government accountability report, national statistics |
| Specific objective 3: Modernise the education system, improve skills and competences development and support enhancing Vocational Education and Training |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a)Strengthened quality of vocational education and training       b) enhanced employability of graduates | 1) Increased number of graduates (\*) Proportion of the population aged 20-24 having completed at least upper secondary education (%) ? 72.2 (2015) ? males and females disaggregated data available 2) Percentage of VET graduates in employment or further study after 6 months of graduation (\*) 3)Percentage of graduates finding employment within 6 months after graduation 4) Rate of employment of young people | Government report |
| Specific objective 4: Support to innovation development |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Enhanced research, innovation and commercialization | 1) Number of Armenian institutions or companies participating in H2020 (\*) 2) Smart specialization strategies identifying key priorities for economic modernisation developed 3) Innovation cluster established (\*) 4) Number of University and Industry Collaboration in Research and Development (baseline 2016-2017 ? 92 out of 138) | Global Competitiveness Report |
| b) Improved research and innovation ecosystem | 1) Number of recommendations implemented from EU peer review |  |

Attachment 2.      Indicative timetable for commitments

|  |  |
| --- | --- |
|  | Indicative allocation |
| 2017-2020 |  |
| SECTOR OF ***INTERVENTION*** 1 - Economic development and market opportunities | ?50.4 million ? ?61.6 million |
| SECTOR OF ***INTERVENTION*** 2 - Strengthening institutions and good governance | ?21.6 million ? ?26.4 million |
| SECTOR OF ***INTERVENTION*** 3 - Connectivity, energy efficiency, environment and climate change | ?21.6million ? ?26.4million |
| SECTOR OF ***INTERVENTION*** 4 - Mobility and people-to-people | ?21.6million ? ?26.4million |
| Complementary support for capacity development/ institution building and ***strategic*** communication | ?21.6million ? ?26.4million |
| Complementary support in favour of civil society | ?7.2 million ? ?8.8 million |
| Total Commitments | ?144 million - ?176 million |

[1][*http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017*](http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017)

[2] 2016 – Statistical Yearbook of Armenia, NSS.

[3][*http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017*](http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017)

[4] [*https://www.cba.am/en/sitepages/statexternalsector.aspx*](https://www.cba.am/en/sitepages/statexternalsector.aspx)

[5]National Statistical Service.

[6] The ENP review highlighted the stabilisation of neighbouring countries as an important political priority, to be achieved through support to good governance, democracy, human rights and rule of law, economic governance, as well as cooperation on security and on migration and mobility.

[7] European Commission/HRVP – Joint Staff Working Document of 9June 2016 'Eastern Partnership - 20 Deliverables for 2020 Focusing on key priorities and tangible results' – SWD(2017) 300 final

[8] The EU Joint Analysis was concluded in October 2016 by the EU Member States present in Armenia endorsing the Joint Analysis report including review of 23 sectors.

[9] The EU Joint analysis was concluded in October 2016 by the EU Member States present in Armenia endorsing the Joint Analysis report including review of 23 sectors.

[10]In 2012 energy imports amounted to 90% of the total of 3.377 Mtoe primary energy supplied. Source: EU Joint Analysis Report, December 2016

[11]In line with the OECD/SIGMA Principles of Public Administration.

(\*) Deliverable from the Joint Staff Working document,Easter Partnership – Focusing on Key Priorities and Deliverables 2020

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[***Register of Commission documents:DRAFT REPORT on the Future of Food and Farming Document date: 2018-02-20 AGRI\_PR(2018)618154 Draft reports***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RRR-NPX1-F0YC-N2J3-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

PR\1146033EN.docx PE618.154vv01-00 EN United in diversity EN European Parliament 2014-2019 Committee on ***Agriculture*** and ***Rural*** Development 2018/0000(INI) 20.2.2018 DRAFT REPORT on the future of food and farming (2018/0000(INI)) Committee on ***Agriculture*** and ***Rural*** Development Rapporteur: Herbert Dorfmann PE618.154vv01-00 2/11 PR\1146033EN.docx EN PR\_INI CONTENTS Page MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION ............................................ 3 EXPLANATORY STATEMENT .............................................................................................. 9 PR\1146033EN.docx 3/11 PE618.154vv01-00 EN MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION on the future of food and farming (2018/0000(INI)) The European Parliament, – having regard to the Commission communication of 29 November 2017 entitled ‘The Future of Food and Farming’ (COM(2017)0713), – having regard to Articles 38 and 39 of the Treaty on the Functioning of the European Union (TFEU) establishing the common ***agricultural*** policy and its objectives, – having regard to Regulation (EC) No 2017/2393 of 13 December 2017 amending Regulations (EU) No 1305/2013 on support for ***rural*** development by the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD), (EU) No 1306/2013 on the financing, management and monitoring of the common ***agricultural*** policy, (EU) No 1307/2013 establishing rules for direct payments to farmers under support schemes within the framework of the common ***agricultural*** policy, (EU) No 1308/2013 establishing a common organisation of the markets in ***agricultural*** products and (EU) No 652/2014 laying down provisions for the management of expenditure relating to the food chain, animal health and animal welfare, and relating to plant health and plant reproductive material1 (‘omnibus regulation’), – having regard to the European Court of Auditors Special reports Nos 16/2017 entitled ‘***Rural*** Development Programming: less complexity and more focus on results needed’ and 21/2017 entitled ‘Greening: a more complex income support scheme, not yet environmentally effective’, – having regard to the Commission reflexion paper of 28 June 2017 on the future of EU finances (COM(2017)0358), – having regard to the Cork 2.0 Declaration 2016, ‘A Better Life in ***Rural*** Areas’, issued at the European Conference on ***Rural*** Development, – having regard to the opinion of the European Economic and Social Committee on ‘A possible reshaping of the Common ***Agricultural*** Policy’2, – having regard to the opinion of the European Committee of the Regions entitled ‘The CAP after 2020’3, – having regard to the UN Sustainable Development Goals (SDGs), most of which are relevant to the common ***agricultural*** policy, – having regard to the Paris Agreement at the 2015 UN Climate Change Conference (COP21), and notably the commitments undertaken by the European Union as ‘nationally determined contributions’ (NDCs) in order to achieve the agreement’s 1 OJ L 350, 29.12.2017 p. 15. 2 OJ C 288, 31.8.2017, p. 10. 3 OJ C 342, 12.10.2017, p. 10. PE618.154vv01-00 4/11 PR\1146033EN.docx EN worldwide goals, – having regard to Rule 52 of its Rules of Procedure, – having regard to the report of the Committee on ***Agriculture*** and ***Rural*** Development (A8-0000/2018), A. whereas the Commission’s communication on the Future of Food and Farming acknowledges that the common ***agricultural*** policy (CAP) is the most integrated policy in the EU and is enabling the EU farming sector to respond to citizens’ demands regarding not only food security, safety, quality and sustainability, but also environmental care, climate change action and high animal welfare standards; B. whereas the European Union’s overarching objective of multifunctional ***agriculture***, driven by family farms, remains key to delivering the positive externalities and public goods that European citizens demand; C. whereas over the years the CAP has undergone regular re-programming in line with new challenges, but another step in this continuous process of modernisation and simplification, building on previous reforms, is now necessary; D. whereas the new delivery model (NDM) is at the core of the Commission’s communication on the Future of Food and Farming, and is to be welcomed, provided that it ensures genuine simplification, not only at EU level but also at Member State and regional level, and flexibility for farmers, without adding new constraints on Member States and thus a new layer of complexity; E. whereas the CAP must play an important role in overcoming stagnation and volatility of farm incomes which, despite the concentration and intensification of production and increasing productivity, are still lower than in the rest of the economy; F. whereas over the last few years farmers have been confronted with increasing price volatility, which has reflected price fluctuations on global markets and uncertainty caused by macroeconomic developments, external policies, sanitary crises and more frequent extreme weather events in the EU; G. whereas it is essential to ensure a fair standard of living across regions and Member States, affordable prices for citizens and consumers, and access to quality food and healthy diets, while delivering on the commitments for environmental care, climate action, and animal and plant health and welfare; H. whereas there is a need for an updated and fairer system of payments, as in many Member States the current system of entitlements is based on historic benchmarks which are now almost 20 years old and which constitute an obstacle to generational renewal and hinder young farmers’ access to farmland, as new entrants do not possess entitlements and are thus at a disadvantage; I. whereas the emergence of new challenges, such as increasing global trade, is necessitating fair and sustainable conditions for the global exchange of goods and services, within the framework of the WTO and in accordance with existing EU social, PR\1146033EN.docx 5/11 PE618.154vv01-00 EN economic and environmental standards, which should be promoted; J. whereas while the focus on research and development for both product and process innovation is to be welcomed, more must be done to translate the results of research into farming practice, facilitated by EU-wide ***agricultural*** extension services; K. whereas the ***agriculture*** and food sector must be incentivised to continue to contribute to the environmental care and climate action objectives of the EU set out in international agreements such as the Paris Agreement and the UN SDGs; L. whereas the European Court of Auditors has underlined the fact that the green payments introduced as part of the 2013 reform create added complexity and bureaucracy, are difficult to understand, and fail to significantly enhance the CAP’s environmental and climate ***performance***; M. whereas the objectives of the Cork 2.0 Declaration for a Better Life in ***Rural*** Areas stipulate vibrant ***rural*** areas, multi-functionality, biodiversity in and outside ***agriculture***, rare animal breeds and conservation crops, as well as organic ***agriculture***, less-favoured areas and commitments in the context of Natura 2000; N. whereas it is essential to ensure fair competition within the single market within the sector and with other players in the food chain, both up and downstream, and to further strengthen incentives to prevent crises with active management tools to be deployed at sectoral level and by public authorities; O. whereas the new challenges for European ***agriculture*** within the EU’s political priorities, as stated in the Commission’s reflection paper on the future of EU finances, require the next multiannual financial framework (MFF) to provide sufficient public funds to cover both existing and new challenges; P. whereas any changes to the current CAP must be introduced in such a way as to ensure stability for the sector and security of planning for farmers by means of adequate transition periods and measures; Q. whereas Parliament must play a comprehensive role in setting a clear policy framework to maintain common ambition at European level and democratic debate on the ***strategic*** issues which have an impact on the everyday lives of all citizens when it comes to the use of natural resources, the quality of our food and the modernisation of ***agricultural*** practices; A new relationship between the European Union, the Member States, regions and farmers 1. Welcomes the intention to simplify and modernise the CAP, but emphasises that the integrity of the single market and a truly common policy must be the overriding priorities of reform; 2. Points out that even the flexibility that Member States currently enjoy in defining basic rules may risk distorting competition within the single market and granting unequal access to support for famers in different Member States or even in different regions; PE618.154vv01-00 6/11 PR\1146033EN.docx EN 3. Considers that subsidiarity for Member States should only be granted within a common set of rules and tools agreed at EU level as part of a uniform approach to all programming efforts and eligibility criteria, should cover both of the CAP’s pillars and ensure, in particular, a European approach in Pillar I and thus a level playing field; 4. Reminds the Commission of the need to fully respect the distribution of powers within each Member State, often set out in their constitutions, particularly in terms of respecting the legal competences of the EU’s regions when implementing policies; 5. Welcomes the efforts of the Commission to establish programme design, implementation and control of an output-based approach in order to foster ***performance*** rather than compliance, while ensuring adequate monitoring via clearly defined, solid and measurable ***indicators*** at EU level, including an appropriate system of quality control and penalties; 6. Calls on the Commission to ensure that financial and ***performance*** control and audit functions are performed to the same standard and under the same criteria across all Member States, irrespective of enhanced flexibility for Member States in programme design and management, and with a view, in particular, to ensuring a timely disbursement of funds across Member States to all eligible famers; 7. Calls on the Commission to grant more flexibility to Member States and regions within the framework of the ***agricultural*** de minimis rules; A smart and efficient sector – delivering for citizens, ***rural*** areas and the environment 8. Considers it necessary to maintain the current two-pillared architecture, particularly Pillar I, which is dedicated to income support for farmers; considers it necessary, at the same time, to compensate for the provision of public goods on the basis of uniform criteria, while allowing Member States to take specific approaches to reflect local conditions; 9. Considers that the current CAP architecture can only deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained in the next MFF at at least the current level in order to achieve the ambitions of a revised and efficient CAP beyond 2020; 10. Believes that more targeted support for family farms is necessary and can be achieved by introducing a compulsory higher support rate for small farms; considers, moreover, that support for larger farms should be digressive, reflecting economies of scale, with the possibility for capping to be decided by the Member States; 11. Underlines the necessity of identifying the key elements of a transparent and objective system of penalties and incentives for determining farmers’ eligibility for public funding, which should consist of voluntary and mandatory measures; 12. Calls for the existing system for calculating direct payments in Pillar I, which is often based on historic entitlements, to be replaced by an EU-wide uniform method of calculating payments, in order to make the system simpler and more transparent; PR\1146033EN.docx 7/11 PE618.154vv01-00 EN 13. Stresses the need for a fair distribution of direct payments between Member States, which must take into account socio-economic differences, different production costs and the amounts received by Member States under Pillar II; 14. Believes that, provided that a level playing field in the single market can be guaranteed, voluntary coupled support (VCS) payments should be maintained, as a tool to counteract specific difficulties, particularly those arising from the structural competitive disadvantage of less-favoured and mountainous regions, as well as those which are more temporary in nature and arise from a shift away from the old entitlement scheme, for example; 15. Recalls that generational renewal is a challenge faced by famers in many Member States and that each national strategy must therefore address this issue through a comprehensive approach, including top-ups in Pillar I and targeted measures in Pillar II, as well as by means of new financial instruments and national measures, in order to incentivise famers to pass on their farming operations; 16. Underlines the importance of ***rural*** development, including the LEADER initiative, in supporting multi-functional ***agriculture*** and in fostering additional entrepreneurial activities and opportunities, in order to generate income from agri-tourism, and to secure community-supported ***agriculture*** and the provision of social services in ***rural*** areas; 17. Calls on the Commission to introduce a new and comprehensive legal framework which allows the integration of the various types of environmental actions at present, such as cross compliance, greening and the good ***agricultural*** and environmental conditions (GAEC) standards, as well as agri-environment measures (AEMs) for ***rural*** development, so that farmers can deliver effectively and with less bureaucracy on environmental care, biodiversity and climate action, while ensuring that Member States have adequate control and taking into account local conditions; 18. Believes that this new framework should be underpinned by the possible allocation of a minimum amount of the total available budget to AEMs, including organic ***agriculture***, support for biodiversity and genetic diversity in animals and plants; 19. Calls on the Commission to foster innovation and modernisation in ***agriculture*** by supporting training and ***agricultural*** extension as a pre-condition in programme design and implementation in all Member States, while fostering the transfer of know-how and the exchange of best practice models between Member States; A strong position for farmers in the global food system 20. Calls on the Commission to maintain the current common market organisation (CMO) framework, including the individual sector plans (wine, and fruit and vegetables) and the EU school fruit, vegetables and milk scheme, with the ultimate aim of strengthening the sustainability and competiveness of each sector while enabling access for all farmers; 21. Insists on the critical need for the future CAP to support farmers more efficiently in order to cope with price and income volatility due to climate, health and market risks, PE618.154vv01-00 8/11 PR\1146033EN.docx EN by creating additional incentives for flexible risk management and stabilisation tools while ensuring broad access; 22. Insists on the necessity of strengthening the position of producers within the food supply chain, in particular by guaranteeing them a fair share of the added value, by fostering inter-sectoral cooperation, and strengthening transparency in the markets and crisis prevention; 23. Calls on the Commission to allow and indeed encourage – particularly in the dairy sector – active crisis management instruments, such as voluntary sector agreements to manage supply in quantitative terms among producers, producers organisations and processors, and to examine the possibility of extending such instruments to other sectors; 24. Calls for an in-depth review of the current crisis reserve mechanism in order to create an independent financial instrument exempt from the budgetary principle of annuality, so as to permit budgetary transfers from one year to the next, thereby enabling quick and effective responses to crisis situations, including those involving animal and plant health, disease-related issues and food safety; 25. Believes that while trade agreements are beneficial to the EU ***agricultural*** sector overall, and necessary for strengthening the EU’s position on the global ***agricultural*** market, they also pose a number of challenges that require reinforced safeguard mechanisms to ensure a level playing field between farmers in the EU and in the rest of the world; 26. Calls for initiatives to promote EU production, safety and environmental standards and quality production schemes, through both labelling and marketing activities on internal and third-country markets; A transparent decision process for a solid CAP proposal 2020-2027 27. Stresses that Parliament and the Council should, via the co-decision procedure, set the general objectives, measures and financial allocations, and determine the level of flexibility needed to enable the Member States to cope with their specificities and needs in line with the single market; 28. Regrets the fact that the whole process of the CAP post-2020 programming exercise – consultation, communication, impact assessment and legislative proposals – is starting with a significant delay as the end of the eighth legislature approaches, jeopardising the possibility of a final agreement being reached before the European elections; 29. Calls on the Commission to propose, before the application of the NDM, a transitional period long enough to ensure a soft landing and to avoid any delay in farmers’ annual payments and in the implementation of ***rural*** development programmes; o o o 30. Instructs its President to forward this resolution to the Council and the Commission.

PR\1146033EN.docx 9/11 PE618.154vv01-00 EN EXPLANATORY STATEMENT On 29 November 2017 the Commission adopted its Communication on modernising and simplifying the Common ***Agricultural*** Policy (CAP) under the title ‘The Future of Food and Farming’. (COM(2017)713final). This Communication has already been announced by President Juncker in 2016, it is included in the Commission Work Programme 2017 and was originally foreseen for spring 2017. The 26 pages of text kick-off the multi-stage process by which the 27 EU’s Institutions eventually have to agree on the legislation determining the CAP post-2020. The Communication thus aims to provide both basis and framework of the discussion between institutional and individual, public and private stakeholders across the EU27. It will be followed by legislative proposals as legal basis for the next programming period 2020-2027 and accompanied by an Impact Assessment comprising the relevant evidence-base. The proposals will be published after the adoption of the Multi-annual Financial Framework (MFF) which is foreseen for May 2018. The original purpose of the Communication is to - present the main EU ***agricultural*** challenges (food explicitly not mentioned); - highlight the contribution of the ***agriculture*** sector to the ten Commission’s priorities and to the Sustainable Development Goals (SDG) in synergy with other EU policies; - specify policy priorities for the future CAP enhancing its EU added value; - explore operational proposals for a simpler CAP, improved governance, better reflection of the diversity in EU ***agriculture***, increased subsidiarity, limiting administrative burden for beneficiaries and strengthening the focus on results. The Communication also sets out three key objectives for ***agriculture*** in contrast to the original Treaty-based objectives: 1. Fostering a smart and resilient ***agricultural*** sector; 2. Bolstering environmental care and climate action; 3. Strengthening the socio-economic fabric of ***rural*** areas. A first step in the CAP post-2020 programming process was a broad on-line public consultation which received in excess of 320,000 online responses from all EU Member States with the vast majority submitted by individuals as well as over 1400 position papers. The second step is the elaboration of the comprehensive Impact Assessment (IA) aiming to draw lessons from the implementation of the 2013-2020 programming period and specifically the aims for a “greener, simpler, fairer” CAP. Consequently, while reflecting broad ideas of the ongoing public debate, the IA will develop a set of policy options for development including an assessment how the policy objectives can best be met, including: - Option 1 (baseline) will assess the impact of the CAP remaining as it currently stands, including the recently adopted Omnibus proposal. - Option 2 will assess the impact of a “no CAP” scenario to test the consequences of the absence of policy ***intervention*** with respect to the economic, environmental and social EU-added value of the CAP. - Option 3 sees Member States/regions programming CAP operations against EU priorities based on identified needs. The focus shifts to risk management, investments PE618.154vv01-00 10/11 PR\1146033EN.docx EN in restructuring and business development in ***agriculture*** and ***rural*** SMEs, climate and environment services and access to innovation, knowledge and ICT. - Option 4 redefines the division of tasks between EU-, MS- and farm-level to enhance the income safety-net with better synergies between direct support including area payments and risk management, to better target climate and environmental action, and to simplify and modernise controls towards ***performance***-based outcomes. - Option 5 envisages strong redistribution of direct support towards small and environmentally friendly farms, and promotes short circuits. The evidence base of the Communication and the IA is the following: - DG AGRIs own Common Evaluation and Monitoring Framework (CEMF) for measuring CAP ***performance*** based on Member states ***indicators***; - EU-wide targets and ***indicators*** agreed for monitoring the SDGs (Communication “European Action for Sustainability” COM (2016) 739 final); - EU27 Member states annual implementation reports will provide data on progress towards targets and corresponding budget envelopes; - DG AGRI regular evaluation studies on CAP general 2013 objectives and input for the Outlook conference in late 2017; From the wider European context, the main driver of CAP reform is the budget issue: The CAP continues to be the largest single spending item in the EU budget, accounting for around 38% of the total expenditure. In the next MFF, the EU needs to address significant new challenges, such as migration, security and growth while the UKs departure will reduce the available budget yet there is great reluctance among Member States to increase the overall size of the budget (1% GNI). For public and private stakeholders the key issues raised in the Communication are therefore: - National Strategy - design, adoption and implementation: Notably Governance structure (legal aspect such as relationship regions-central state, transparency and citizen participation), internal coherence (consistency with ***rural*** development programmes and sector plans), external coherence (e.g European Structural and Investment Funds); - Delivery model - output-orientated and ***performance***-based funding programs: Control and audit (EU and national competencies), ***indicators*** (availability and definition, quality control, penalties), management models (simplified cost options), equal approach across Member states (eligibility, mandatory/voluntary, controls); - Environmental and climate action - integrated approach to compensating environmental services by merging current CAP greening, cross compliance and good ***agriculture*** practice as well as ***rural*** development measures to allow for compensation of public goods including climate action and human and animal and plant health and welfare; - Financial allocation - EU-support programmes: Transition models for reduced/targeted funding, differentiation between Member states (external convergence) based on objective criteria (see ESIF), co-funding by regions / Member states, entitlements reflecting socio-economic conditions within Members states regions (internal convergence); Regarding the forward perspective, it is relevant to recall that the last CAP programming 2013-2020 exercise took two years from the initial publication of the Commission proposals PR\1146033EN.docx 11/11 PE618.154vv01-00 EN (June 2011) as part of the Multiannual Financial Framework (MFF) proposal 2014-2020 to political agreement (June 2013) and the final legislative approval (in December 2013) which necessitated transitional measures across sectors (until 2015). However, this did neither coincide with the end of the Commissions mandate nor the EPs legislative period.

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[***Causes and effects of wine tourism development in organizational context: The case of Alentejo, Portugal***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BM4-FYP1-JBMY-H06W-00000-00&context=1516831)

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**Body**

**ABSTRACT**

Companies with innovative behavior seek differentiation and are constantly reconciling needs and internal objectives with new market opportunities and restrictions imposed by the institutional framework. The involvement of the wineries with the service sector, by adapting to wine tourism, raises an innovative process which requires some organizational change. This study deals with this issue, arguing that the wineries’ change process toward wine tourism development may occur as a result of internal drivers and external pressures. In this sense, the wineries are analyzed through two different points of view: an intraorganizational perspective with the dynamic capability approach, and an interorganizational perspective with the institutional theory. Structural equation modeling methodology is used to estimate and validate the model, which aims to explain the causes and effects of wine tourism development. Results support the propositions that through wine tourism development, the wineries create, extend, and modify their processes, building and using dynamic capabilities, whereas institutional factors shape firms’ behavior and ensure social legitimacy, besides improving their organizational ***performance***.

**FULL TEXT**

**Introduction**

Wine tourism contributes in different ways to the development of regions/tourism destinations, new business, new cultures, and habits (Bruwer, 2003; Hall et al., 2002). It is an activity that is growing at an exponential rate and, in the academic field, it is an emerging thematic area of study (Carlsen, 2004; Christou and Nella, 2010). Despite an extensive literature on wine tourism on the supply side, from the perspective of the wine industry, there is still much to be discovered about the nature of the development of the wine tourism business (Carlsen, 2004). In particular, it is still not fully clear how the wineries become and develop as companies, linked to tourism activity through wine tourism. The involvement of the wineries with the services sector, through the adoption of a wine tourism component in their business, gives rise to an innovative process for them when they are guided toward this type of service activity. In this sense, they need to change internal processes and learn to develop new activities which were previously nonroutine. This study, then, establishes that the wineries’ change process toward wine tourism development may occur as a result of internal drivers and external pressures. Overall, this study analyzes the wineries from two different points of view: an intraorganizational (internal drivers) and an interorganizational (external pressures) perspective.

Under the intraorganizational perspective, based on the dynamic capabilities approach (Teece and Pisano, 1994; Teece et al., 1997), we argue that wineries purposely create, extend, and modify their processes, building and using key dynamic capabilities toward wine tourism development. Dynamic capabilities are an emerging approach to ***strategic*** management, with a concern centered on the process of reconfiguring resources and organizational capabilities to acquire competitive advantage (Easterby-Smith et al., 2009; Teece, 2007, 2009).

On the other hand, the interorganizational perspective, based on institutional theory (DiMaggio and Powell, 1983), allows us to propose that the institutional environment exerts pressure on the wineries’ behavior toward wine tourism development and the effect of this influence confers legitimacy upon the actions and practices of wine tourism. Institutional theory is a consolidated theory of organizations with a focus on the relationship between the organization and its environment, and on the rules within this environment governing and imposing restrictions on the organization behavior (North, 1990; Scott, 1995).

Relevant studies on dynamic capabilities and institutional theory can be found in Delmas (2002) and Delmas and Toffel (2012). Some tourism studies with the dynamic capabilities approach are identified (Haugland et al., 2011; Kim and Boo, 2010; Lemmetyinen and Go, 2009; Nieves and Haller, 2014). There is also extensive literature using institutional theory to investigate the influence of the institutional context on the environmental behavior of tourism companies (Riquel-Ligero, 2010, 2011; Riquel-Ligero and Vargas-Sánchez, 2013; Rivera, 2004; Shah, 2011; Strambach and Surmeier, 2013; Vargas-Sánchez and Riquel-Ligero, 2012). However, significant research questions still remain about the building of dynamic capabilities and the influence of the institutional environment on wine tourism, particularly in the wineries context (Lavandoski et al., 2013, 2014).

Therefore, this study aims first to identify the set of ***indicators*** by which to measure wine tourism development in the organizational context of the wineries. After that, using these ***indicators***, this study intends to understand the causes and effects of wine tourism development in wineries. The second and the third objectives analyze the causes of wine tourism development, which involves understanding how the dynamic capabilities contribute to wine tourism development and which institutional mechanisms exert greater pressure on the wineries’ behavior in terms of wine tourism development. The fourth objective is concerned with the effects of wine tourism development on the social legitimacy and the organizational ***performance***. Using a quantitative survey applied in 40 wineries in Alentejo in Portugal with a wine tourism component and belonging to the Wine Route, this study adopts structural equation modeling (SEM) methodology to estimate and validate the conceptual model.

Following this introduction, the next section shows the challenges and opportunities for wineries with regard to wine tourism and presents the set of ***indicators*** to measure wine tourism development. The following section focuses on the two theoretical bases supporting this work. It ends by proposing the conceptual model and research hypotheses. This is followed by a discussion of the methods and data used in the study. Then, the results of the analysis are put forward. The final section discusses the main findings and the implications for future research.

**Wine tourism development**

Literature investigating wine tourism development is vast. Recent studies from the supply perspective and specifically applied to wineries can be identified (Alonso and Liu, 2012; Boatto et al., 2013; Hojman and Hunter-Jones, 2012; Iglesias and Navarro, 2014; López-Guzmán et al., 2011; Stavrinoudis et al., 2012; Telfer, 2001).

An essential requirement for wine tourism development is the existence of a wine industry with wineries open to visit, following the “cellar door” concept (Carlsen and Charters, 2006; Hall et al., 2002). Stavrinoudis et al. (2012) identify some necessary skills of wine producers related to wine tourism-associated activities and find that wine producers involved in wine tourism earn more money and have a higher education. Additionally, Iglesias and Navarro (2014) verify the need for financial, technological, and human resources with knowledge and training in tourism.

Lifecycle analysis led to identifying typologies of wineries (Beverland and Lockshin, 2001; Dodd and Beverland, 2001) and development stages of evolution in regions or wine routes (Boatto et al., 2013; Deery et al., 2012; Skinner, 2002; Zamora and Barril, 2007). Factors linked to demand and supply—aspects such as the type and number of visitors, facilities and attractions, community networking and alliances, organizational ***performance***—are analyzed.

From a different perspective, the main inhibiting factors that negatively impact on wine tourism growth, according to the wineries, involve the lack of organization and coordination within the wine industry, information guidance on tourism, government support of local authorities and, in turn, limited resources of organizations (Alonso and Liu, 2012; Stavrinoudis et al., 2012). Another challenge to the wine industry is the ability to implement environmentally and socially sustainable practices to meet the needs of environmentally aware consumers. Studies developed by the demand side have discussed how the attitude and the environmental knowledge of wine consumers can influence their perceptions about the environmental policies of a wine region (e.g. Taylor et al., 2010).

The extensive wine tourism literature consulted allows us to identify ***indicators*** composing the wine tourism product which subsequently may allow researchers to measure wine tourism development in the organizational context of wineries, the first objective of this study. A set of ***indicators*** to measure wine tourism development is constructed through studies, mainly on the demand side and focused on tourists’ evaluation of the wine tourism experience. Table 1 presents four main dimensions and a total of 45 ***indicators***. Table 1.Set of ***indicators*** to measure wine tourism development in the organizational context.

| **Attributes** | ***Indicators*** | **Sources** |
| --- | --- | --- |
| Physical | Access ways, landscape, outdoor space, regional resources, indoor space, accessibility, reception, wine shop, space for events. | Alant and Bruwer (2004), Alonso (2005), Bruwer (2003), Carlsen and Charters (2006), Cohen and Ben-Nun (2009), Getz and Brown (2006), Hall et al. (2002), Sparks (2007), Stavrinoudis et al. (2012), Zhang and Qiu (2011). |
| Human resources | Wine knowledge, training in tourism, language service, professional service, flexibility and host, team creativity, familiarity with processes. |  |
| Marketing | Obtaining information about visitors, contact after visit, wine sales price. |  |
| Service | Reception hours, restaurant, tourism accommodation, wine treatments and spa, local produce in partnership, activities (for children, sporting, artistic, thematic, period, in partnership, cultural), characteristics of the winery tour, the circuit of the tour, audiovisual resources, guided tour, no guided tour, wine tasting, visit without cost, visit conducted by the business owner, access to the winemaker, characteristics of the wine tasting, tasting without cost, wine menu, personalized wine tasting, technical visits. |  |

**Theoretical foundation and hypotheses**

**Dynamic capabilities**

Dynamic capability was initially defined as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece et al., 1997: 516)*.* Recently, Pavlou and El Sawy (2011) have highlighted the role of dynamic capability in changing (extending, modifying, and reconfiguring) the firm’s operational capabilities—that is, the ability to execute day-to-day activities.

There is a consensus that the dynamic capabilities are a particular type of organizational capability that is unique and specific to an organization (Eisenhardt and Martin, 2000; Teece, 2009; Teece et al., 1997). These capabilities cannot be bought: they must be built (Prahalad and Hamel, 1990; Teece and Pisano, 1994; Teece et al., 1997) and are difficult to replicate or imitate (Teece, 2009; Teece and Pisano, 1994). Eisenhardt and Martin (2000) recognize the potential of dynamic capabilities as a tool to manipulate the configuration of resources to pursue improved effectiveness.

Researchers investigate how dynamic capabilities shape the way in which manufacturing companies develop services in their business (Fischer et al., 2010; Gebauer, 2011; Kindström et al., 2013; Salunke et al., 2011). Grande (2011) explores the critical resources and capabilities for farm businesses engaged in entrepreneurial activities. Tourism studies provide insights into dynamic capabilities development processes in hotels (Nieves and Haller, 2014), meeting planners (Kim and Boo, 2010), coordinators’ perceptions (Lemmetyinen and Go, 2009), and tourism destinations (Haugland et al., 2011). Overall, these studies show how the organizations change internal processes, such as methods for new product development, through dynamic capabilities (Easterby-Smith et al., 2009; Teece, 2007, 2009).

In this study, we propose that wineries intentionally create, extend, and modify their processes, building and using key dynamic capabilities toward wine tourism development. This leads us to the following hypothesis: *H1: There is a direct and positive relationship between dynamic capabilities and wine tourism development in the organizational context.*Considering the key microfoundations instituted by David Teece (Teece, 2007, 2009; Teece and Pisano, 1994; Teece et al., 1997), solid and recent empirical studies propose a measurable model to represent the nature of dynamic capabilities (Pavlou and El Sawy, 2011; Protogerou et al., 2012). Pavlou and El Sawy (2011) present four components of dynamic capabilities: sensing, learning, integrating, and coordinating capabilities. These four dynamic capabilities interact in a sequential logic to reconfigure existing operational capabilities (Pavlou and El Sawy, 2011). In this sense, our study uses these components to measure dynamic capabilities toward wine tourism development by proposing the following hypotheses: *H1a: The ability to spot, interpret, and pursue opportunities in the environment (sensing capability), through its contribution to forming dynamic capabilities, positively influences wine tourism development.H1b: The ability to revamp existing operational capabilities with new knowledge (learning capability), through its contribution to forming dynamic capabilities, positively influences wine tourism development.H1c: The ability to embed new knowledge in new operational capabilities by creating a shared understanding and collective sense-making (integrating capability), through its contribution to forming dynamic capabilities, positively influences wine tourism development.H1d: The ability to orchestrate and deploy tasks, resources, and activities in new operational capabilities (coordinating capability), through its contribution to forming dynamic capabilities, positively influences wine tourism development.H1e: The ability to reconfigure existing operational capabilities into new ones (reconfiguring capability), through its contribution to forming dynamic capabilities, positively influences wine tourism development.*

**Institutional theory**

This study also draws on neo-institutional theory, which integrates the economic view (North, 1990) and the sociological view (DiMaggio and Powell, 1983; Scott, 1995) of institutions. According to institutional theory, organizations are involved in an institutional environment characterized by the existence of different institutions guiding the organizations’ behavior through restrictions (North, 1990). The scientific literature that investigates the influence of the institutional pillars on organizational behavior is extensive (Bansal, 2005; Colwell and Joshi, 2013; D’Aunno et al., 2000; Hoffman, 1999; Kostova and Roth, 2002; Llamas et al., 2005; Teo et al., 2003; Zhu et al., 2013). Regarding wine tourism, our study argues that wine tourism development in wineries is influenced by institutional pressures. This leads us to the following hypothesis: *H2: There is a direct and positive relationship between institutional pressures and wine tourism development in the organizational context.*There is a consensus among theoretical authors on the three institutional pillars supporting this theory: normative, regulative, and cognitive (Scott, 1995). Each of these pillars differently affects an organization’s behavior through mechanisms of institutional pressure. The normative pillar is formed by values and social standards that establish informal rules for organizational behavior, conferring rights, duties, privileges, responsibilities, and a certain order of social actors (Scott, 1995). This pillar exerts normative pressure on organizations. Thus, the following hypothesis is proposed: *H2a: The acceptance of values and social norms (normative force), through its contribution to forming institutional pressures, positively influences wine tourism development in wineries.*The regulative pillar provides explicit guidance to organizations by means of formal rules, making them in accordance and in compliance with the laws and therefore imposing a legal framework for organizational behavior (Scott, 1995). This regulative pillar exerts coercive pressure on organizations. Thus, the corresponding hypothesis is: *H2b: The acceptance of laws and other regulations (coercive force), through its contribution to forming institutional pressures, positively influences wine tourism development in wineries.*In turn, the cognitive pillar refers to cultural elements (social rules and abstract meanings) governing organizational behavior (Scott, 1995). This cognitive pillar exerts mimetic pressure which translates into imitation of models, practices, and/or strategies considered successful by organizations. Thus, the hypothesis is: *H2c: The imitation of wine tourism practices (mimetic force), through its contribution to forming institutional pressures, positively influences wine tourism development in wineries.*Some studies investigate how institutional context influences the environmental behavior of tourism companies, including hotels (Rivera, 2004; Shah, 2011) and golf courses (Riquel-Ligero, 2010, 2011; Riquel-Ligero and Vargas-Sánchez, 2013; Vargas-Sánchez and Riquel-Ligero, 2012). Overall, these studies identify a larger influence of the coercive and then the normative pressures in relation to mimetic pressures in the adoption of corporative environmental practices. On the other hand, studies on the environmental behavior applied to the wine industry show that the normative and regulative pillars are dominant (Marshall et al., 2005; Sinha and Akoorie, 2010). However, for the Australian wine tourism cluster, weak or even a lack of government actions and regulations on the environment were verified (Grimstad, 2011; Grimstad and Burgess, 2014).

According to institutional theory, organizations seek to obtain endorsement and social acceptability, along with credibility from the environment in which they operate (Ashforth and Gibbs, 1990; DiMaggio and Powell, 1983; Suchman, 1995). This leads us to the concept of social legitimacy, which is an acquired status by the organizations through particular stakeholders: namely, the government regulatory bodies with authority over organizations; and public opinion that has the fundamental role of establishing and keeping acceptability standards (Deephouse, 1996). Organizational legitimacy can be understood as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995: 574). This means that in a “legitimate organization,” values and actions (organizational practices) are consistent with the stakeholders’ values and their expectations of institutional actions (Oliver, 1991). In general, the conformity to institutional pressures increases the probability of survival and organizational success (Deephouse, 1996; DiMaggio and Powell, 1983; Suchman, 1995).

Empirical evidence reveals that organizations seek to obtain social legitimacy for their actions and organizational practices, in addition to improving organizational ***performance*** (Llamas et al., 2005; Riquel-Ligero, 2010, 2011; Sánchez-Fernández et al., 2014). Hence, our study aims to verify the effects of wine tourism development on social legitimacy and organizational ***performance***: *H3: Wine tourism development influences directly and positively the organizational* ***performance****.H4: Wine tourism development has an indirect effect on organizational* ***performance*** *through social legitimacy.H5: There is a direct and positive relationship between social legitimacy and organizational* ***performance*** *on wine tourism.*Thus, based on the previous literature, an original conceptual model is proposed which intends to analyze the causes and effects of wine tourism development in the organizational context. Regarding the causes, the model indirectly connects the five capabilities (sensing, learning, integrating, coordinating, and reconfiguring capabilities), through dynamic capabilities, and three institutional forces (normative, coercive, and mimetic forces), through institutional pressures, with wine tourism development. The effects on wine tourism development are verified under organizational ***performance*** and social legitimacy.

Therefore, this model makes up a total of 137 ***indicators*** (or observable variables) and 13 latent variables. The hypotheses are represented in the corresponding paths in Figure 1. The dashed lines represent the hypotheses involving indirect relationships between these constructs. Figure 1.Proposed research model.

**Research methodology**

**Study area and sample**

The survey was conducted in Alentejo, south of Portugal. Wine tourism is a ***strategic*** product for the development of tourism in Portugal, with a strong growth of wine tourism in the country over the last 14 years (Turismo de Portugal, 2014). Alentejo is one of the main wine tourism regions of the country and was chosen due to the diversity of wine tourism supply and the characteristics of companies with wine tourism units in their business. The Alentejo Wine Route joins 263 wine producers and 97 retailers, where small-to-large companies stand out on the national scene in terms of production of wine and large ***agricultural*** estates with vineyards. Concerning wine, the Alentejo region has more than 21,000 ha of vineyards and is the one of the country’s largest wine producers in terms of volume, behind only Douro and Porto (Instituto da Vinha e do Vinho, 2015).

The unit of analysis in this study is the wineries with a wine tourism component in their business and belonging to the Alentejo Wine Route. In this sense, the sample for the study was drawn from a list of 62 wineries effectively operationalizing wine tourism at the time of data collection, obtained from the Alentejo Wine Route website and confirmed by telephonic contact. In order to get safe and reliable information on these wineries, the target population was controlled to involve, essentially, directors, managers, or those directly responsible for wine tourism (one person per firm). To collect data, all the wineries were invited to participate in the survey voluntarily, through responding to the questionnaire in one of two different ways according to their preference: online or a face-to-face meeting. Due to the reduced availability of this target population and the time to conduct the survey, the online questionnaire was preferred.

**Questionnaire**

A quantitative survey was developed, taking into account the objectives and hypotheses underlined. The questionnaire, with five-point Likert-type scale questions, was reviewed by experts, and subsequently a pretest of the questionnaire was conducted during the month of March 2014 in another area of wine tourism in Portugal, the Setubal region. The implementation of the pretest involved a sample of six firms, and its goal was to detect possible flaws in the wording of the questionnaire, such as the vocabulary used; complexity of issues; imprecision in the wording, exhaustion, and constraints to respondents. Once reviewed and understood, the final draft was drawn up.

The questionnaire examines the building of dynamic capabilities, the influence of institutional pressures, wine tourism development, and obtaining social legitimacy and organizational ***performance***, as follows: dynamic capabilities capture the generation, dissemination, and responsiveness to market opportunities through sensing capability with four items; the acquisition, assimilation, transformation, and exploitation of knowledge through learning capability with five items; the contribution, representation, and interrelation of individual input to the company as a whole through integrating capability with five items; the resource allocation, task assignment, and synchronization through coordinating capability with five items; and the potential for reconfiguration through reconfiguring capability with two items. The items that remained in the model after the estimation are presented in Table 2. All these items were adapted from Pavlou and El Sawy (2011), which were validated in the hotel industry (Nieves and Haller, 2014). Table 2.Evaluation of measurement models.

| **Constructs** | ***Indicators*** | **Factor loadings** | **p-values** | **AVE** | **CR** | **R2** | **Q2** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Sensing capability | Analyze the market | 0.888 | 0.000 | 0.776 | 0.933 | – | – |
| Review effects of changes on customers | 0.846 | 0.000 |  |  |  |  |  |
| Product development efforts | 0.911 | 0.000 |  |  |  |  |  |
| Implement ideas | 0.876 | 0.000 |  |  |  |  |  |
| Learning capability | Identify new information | 0.889 | 0.000 | 0.835 | 0.962 | – | – |
| Assimilate new information | 0.905 | 0.000 |  |  |  |  |  |
| Transform information into new knowledge | 0.928 | 0.000 |  |  |  |  |  |
| Use new knowledge | 0.923 | 0.000 |  |  |  |  |  |
| Develop new knowledge | 0.922 | 0.000 |  |  |  |  |  |
| Integrating capability | Individual contribution to the group | 0.748 | 0.000 | 0.715 | 0.926 | – | – |
| Global understanding of each other’s tasks | 0.913 | 0.000 |  |  |  |  |  |
| Knowledge and skills to function | 0.898 | 0.000 |  |  |  |  |  |
| Interaction between departments | 0.738 | 0.000 |  |  |  |  |  |
| Interconnecting activities between departments | 0.912 | 0.000 |  |  |  |  |  |
| Coordinating capability | Synchronization of work | 0.831 | 0.000 | 0.675 | 0.912 | – | – |
| Allocation of resources | 0.839 | 0.000 |  |  |  |  |  |
| Assign tasks | 0.732 | 0.000 |  |  |  |  |  |
| Compatibility between knowledge | 0.902 | 0.000 |  |  |  |  |  |
| Team coordination | 0.796 | 0.000 |  |  |  |  |  |
| Reconfiguring capability | Reconfigure resources | 0.929 | 0.000 | 0.869 | 0.930 | – | – |
| Recombine resources | 0.935 | 0.000 |  |  |  |  |  |
| Dynamic capabilitiesa | Analyze the market | 0.823 | 0.000 | – | 0.963 | 1.000 | 0.538 |
| Review effects of changes on customers | 0.698 | 0.000 |  |  |  |  |  |
| Product development efforts | 0.802 | 0.000 |  |  |  |  |  |
| Implement ideas | 0.781 | 0.000 |  |  |  |  |  |
| Identify new information | 0.829 | 0.000 |  |  |  |  |  |
| Assimilate new information | 0.799 | 0.000 |  |  |  |  |  |
| Transform information into new knowledge | 0.773 | 0.000 |  |  |  |  |  |
| Use new knowledge | 0.746 | 0.000 |  |  |  |  |  |
| Develop new knowledge | 0.792 | 0.000 |  |  |  |  |  |
| Individual contribution to the group | 0.588 | 0.000 |  |  |  |  |  |
| Global understanding of each other’s tasks | 0.798 | 0.000 |  |  |  |  |  |
| Knowledge and skills to function | 0.797 | 0.000 |  |  |  |  |  |
| Interaction between departments | 0.603 | 0.000 |  |  |  |  |  |
| Interconnecting activities between departments | 0.773 | 0.000 |  |  |  |  |  |
| Synchronization of work | 0.761 | 0.000 |  |  |  |  |  |
| Allocation of resources | 0.693 | 0.000 |  |  |  |  |  |
| Assign tasks | 0.646 | 0.000 |  |  |  |  |  |
| Compatibility between knowledge | 0.661 | 0.000 |  |  |  |  |  |
| Team coordination | 0.643 | 0.000 |  |  |  |  |  |
| Reconfigure resources | 0.765 | 0.000 |  |  |  |  |  |
| Recombine resources | 0.796 | 0.000 |  |  |  |  |  |
| Normative force | Social values | 0.764 | 0.000 | 0.617 | 0.826 | – | – |
| Social norms | 0.908 | 0.000 |  |  |  |  |  |
| Moral obligation | 0.663 | 0.000 |  |  |  |  |  |
| Coercive force | Regulatory organisms | 0.817 | 0.000 | 0.627 | 0.771 | – | – |
| Compliance with rules/laws | 0.766 | 0.000 |  |  |  |  |  |
| Mimetic force | Get the experience information | 0.863 | 0.000 | 0.748 | 0.856 | – | – |
| Knowledge of successful experiences | 0.866 | 0.000 |  |  |  |  |  |
| Institutional pressuresa | Social values | 0.631 | 0.000 | – | 0.812 | 1.000 | 0.329 |
| Social norms | 0.694 | 0.000 |  |  |  |  |  |
| Moral obligation | 0.575 | 0.001 |  |  |  |  |  |
| Regulatory organisms | 0.637 | 0.000 |  |  |  |  |  |
| Compliance with rules/laws | 0.573 | 0.000 |  |  |  |  |  |
| Get the experience information | 0.604 | 0.000 |  |  |  |  |  |
| Knowledge of successful experiences | 0.610 | 0.000 |  |  |  |  |  |
| Wine tourism development | Regional resources | 0.750 | 0.000 | 0.500 | 0.888 | 0.515 | 0.220 |
| Indoor space | 0.700 | 0.000 |  |  |  |  |  |
| Training in tourism | 0.652 | 0.000 |  |  |  |  |  |
| Reception hours | 0.677 | 0.000 |  |  |  |  |  |
| Restaurant | 0.689 | 0.000 |  |  |  |  |  |
| Artistic activities | 0.748 | 0.000 |  |  |  |  |  |
| Thematic activities | 0.724 | 0.000 |  |  |  |  |  |
| Characteristics of the winery tour | 0.707 | 0.000 |  |  |  |  |  |
| Social legitimacy | Support and social recognition | 0.630 | 0.000 | 0.523 | 0.844 | 0.472 | 0.189 |
| Organizational values | 0.755 | 0.000 |  |  |  |  |  |
| Employees | 0.831 | 0.000 |  |  |  |  |  |
| Customers | 0.763 | 0.000 |  |  |  |  |  |
| Wine route | 0.612 | 0.002 |  |  |  |  |  |
| Organizational ***performance*** | Competitive advantage | 0.857 | 0.000 | 0.640 | 0.913 | 0.358 | 0.191 |
| Market share | 0.869 | 0.000 |  |  |  |  |  |
| Profits | 0.894 | 0.000 |  |  |  |  |  |
| Costs | 0.580 | 0.001 |  |  |  |  |  |
| Sales | 0.810 | 0.000 |  |  |  |  |  |
| Customer satisfaction | 0.746 | 0.000 |  |  |  |  |  |

AVE: average variance extracted; CR: composite reliability.aSecond-order formative constructs.

Institutional pressures capture the level of congruence of social norms and values of the institutional environment through normative force with three items, the level of influence of legal regulations in wine tourism development through coercive force with four items, and the level of imitation of wine tourism strategies/practices adopted by firms through mimetic force with four items. All these items are adapted from Kostova and Roth (2002) and Riquel-Ligero (2010) and can be seen in Table 2.

Wine tourism development is measured by a set of 45 ***indicators*** composing the wine tourism product, namely physical aspects of the interior and exterior of the winery, human resources, marketing, service, and wine tourism activities offered at the wineries, presented in Table 1.

Social legitimacy capture the level of organizational consonance with social values and interests of pressure groups in the institutional environment, with 12 items adapted from Riquel-Ligero (2010), applied in the context of environmental behavior of golf courses. This scale was adapted in another tourism study (Sánchez-Fernández et al., 2014).

Finally, organizational ***performance*** verifies the impact of wine tourism development in the organization with six items adapted from Hung et al. (2007), which were validated by Hung et al. (2010), and can be seen in Table 2.

The questionnaire was available online for 10 weeks between the months of May and August 2014. From the returned questionnaires, a total of 40 responses were fully completed, representing a high response rate (64.51%) in relation to other studies on wine tourism development (Alonso and Liu, 2012; Iglesias and Navarro, 2014; Stavrinoudis et al., 2012).

**Data**

The profile of the sample shows a set of wineries located in Alentejo, receiving an average of 260 visitors/month in high season: 70% of the firms have up to 10 years’ experience with wine tourism activities. A scale adapted from Skinner (2002) to verify the lifecycle of wine tourism development in five phases (initial, involvement, development, consolidation, and stagnation) shows that almost 50% of wineries are in the “development phase” of wine tourism, with wine tourism being a well-defined market and organized by the company. Then, 27.5% of wineries are in the “involvement phase” of wine tourism. A minority of companies are in the “initial phase” (17.5%) and others (7.5%) have a “consolidated” wine tourism—that is, they are in an advanced stage of maturity and where growth is at a slower pace.

**Data analysis methods**

Initially, the statistical package SPSS (version 22) was used to analyze the data. Then, given the small sample size and the model complexity, a Partial Least Square Path Modeling (PLS-PM) approach was considered appropriate to estimate and validate the model and to test the research hypotheses (Henseler et al., 2009). In this case, SmartPLS (version 3.1.5) software (Ringle et al., 2014) was employed.

For an overview of the PLS-PM methodology, Chin (1998), Hair et al. (2011), and Henseler et al. (2009) are important references. For some illustrative applications in ***strategic*** management, see Hair et al. (2012). SEM has been increasingly used in tourism research (Nunkoo and Ramkissoon, 2011) and in PLS-PM in particular (Valle and Assaker, 2015). In wine tourism research, applications of this method can be found mainly in studies of wine tourists’ attitudes and behaviors; the method is rarely used on the supply side, precisely at director/managers of wineries. According to the importance of the theoretical framework for the proper implementation of SEM (Nunkoo and Ramkissoon, 2011), the construct measures of model building are presented.

**Construct measures**

The model in Figure 1 is based on the approaches of Pavlou and El Sawy (2011) and Vargas-Sánchez and Riquel-Ligero (2013). Pavlou and El Sawy (2011) propose that dynamic capabilities are a second-order construct with formative relationships in terms of sensing capability, learning capability, integrating capability, and coordinating capability. Our model added the reconfiguring capability as a fifth capability, as seen in David Teece’s arguments and recognized in the studies of Fischer et al. (2010), Gebauer (2011), Kindström et al. (2013), and Teece (2009). Additionally, Vargas-Sánchez and Riquel-Ligero’s (2013) approach proposes that institutional pressures is a second-order construct with formative relationships in terms of normative force, coercive force, and mimetic force.

Based on these relationships, this model can be classified as a molar second-order model (Chin, 2010), since the five capabilities (sensing, learning, integrating, coordinating, and reconfiguring capabilities) and the three forces (normative, coercive, and mimetic forces) form a first-order reflective measurement model. Recently, Becker et al. (2012) classified it as a reflective-formative model in the sense that there is a “general concept,” which is dynamic capabilities and institutional pressures in our model, that fully mediates the influence of reflective first-order constructs (sensing, learning, integrating, coordinating, and reconfiguring capabilities; and normative, coercive, and mimetic forces, respectively) in subsequent endogenous variables (wine tourism development in our model). These second-order constructs (dynamic capabilities and institutional pressures) are measured by using the same set of items used to measure each first-order construct (Becker et al., 2012; Chin et al., 2003). This approach therefore enables us to determine the indirect effect of eight reflective first-order constructs on wine tourism development as the pairwise product of weights for formative constructs (dynamic capabilities and institutional pressures) and the path coefficient linking dynamic capabilities and institutional pressures to wine tourism development. Besides on these constructs and based on the studies conducted by Riquel-Ligero (2010), our model also proposes that wine tourism development, social legitimacy, and organizational ***performance*** are reflective first-order constructs.

**Results**

The model estimation steps through SEM involve analyzing the relationships between the ***indicators*** and their respective latent variables (measurement model) and the relationships between the latent variables (structural model). Based on assessing the correct specification of the measurement models, we will evaluate the predictive power of the structural model (Henseler et al., 2009) and report on the observed effects. The research hypotheses will be tested by observing the signal and the statistical significance of the direct and indirect relationships between the latent constructs.

**Measurement model**

The model was initially estimated with a sample size of 40 cases, 13 latent variables, and 137 ***indicators***. In order to meet all the measurement model minimum requirements in terms of reliability and validity, some ***indicators*** need to be eliminated. So the final model involved 75 ***indicators***. This was an expected result given the exploratory nature of this study. Table 2 shows the main results for the reflective measurement models. Hence, their convergent reliability was assessed by ***indicator*** and construct reliability. All loadings for the reflective ***indicators*** exceed the minimum acceptable value of 0.50, suggesting at least moderate individual reliability. Construct reliability was observed by assessing the composite reliability, where values surpass the minimum recommended threshold of 0.7 (Fornell and Larcker, 1981). Table 2 also reports the loadings’ significance (all p-values ≤ 0.02) and constructs with an average variance extracted higher than 0.5, suggesting an adequate convergent validity (Bagozzi and Yi, 1988).

Discriminant validity of reflective constructs was examined via cross-loading assessment (Fornell and Larcker, 1981). This analysis, not presented in the paper due to space limitations, reveals that each item loads higher on its respective construct than on any other constructs, suggesting, therefore, discriminant validity.

Overall, the results of the reflective measurement model suggest that the constructs used in this study have satisfactory levels of internal consistency (i.e. reliability), as well as convergent and discriminant validity.

Regarding the second-order formative constructs in our model, we observe that the weight of the three forces is statistically significant and contributes positively to form the institutional pressures construct (normative force = 0.531, coercive force = 0.346, mimetic force = 0.432, all p-values = 0.000). The same applies to the weight of the five capabilities that significantly contribute to form the dynamic capabilities construct (sensing capability = 0.252, learning capability = 0.300, integrating capability = 0.251, coordinating capability = 0.242, reconfiguring capability = 0.125, all p-values = 0.000). We also tested for multicollinearity by looking at the variance inflation factor. All the observed values are very low, clearly lower than 5 (between 1.000 and 3.579 in our model), meaning absence of serious multicollinearity (Henseler et al., 2009).

**Structural model**

Table 3 also shows the coefficient of determination (R2) and the Stone–Geisser index (Q2) values for the endogenous latent variables. The R2 values, measuring the explained variability in the structural equations for wine tourism development, social legitimacy, and organizational ***performance***, are moderate. The latent variables dynamic capabilities and institutional pressures have a very high R2 value (R2 = 1), which is an expected result given its second-order nature and the use of the repeated ***indicator*** approach. The Q2 values, through blindfolding, are all positive, meaning that the corresponding structural equation has predictive relevance. The path coefficients’ significance and the corresponding p-values in outputs of the software SmartPLS are represented in Table 3. These are the estimated coefficients for the direct relationships in what concerns H1, H2, H3, and H4 and the estimated indirect coefficients regarding H1a, H1b, H1c, and H3. From the set of hypotheses, only H5 is rejected (p-value > 0.05). Table 3.Direct and indirect effects of the independent variables on development variables and research hypotheses.

| **Hypothesis** | **Constructs relations** | **Coefficients β** | **p-value (bootstrap)** | **Outcomes** |
| --- | --- | --- | --- | --- |
| H1 | Dynamic capabilities → Wine tourism development | 0.448 | 0.001 | Not rejected |
| H1a | Sensing capability → Wine tourism developmenta | 0.113 | 0.001 | Not rejected |
| H1b | Learning capability → Wine tourism developmenta | 0.134 | 0.002 | Not rejected |
| H1c | Integrating capability → Wine tourism developmenta | 0.112 | 0.002 | Not rejected |
| H1d | Coordinating capability → Wine tourism developmenta | 0.108 | 0.001 | Not rejected |
| H1e | Reconfiguring capability → Wine tourism developmenta | 0.056 | 0.003 | Not rejected |
| H2 | Institutional pressures → Wine tourism development | 0.343 | 0.020 | Not rejected |
| H2a | Normative force → Wine tourism developmenta | 0.182 | 0.024 | Not rejected |
| H2b | Coercive force → Wine tourism developmenta | 0.119 | 0.025 | Not rejected |
| H2c | Mimetic force → Wine tourism developmenta | 0.148 | 0.026 | Not rejected |
| H3 | Wine tourism development → Organizational ***performance*** | 0.438 | 0.042 | Not rejected |
| H4 | Wine tourism development → Organizational ***performance***a | 1.017 | 0.001 | Not rejected |
| H5 | Social legitimacy → Organizational ***performance*** | 0.205 | 0.321 | Rejected |

aIndirect effects.

Table 4 shows the total effects for the exogenous latent variables on wine tourism development and organizational ***performance***, where the learning capability and the normative force are the best predictors of wine tourism development (total effects = 0.134 and 0.182, respectively) and organizational ***performance*** (total effects = 0.078 and 0.105, respectively). Table 4.Analysis of total effects of the independent variables on wine tourism development and organizational ***performance***.

|  | **β** | **p-value (bootstrap)** |
| --- | --- | --- |
| Sensing capability → Wine tourism development | 0.113 | 0.001 |
| Learning capability → Wine tourism development | 0.134 | 0.002 |
| Integrating capability → Wine tourism development | 0.112 | 0.002 |
| Coordinating capability → Wine tourism development | 0.108 | 0.001 |
| Reconfiguring capability → Wine tourism development | 0.056 | 0.003 |
| Normative force → Wine tourism development | 0.182 | 0.024 |
| Coercive force → Wine tourism development | 0.119 | 0.025 |
| Mimetic force → Wine tourism development | 0.148 | 0.026 |
| Sensing capability → Organizational ***performance*** | 0.065 | 0.016 |
| Learning capability → Organizational ***performance*** | 0.078 | 0.016 |
| Integrating capability → Organizational ***performance*** | 0.065 | 0.024 |
| Coordinating capability → Organizational ***performance*** | 0.063 | 0.012 |
| Reconfiguring capability → Organizational ***performance*** | 0.032 | 0.023 |
| Normative force → Organizational ***performance*** | 0.105 | 0.021 |
| Coercive force → Organizational ***performance*** | 0.069 | 0.022 |
| Mimetic force → Organizational ***performance*** | 0.086 | 0.030 |

**Discussion and conclusion**

The model proposed in our study intends to contribute to a better understanding of the process by which wineries combine internal needs and opportunities in the business environment, as well as how they deal with the pressures of the institutional context to develop wine tourism in their business unit.

Thus, the causes of wine tourism development in the organizational context of the wineries are checked against the use of dynamic capabilities and the influence of institutional pressures in the organizational behavior of these companies to develop wine tourism. The direct and positive relationships of dynamic capabilities and institutional pressures (H1 and H2) in wine tourism development by Alentejo wineries, the object of this study, are supported (Table 3). In particular, these two contrary (internal and external) forces influence wine tourism development in global aspects that make up the wine tourism product, which are related to the wine region, the winery tour, physical and organizational structures, and facilities and service staff (Table 2).

The wineries build/use a set of capabilities simultaneously and differently for wine tourism development (H1a, b, c, d, e). This finding is consistent with the literature that shows the contribution of these capabilities to new product development (Pavlou and El Sawy, 2011) and corresponds to the results obtained in the service sector studies (Fischer et al., 2010; Gebauer, 2011; Kindström et al., 2013). The sensing capability enables wineries to spot, interpret, and pursue opportunities concerning wine tourism in the environment; the learning capability involves routines to acquire, assimilate, transform, and exploit knowledge about wine tourism in the organization; the integrating capability and coordinating capability allow a careful interconnection and synchronization of wine tourism activities with other organizational departments to better react in novel situations. Thus, the reconfiguring capability involves routines and procedures to successfully allocate resources to come up with new productive assets employed in wine tourism (such as tours to visitors, accommodation in the winery, interpretation and dissemination of the cultural and natural heritage of company ownership).

At the same time, these wineries are suffering different pressures in terms of the institutional context that influence their behavior toward wine tourism development. The three sources of institutional pressure simultaneously and differently influence wine tourism development (H2a, b, c), an aspect that is consistent with the literature that shows the influence of the three sources of institutional pressure on organizations’ behavior (Colwell and Joshi, 2013; Hoffman, 1999; Teo et al., 2003; Zhu et al., 2013). The normative force introduces a prescriptive and evaluative dimension, a social and moral obligation in the wineries’ behavior concerning wine tourism, through social values and compliance with social norms prevailing in the environment. Coercive force provides explicit guidance to organizations through formal rules that are reflected in the adoption and compliance of the Alentejo companies in action plans, rules, and/or agreements concerning wine tourism promoted by the Wine Route. Finally, mimetic force is perceived in the wineries’ behavior through knowing and acquiring information on successful experiences from other companies that already have wine tourism for later use in their business model.

In addition, it is important to note that our results support the notion that wine tourism development promotes better ***performance*** for wineries (H3), especially in terms of profit, market share, and competitive advantage, along with the social legitimacy of their actions and the practice of wine tourism (H4) (Table 3). The main stakeholders that have an important role in establishing and maintaining social acceptability standards (legitimacy) in the business of wine tourism are the employees, the customers, and the Alentejo Wine Route. In particular, the organizational structure of the Wine Route (with rules of conduct, regulations, and management standards) provides stability and uniformity in the organizational field and influences wine tourism development at an organizational level through normative and regulatory requirements. However, the empirical results show that the social legitimacy has no direct relationship with wineries’ ***performance*** (H5), as is seen in tourism studies in the environmental area (Riquel-Ligero and Vargas-Sánchez, 2013; Vargas-Sánchez and Riquel-Ligero, 2011).

Moreover, the analyses of total effects enabled us to identify that learning capability and normative force have the greatest incidence on wine tourism development and organizational ***performance*** in Alentejo wineries (Table 4). This means that wine tourism development makes demands on the wineries’ ability to acquire, assimilate, transform, and exploit knowledge internally. As a dynamic capability has the power to originate innovative behavior (Delmas, 2002; Delmas and Toffel, 2012; Teece, 2007), this leads us to suppose that these wineries have an organizational culture open to innovation and entrepreneurship and wine tourism development represents this innovative process. At the same time, the acceptance of values and social standards in the environment establish informal and formal rules for organizational behavior. This conclusion leads us to the statement that institutional factors such as rigidity and environmental uncertainty may restrict organizational change and, therefore, the innovative behavior of the wineries, as detected by Delmas (2002) in European managers.

In summary, the results of this study—built upon the intraorganizational perspective using the dynamic capability approach and the interorganizational perspective using institutional theory—support these propositions: through wine tourism development, the wineries purposely create, extend, and modify their processes, building and using dynamic capabilities (H1), whereas institutional factors shape firms’ behavior (H2) and ensure social legitimacy for their actions and practices (H4), besides improving their organizational ***performance*** (H3).

**Implications, recommendations, and limitations**

This study provides an important and significant contribution to scientific knowledge in tourism and is innovative in two ways: it combines two theoretical approaches from different analysis perspectives, although complementary, allowing a holistic analysis of organizational behavior; and it uses a SEM methodology to empirically test the theory in the wineries context and, thus, in terms of wine tourism research.

This is the first attempt to combine these two theoretical frameworks to explain wine tourism behavior. Therefore, this research contributes to knowledge in terms of testing theory and provides a series of validated ***indicators***, stimulating further research. Specifically, this work fills a research gap by undertaking an empirical investigation of wine tourism by applying the dynamic capability approach in tandem with institutional theory, which enables modeling of the causes and effects of wine tourism development in wineries.

Another significant contribution of this research is the set of ***indicators*** used to measure wine tourism development in the organizational context. This is particularly interesting because it may help to identify why there are wineries more developed than others in terms of wine tourism. The literature has not yet identified ***indicators*** for evaluating the level of wine tourism development in the wineries.

The perspective of the dynamic capabilities approach shows that wineries renew and extend their operational capabilities regarding wine tourism development. Institutional theory, in turn, shows how the institutional contexts influence the organizational behavior by imposing restrictions. The results generate a series of practical implications for the wine tourism management of wineries, specifically in terms of the decision making and ***strategic*** processes of business. For example, findings can enable managers to identify endogenous and exogenous factors that contribute to wine tourism development; to structure the wine tourism offer; to provide indications for the implementation, operationalization, and evaluation of wine tourism products. In short, this should be reflected on organizational guidelines leading the business model and the wine tourism practice. With regard to the organizational change process, managers have a key role in determining the organizational objectives and ***strategic*** planning of the business model in order to take advantage of new opportunities and threats (Grande, 2011; Nieves and Haller, 2014).

In addition to providing practical tools for wineries, this study sensitizes the wine industry to stimulate visitation routines and tourist enjoyment complementary to its core business, which is wine. And, thus, to promote growth and consolidation of this segment (wine tourism), both in Portugal, in general, and in the Alentejo region, in particular.

Another contribution of this study is its potential to sensitize the wine industry and the public authorities on the importance and the role of the wine routes for the wine tourism development. In fact, this research can provide insights into the interorganizational relationship between the wine route and organizations, which has significant consequences on wine tourism development. Managers should perceive that compliance with the standards of conduct generally accepted offers greater stability to organizations, because the institutional context can facilitate or hinder certain organizational actions. Associations in partnership with public administrations should establish normative standards for wineries that want to deploy wine tourism, as a manual of good practices for the wine tourism in these companies.

Our study is limited both in terms of its cross-sectional design and its restriction to the Alentejo context. These aspects do not allow generalization of results. These aspects can be overcome with future studies. For example, subsequent studies may investigate the longitudinal evolution of the maintenance of dynamic capabilities and the institutional context. Researchers may also consider the possible moderating effects of a firm’s characteristics (size and age) and the education and experience of managers. Finally, future studies should approximate two fields of ***strategic*** management and organizations theory, in general, and dynamic capabilities and institutional theory, in particular.

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[***FEDERAL REGISTER: Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2018 Pages 46289 - 46297 [FR DOC # 2017-21448]***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PN7-THJ1-F0YC-N50H-00000-00&context=1516831)

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Washington: Office of the Federal Register has issued the following notice:

MILLENNIUM CHALLENGE CORPORATION [MCC FR 17-06] Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2018 AGENCY: Millennium Challenge Corporation. ACTION: Notice. ----------------------------------------------------------------------- SUMMARY: This report to Congress is provided in accordance with Section 608(b) of the Millennium Challenge Act of 2003, as amended, (the ``Act''). Dated: September 29, 2017. Jeanne M. Hauch, VP/General Counsel and Corporate Secretary, Millennium Challenge Corporation. Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2018 Summary In accordance with section 608(b)(2) of the Millennium Challenge Act of 2003 (the ``Act,'' 22 U.S.C 7707(b)(l)), the Millennium Challenge Corporation (MCC) is submitting the enclosed report. This report identifies the criteria and methodology that MCC intends to use to determine which candidate countries may be eligible to be considered for [[Page 46290]] assistance under the Act for fiscal year 2018. Under section 608 (c)(1) of the Act, MCC will, for a thirty-day period following publication, accept and consider public comment for purposes of determining eligible countries under section 607 of the Act (22 U.S.C 7706). Criteria and Methodology for FY 2018 This document explains how the Board of Directors (Board) of the Millennium Challenge Corporation (MCC) will identify, evaluate, and select eligible countries for fiscal year (FY) 2018. The statutory basis for this report is set forth in Appendix A. Specifically, this document discusses: I. Which countries MCC will evaluate II.

How the Board evaluates these countries A. Overall B. For Selection for First Compact Eligibility C. For Selection for Second/Subsequent Compact Eligibility D. For Threshold Program Assistance E. A Note on Potential Regional Investments F. A Note on Potential Transition to Upper Middle Income Country (UMIC) Status After Initial Selection I. Which countries are evaluated? MCC evaluates all low-income countries (LICs) and lower-middle income countries (LMICs) as follows:  For scorecard evaluation purposes for FY 2018, MCC defines LICs as those countries between $0 and $1,905 GNI per capita, and LMICs as those countries between $1,906 and $3,955 GNI per capita.\1\ ---------------------------------------------------------------------------

    \1\ This corresponds to LIC and LMIC definitions using the historic International Development Association (IDA) thresholds published by the World Bank. ---------------------------------------------------------------------------

     For funding purposes for FY 2018, MCC defines the poorest 75 countries as LICs, and the remaining countries up to the UMIC threshold of $3,955 as LMICs.\2\ ---------------------------------------------------------------------------

    \2\ By law, no more than 25 percent of all compact funds for a given fiscal year may be provided to LMIC countries (using this ``funding'' definition). ---------------------------------------------------------------------------

    In Appendix B, lists of all LICs, LMICs and statutorily prohibited countries for scorecard evaluation purposes are provided. The list using the ``funding'' definition was outlined in the August 2017 Report on Countries that are Candidates for Millennium Challenge Account Eligibility for Fiscal Year 2018 and Countries that Would be Candidates but for Legal Prohibitions (the ``Candidate Country Report''), and describes how funding categories work.

II. How does the Board evaluate these countries?

A. Overall Evaluation

    The Board looks at three legislatively-mandated factors in its evaluation of any candidate country for compact eligibility: (1) Policy ***performance***; (2) the opportunity to reduce poverty and generate economic growth; and (3) the availability of MCC funds. 1. Policy ***Performance***     Because of the importance of needing to evaluate a country's policy ***performance*** and needing to do so in a comparable, cross-country way, the Board relies to the maximum extent possible upon the best-available objective and quantifiable ***indicators*** of policy ***performance***. These ***indicators*** act as proxies of the country's commitment to just and democratic governance, economic freedom, and investing in its people, as laid out in MCC's founding legislation. Comprised of 20 third-party ***indicators*** in the categories of ``encouraging economic freedom,'' ``investing in people,'' and ``ruling justly,'' MCC ``scorecards'' are created for all LICs and LMICs. To ``pass'' the ***indicators*** on the scorecard, the country must perform above the median among its income group (as defined above for scorecard evaluation purposes), except in the cases of inflation, political rights, civil liberties, and immunization rates (LMICs only), where threshold scores have been established. In particular, the Board considers whether the country:      Passed at least 10 of the 20 ***indicators***, with at least one in each category,      Passed either the Political Rights or Civil Liberties ***indicator***, and      Passed the Control of Corruption ***indicator***.     While satisfaction of all three aspects means a country is termed to have ``passed'' the scorecard, the Board also considers whether the country performed ``substantially worse'' in any one policy category than it does on the scorecard overall. Appendix C describes all 20 ***indicators***, their definitions, what is required to ``pass,'' their source, and their relationship to the legislative criteria.     The mandatory passing of either the Political Rights or Civil Liberties ***indicators*** is called the Democratic Rights ``hard hurdle'' on the scorecard, while the mandatory passing of the Control of Corruption ***indicator*** is called the Control of Corruption ``hard hurdle.'' Not passing either ``hard hurdle'' results in not passing the scorecard overall, regardless of whether at least 10 of the 20 other ***indicators*** are passed.      Democratic Rights ``hard hurdle:'' This hurdle sets a minimum bar for democratic rights below which the Board will not consider a country for eligibility. Requiring that a country pass either the Political Rights or Civil Liberties ***indicator*** creates a democratic incentive for countries, recognizes the importance democracy plays in driving poverty-reducing economic growth, and holds MCC accountable to working with the best governed, poorest countries. When a candidate country is only passing one of the two ***indicators*** comprising the hurdle (instead of both), the Board will also closely examine why it is not passing the other ***indicator*** to understand what the score implies for the broader democratic environment and trajectory of the country. This examination will include consultation with both local and international civil society experts, among others.      Control of Corruption ``hard hurdle:'' Corruption in any country is an unacceptable tax on economic growth and an obstacle to the private sector investment needed to reduce poverty. Accordingly, MCC seeks out partner countries that are committed to combatting corruption. It is for this reason that MCC also has the Control of Corruption ``hard hurdle,'' which helps ensure that MCC is working with countries where there is relatively strong ***performance*** in controlling corruption. Requiring the passage of the ***indicator*** provides an incentive for countries to demonstrate a clear commitment to controlling corruption, and allows MCC to better understand the issue by seeing how the country performs relative to its peers and over time.     Together, the 20 policy ***performance*** ***indicators*** are the predominant basis for determining which eligible countries will be selected for MCC assistance, and the Board expects a country to be passing its scorecard at the point the Board decides to select the country for either a first or second/subsequent compact. However, the Board also recognizes that even the best-available data has inherent challenges. For example, data gaps, real-time events versus data lags, the absence of narratives and nuanced detail, and other similar weaknesses affect each of these ***indicators***. In such instances, the Board uses its judgment to interpret policy ***performance*** as measured by the scorecards. The Board may also consult other sources of information to further enhance its understanding of a given country's policy ***performance*** beyond the issues on the scorecard, which is

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especially useful given the unique perspective of each Board member (e.g , specific policy issues related to trade, civil society, other U.S aid programs, financial sector ***performance***, and security/foreign policy issues). The Board uses its judgment on how best to weigh such information in assessing overall policy ***performance***. 2. The Opportunity To Reduce Poverty and Generate Economic Growth     The Board also consults other sources of qualitative and quantitative information to have a more detailed view of the opportunity to reduce poverty and generate economic growth in a country.     While the Board considers a range of other information sources depending on the country, specific areas of attention typically include better understanding the issues on, trends in, and trajectory of:      The state of democratic and human rights (especially of vulnerable groups \3\); ---------------------------------------------------------------------------

    \3\ For example, women; children; lesbian, gay, bisexual, and transgender individuals; people with disabilities; and workers. ---------------------------------------------------------------------------

     The perspective of civil society on salient governance issues;      The control of corruption and rule of law;      The potential for the private sector (both local and foreign) to lead investment and growth;      The levels of poverty within a country; and      The country's institutional capacity.     Where applicable, the Board also considers MCC's own experience and ability to reduce poverty and generate economic growth in a given country--such as considering MCC's core skills versus the country's needs, capacity within MCC to work with a country, and the likelihood that MCC is seen by the country as a credible partner.     This information provides greater clarity on the likelihood that MCC investments will have an appreciable impact on reducing poverty and generating economic growth in a given country. The Board has used such information both to not select countries that are otherwise passing their scorecards, as well as to better understand when a country's ***performance*** on a particular ***indicator*** may not be up to date or is about to change. More details on this subject (sometimes referred to as ``supplemental information'') can be found on MCC's Web site. 3. The Availability of MCC Funds     The final factor that the Board must consider when evaluating countries is the funding available. The agency's allocation of its budget is constrained, and often specifically limited, by provisions in the authorizing legislation and appropriations acts. MCC has a continuous pipeline of countries in compact development, compact implementation, and compact closeout, as well as threshold programs. Consequently, the Board factors in the overall portfolio picture when making its selection decisions given the funding available for each of the agency's planned or existing programs. \* \* \* \* \*     The following subsections describe how each of these three legislatively-mandated factors are applied with regard to the selection situations the Board encounters each December: selection of countries for first compact eligibility, selection of countries for second/ subsequent compact eligibility, and selection of countries for the threshold program. Thereafter, notes are included on consideration of countries for potential regional investments, and issues for consideration for countries that might graduate to upper middle income country status after initial selection.

B. Evaluation for Selection of Countries for First Compact Eligibility

    When selecting eligible countries, the Board looks at all three legislatively-mandated aspects described in the previous section: (1) Policy ***performance***, first and foremost as measured by the scorecards and bolstered through additional information (as described in the previous section); (2) the opportunity to reduce poverty and generate economic growth, examined through the use of other supporting information (as described in the previous section); and (3) the funding available.     At a minimum, the Board looks to see that the country passes its scorecard. It also examines supporting evidence that the country's commitment to just and democratic governance, economic freedom, and investing in its people is on a sound footing and ***performance*** is on a positive trajectory (especially on the `hard hurdles' of Democratic Rights and Control of Corruption, as described in the previous section), and that MCC has funding to support a meaningful compact with that country. Where applicable, previous threshold program information is also considered. The Board then weighs the information described above across each of the three dimensions.     The approach described above is then applied in any additional years of selection of a country to continue to develop a first compact, with the added benefit of having cumulative scorecards, cumulative records of policy ***performance***, and other accumulated supporting information to determine the overall pattern of ***performance*** over the emerging multi-year trajectory.

C. Evaluation for Selection of Countries for Second/Subsequent Compact Eligibility

    Section 609(k) of the Millennium Challenge Act of 2003, as amended, specifically authorizes MCC to enter into ``one or more subsequent Compacts.'' MCC does not consider subsequent compact eligibility, however, before countries have completed their compact or are within 18 months of completion, (e.g , a second compact if they have completed or are within 18 months of completing their first compact). Selection for subsequent compacts is not automatic and is intended only for countries that (1) exhibit successful ***performance*** on their previous compact; (2) exhibit improved scorecard policy ***performance*** during the partnership; and (3) exhibit a continued commitment to further their sector reform efforts in any subsequent partnership. As a result, the Board has an even higher standard when selecting countries for subsequent compacts. 1. Successful Implementation of the Previous Compact     To evaluate the degree of success of the previous compact, the Board looks to see if there is a clear evidence base of success within the budget and time limits of the compact, in particular by looking at three aspects:      The degree to which there is evidence of strong political will and management capacity: Is the partnership characterized by the country ensuring that both policy reforms and the compact program itself are both being implemented to the best ability that the country can deliver;      The degree to which the country has exhibited commitment and capacity to achieve program results: Are the financial and project results being achieved; to what degree is the country committing its own resources to ensure the compact is a success; to what extent is the private sector engaged (if relevant); and other compact-specific issues; and      The degree to which the country has implemented the compact in accordance with MCC's core policies and standards: That is, is the country adhering to MCC's policies and procedures, including in critical areas such as remediating unresolved fraud and corruption and abuse or misuse of

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funds issues; procurement; and monitoring and evaluation.     Details on the specific types of information examined (and sources used) in each of the three areas are provided in Appendix D. Overall, the Board is looking for evidence that the previous compact will be completed or has been completed successfully, on time and on budget, and that there is a commitment to continued, robust reform going forward. 2. Improved Scorecard Policy ***Performance***     Beyond successful implementation of the previous compact, the Board expects the country to have improved its overall scorecard policy ***performance*** during the partnership, and to pass the scorecard in the year of selection for the subsequent compact. The Board focuses on:      The overall scorecard pass/fail rate over time, what this suggests about underlying policy ***performance***, as well as an examination of the underlying reasons;      The progress over time on policy areas measured by both hard-hurdle ***indicators***--Democratic Rights and Control of Corruption-- including an examination of the underlying reasons; and      Other ***indicator*** trajectories as deemed relevant by the Board.     In all cases, while the Board expects the country to be passing its scorecard, other sources of information are examined to understand the nuance and reasons behind scorecard or ***indicator*** ***performance*** over time, including any real-time updates, methodological changes within the ***indicators*** themselves, shifts in the relevant candidate pool, or alternative policy ***performance*** perspectives (such as gleaned through consultations with civil society and related stakeholders). Other sources of information are also consulted to look at policy ***performance*** over time in areas not covered by the scorecard, but that are deemed important by the Board (such as trade, foreign policy concerns, etc.). 3. A Commitment To Further Sector Reform     The Board expects that subsequent compacts will endeavor to tackle deeper policy reforms necessary to unlock an identified constraint to growth. Consequently, the Board considers its own experience during the previous compact in considering how committed the country is to reducing poverty and increasing economic growth, and therefore tries to gauge the country's commitment for further sector reform should it be selected for a subsequent compact. This includes:      Assessing the country's delivery of policy reform during the previous compact (as described above);      Assessing expectations of the country's ability and willingness to continue embarking on sector policy reform in a subsequent compact;      Examining both other sources of information that describe the nature of the opportunity to reduce poverty and generate growth (as outlined in A.2 above), and the relative success of the previous compact overall, as already discussed; and      Finally, considering how well funding can be leveraged for impact, given the country's experience in the previous compact. \* \* \* \* \*     Through this overall approach to subsequent compact selection, the Board applies the three legislatively mandated evaluation criteria (policy ***performance***, the opportunity to reduce poverty and generate economic growth, and the funding available) in a way that rests critically on deeply assessing the previous partnership: From a compact success standpoint, a commitment to improved scorecard policy ***performance*** standpoint, and a commitment to continued sector policy reform standpoint. The Board then weighs all of the information described above in making its decision.     The approach described above is then applied in any additional years of selection necessary as the country continues to develop the subsequent compact, with the added benefit of having further detail on previous compact implementation, cumulative scorecards, records of policy ***performance***, and other accumulated supporting information to determine the overall pattern of ***performance*** over the resulting multi- year trajectory.

D. Evaluation for Threshold Program Assistance

    The Board may also evaluate countries for participation in the Threshold Program. The Threshold Program provides assistance to candidate countries that exhibit a significant commitment to meeting the criteria described in the previous sub-sections, but fail to meet such requirements. Specifically, in examining the policy ***performance***, the opportunity to reduce poverty and generate economic growth, and the funding available, the Board will consider whether a country that potentially qualifies for threshold program assistance appears to be on a trajectory to becoming viable for compact eligibility in the medium term.

E. A Note on Potential Regional Investments

    FY 2018 marks the third year that the Board may consider selecting countries where potential regional investments (i.e , complementary assistance by MCC to two or more countries in a region) may be developed.     With respect to regional investments, the fundamental criteria and process for selection will remain unchanged: Countries will continue to be evaluated and selected individually, as described in sections A, B, and C above. However, for countries where regional investments might be contemplated, the Board will also examine additional supplemental information looking at the policy environment from a regional dimension.     Specifically, the Board will examine additional data and information related to:      The current state of the country's political and economic integration with its region and neighbors;      Impediments to further integration with its region and neighbors; and      The potential gains from investing at a regional level, including illustrative potential sector opportunities.     The Board will weigh this additional regional information in tandem with the other supplemental factors described earlier in sections A, B, and C. The Board will then decide whether or not it will direct MCC to explore some form of a regional investment with the country.

F. A Note on Potential Transition to Upper Middle Income Country (UMIC) Status After Initial Selection

    Some candidate countries may have a high LMIC per capita income and/or a high growth rate that implies there is a chance they could transition to UMIC status during the life of an MCC partnership. In such cases, it is not possible to accurately predict when such a country may or may not transition to UMIC status.     Nonetheless, such countries may have more resources at their disposal for funding their own growth and poverty reduction strategies. As a result, in addition to using the regular selection criteria described in the previous sections, the Board will also use its discretion to assess both the need and the opportunity presented by partnering with such a country, in order to ensure that there is a higher bar for possible selection.     Specifically, if a candidate country with a high probability of transitioning

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to UMIC status is under consideration for selection, the Board will examine additional data and information related to:      Whether the country faces significant challenges accessing other sources of development financing (such as international capital, domestic resources, and other donor assistance) and, if so, examining if MCC grant financing would be an appropriate tool.      Whether the nature of poverty in the country (for example, high inequality or poverty headcount ratios relative to peer countries) presents a clear and ***strategic*** opportunity for MCC to assist the country in reducing such poverty through investments that spur economic growth.      Whether the country demonstrates particularly strong policy ***performance***, including policies and actions that demonstrate a clear priority on poverty reduction.      Whether MCC can reasonably expect that the country would contribute a significant amount of funding to the compact.     These additional criteria would then be applied in any additional years of selection as the country continues to develop its compact. Should the country eventually transition to UMIC status during compact development, the country would no longer be a candidate country for that fiscal year. Consequently, continuing the partnership beyond that point would then be at the Board's discretion, and would rely on funding from previous fiscal years from when the country was a candidate country.

Appendix A: Statutory Basis for This Report

    This report to Congress is provided in accordance with section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C 7707(b) (the Act).     Section 605 of the Act authorizes the provision of assistance to countries that enter into a Millennium Challenge Compact with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction. The Act requires MCC to take a number of steps in selecting countries for compact assistance for FY 2018 based on the countries' demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, MCC's opportunity to reduce poverty and generate economic growth in the country, and the availability of funds. These steps include the submission of reports to the congressional committees specified in the Act and publication of information in the Federal Register that identify:     1. The countries that are ``candidate countries'' for assistance for FY 2018 based on per capita income levels and eligibility to receive assistance under U.S law. (section 608(a) of the Act; 22 U.S.C 7707(a));     2. The criteria and methodology that MCC's Board of Directors (Board) will use to measure and evaluate policy ***performance*** of the candidate countries consistent with the requirements of section 607 of the Act (22 U.S.C 7706) in order to determine ``eligible countries'' from among the ``candidate countries'' (section 608(b) of the Act; 22 U.S.C 7707(b)); and     3. The list of countries determined by the Board to be ``eligible countries'' for FY 2018, with justification for eligibility determination and selection for compact negotiation, including those eligible countries with which MCC will seek to enter into compacts (section 608(d) of the Act; 22 U.S.C 7707(d)).     This report satisfies item 2 above.

Appendix B: Lists of all LICs, LMICs, and Statutorily Prohibited Countries for Evaluation Purposes

Income Classification for Scorecards

    Since MCC was created, it has relied on the World Bank's gross national income (GNI) per capita income data (Atlas method) and the historical ceiling for eligibility as set by the World Bank's International Development Association (IDA) to divide countries into two income categories for purposes of creating scorecards: LICs and LMICs. These categories are used to account for the income bias that occurs when countries with more per capita resources perform better than countries with fewer. Using the historical IDA eligibility ceiling for the scorecards ensures that the poorest countries compete with their income level peers and are not compared against countries with more resources to mobilize.     MCC will continue to use the traditional income categories for eligibility to categorize countries in two groups for purposes of FY 2018 scorecard comparisons:      LICs are countries with GNI per capita below IDA's historical ceiling for eligibility ($1,905 for FY 2018); and      LMICs are countries with GNI per capita above IDA's historical ceiling for eligibility but below the World Bank's upper middle income country threshold ($1,906-$3,955 for FY 2018).     The list of countries categorized as LICs and LMICs for the purpose of FY 2018 scorecard assessments can be found below.\4\ ---------------------------------------------------------------------------

    \4\ In December 2011, a statutory change requested by MCC altered the way MCC must group countries for the purposes of applying MCC's 25 percent LMIC funding cap. This change, designed to bring stability to the funding stream, affects how MCC funds countries selected for compacts and does not affect the way scorecards are created. For determining whether a country can be funded as an LMIC or LIC:      The poorest 75 countries are now considered LICs for the purposes of MCC funding. They are not limited by the 25 percent funding cap on LMICs.      Countries with a GNI per capita above the poorest 75 but below the World Bank's upper middle income country threshold ($3,955 for FY 2018) are considered LMICs for the purposes of MCC funding. By law, no more than 25 percent of all compact funds for a given fiscal year can be provided to these countries.     The FY 2018 Candidate Country Report lists LICs and LMICs based on this definition and outlines which countries are subject to the 25 percent funding cap. ---------------------------------------------------------------------------

Low Income Countries (FY 2018 Scorecard)

1. Afghanistan 2. Bangladesh 3. Benin 4. Burkina Faso 5. Burma 6. Burundi 7. Cambodia 8. Cameroon 9. Central African Republic 10. Chad 11. Comoros 12. Democratic Republic of Congo 13. Republic of Congo 14. C[ocirc]te d'Ivoire 15. Djibouti 16. Eritrea 17. Ethiopia 18. Gambia 19. Ghana 20. Guinea 21. Guinea-Bissau 22. Haiti 23. India 24. Kenya 25. Kyrgyz Republic 26. Lesotho 27. Liberia 28. Madagascar 29. Malawi 30. Mali 31. Mauritania 32. Mozambique 33. Nepal 34. Niger 35. North Korea 36. Pakistan 37. Rwanda 38. S[atilde]o Tom[é] and Principe 39. Senegal 40. Sierra Leone 41. Solomon Islands 42. Somalia 43. South Sudan 44. Syria

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45. Tajikistan 46. Tanzania 47. Timor-Leste 48. Togo 49. Uganda 50. Yemen 51. Zambia 52. Zimbabwe

Lower Middle Income Countries (FY 2018 Scorecard)

1. Angola 2. Armenia 3. Bhutan 4. Bolivia 5. Cabo Verde 6. Egypt 7. El Salvador 8. Georgia 9. Guatemala 10. Honduras 11. Indonesia 12. Jordan 13. Kiribati 14. Kosovo 15. Lao PDR 16. Micronesia 17. Moldova 18. Mongolia 19. Morocco 20. Nicaragua 21. Nigeria 22. Papua New Guinea 23. Philippines 24. Sri Lanka 25. Sudan 26. Swaziland 27. Tunisia 28. Ukraine 29. Uzbekistan 30. Vanuatu 31. Vietnam

Statutorily Prohibited Countries for FY18 \5\ ---------------------------------------------------------------------------

    \5\ This list is current as of August 1, 2017. Between such date and the December 2017 selection Board meeting, other countries may also be the subject of future statutory restrictions or determinations, or changed country circumstances, that affect their legal eligibility for assistance under part I of the Foreign Assistance Act by reason of application of the Foreign Assistance Act or any other provision of law for FY2018. Even though these countries are prohibited from received assistance, scorecards are still created for them to ensure all countries are included in an income group in order to determine the global medians/scores for that income group. ---------------------------------------------------------------------------

1. Bolivia 2. Burma 3. Eritrea 4. North Korea 5. South Sudan 6. Sudan 7. Syria 8. Zimbabwe

Appendix C: ***Indicator*** Definitions

    The following ***indicators*** will be used to measure candidate countries' demonstrated commitment to the criteria found in section 607(b) of the Act. The ***indicators*** are intended to assess the degree to which the political and economic conditions in a country serve to promote broad-based sustainable economic growth and reduction of poverty and thus provide a sound environment for the use of MCC funds. The ***indicators*** are not goals in themselves; rather, they are proxy measures of policies that are linked to broad-based sustainable economic growth. The ***indicators*** were selected based on (i) their relationship to economic growth and poverty reduction; (ii) the number of countries they cover; (iii) transparency and availability; and (iv) relative soundness and objectivity. Where possible, the ***indicators*** are developed by independent sources.\6\ Listed below is a brief summary of the ***indicators*** (a detailed rationale for the adoption of these ***indicators*** can be found in the Public Guide to the ***Indicators*** on MCC's public website at [*www.mcc.gov*](http://www.mcc.gov)). ---------------------------------------------------------------------------

    \6\ Special note on Kosovo: Since UN agencies do not currently publish data for Kosovo due to non-recognition status, MCC is unable to source data directly from the UN for the six ***indicators*** that are constructed in all or in part from this data: Land Rights and Access, Health Expenditures, Primary Education Expenditures, Immunization Rates, Girls' Secondary Education Enrollment Rate, and Child Health. As result, MCC publishes data from UNKT (the UN Kosovo Team) in cases where UNKT uses comparable methodologies to their UN sister organizations. See [*http://www.unkt.org*](http://www.unkt.org)/ for more information. ---------------------------------------------------------------------------

Ruling Justly

    1. Political Rights: Independent experts rate countries on the prevalence of free and fair electoral processes; political pluralism and participation of all stakeholders; government accountability and transparency; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups, among other things. Pass: Score must be above the minimum score of 17 out of 40. Source: Freedom House     2. Civil Liberties: Independent experts rate countries on freedom of expression and belief; association and organizational rights; rule of law and human rights; and personal autonomy and economic rights, among other things. Pass: Score must be above the minimum score of 25 out of 60. Source: Freedom House     3. Freedom of Information: Measures the legal and practical steps taken by a government to enable or allow information to move freely through society; this includes measures of press freedom, national freedom of information laws, and the extent to which a county is filtering internet content or tools. Pass: Score must be above the median score for the income group. Source: Freedom House/Centre for Law and Democracy.     4. Government Effectiveness: An index of surveys and expert assessments that rate countries on the quality of public service provision; civil servants' competency and independence from political pressures; and the government's ability to plan and implement sound policies, among other things. Pass: Score must be above the median score for the income group. Source: Worldwide Governance ***Indicators*** (World Bank/Brookings)     5. Rule of Law: An index of surveys and expert assessments that rate countries on the extent to which the public has confidence in and abides by the rules of society; the incidence and impact of violent and nonviolent crime; the effectiveness, independence, and predictability of the judiciary; the protection of property rights; and the enforceability of contracts, among other things. Pass: Score must be above the median score for the income group. Source: Worldwide Governance ***Indicators*** (World Bank/Brookings)     6. Control of Corruption: An index of surveys and expert assessments that rate countries on: ``grand corruption'' in the political arena; the frequency of petty corruption; the effects of corruption on the business environment; and the tendency of elites to engage in ``state capture,'' among other things. Pass: Score must be above the median score for the income group. Source: Worldwide Governance ***Indicators*** (World Bank/Brookings)

Encouraging Economic Freedom

    1. Fiscal Policy: General government net lending/borrowing as a percent of gross domestic product (GDP), averaged over a three year period. Net lending/borrowing is calculated as revenue minus total expenditure. The data for this measure comes from the IMF's World Economic Outlook. Pass: Score must be above the median score for the income group. Source: The International Monetary Fund's World Economic Outlook Database     2. Inflation: The most recent average annual change in consumer prices. Pass: Score must be 15% or less. Source: The International Monetary Fund's World Economic Outlook Database     3. Regulatory Quality: An index of surveys and expert assessments that rate countries on the burden of regulations on business; price controls; the government's role in the economy; and

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foreign investment regulation, among other areas. Pass: Score must be above the median score for the income group. Source: Worldwide Governance ***Indicators*** (World Bank/Brookings)     4. Trade Policy: A measure of a country's openness to international trade based on weighted average tariff rates and non-tariff barriers to trade. Pass: Score must be above the median score for the income group. Source: The Heritage Foundation     5. Gender in the Economy: An index that measures the extent to which laws provide men and women equal capacity to generate income or participate in the economy, including factors such as the capacity to access institutions, get a job, register a business, sign a contract, open a bank account, choose where to live, and to travel freely. Pass: Score must be above the median score for the income group. Source: International Finance Corporation     a. Due to an expansion in the number of areas examined by the ***indicator*** institution since this ***indicator***'s conception in FY 2012, from FY 2019 the Gender in the Economy ***indicator*** will be expanded, and incorporate new areas such as property rights protections, protections against domestic violence, and child marriage (among others). Expanded details regarding these changes are provided in the annual Guide to the ***Indicators*** and Selection Process, and annual Data Notes, available on MCC's website.     b. To phase in this new construction of the ***indicator***, the original version of the ***indicator*** will be used on the FY 2018 scorecards. However, an appendix to the scorecards will be published that will show how countries would perform under the new construction of the ***indicator***. From FY 2019, the new construction of the ***indicator*** will then fully replace the current version on the scorecard.     6. Land Rights and Access: An index that rates countries on the extent to which the institutional, legal, and market framework provide secure land tenure and equitable access to land in ***rural*** areas and the time and cost of property registration in urban and peri-urban areas. Pass: Score must be above the median score for the income group. Source: The International Fund for ***Agricultural*** Development and the International Finance Corporation     7. Access to Credit: An index that rates countries on rules and practices affecting the coverage, scope, and accessibility of credit information available through either a public credit registry or a private credit bureau; as well as legal rights in collateral laws and bankruptcy laws. Pass: Score must be above the median score for the income group. Source: International Finance Corporation     8. Business Start-Up: An index that rates countries on the time and cost of complying with all procedures officially required for an entrepreneur to start up and formally operate an industrial or commercial business. Pass: Score must be above the median score for the income group. Source: International Finance Corporation

Investing in People

    1. Public Expenditure on Health: Total expenditures on health by government at all levels divided by GDP. Pass: Score must be above the median score for the income group. Source: The World Health Organization     2. Total Public Expenditure on Primary Education: Total expenditures on primary education by government at all levels divided by GDP. Pass: Score must be above the median score for the income group. Source: The United Nations Educational, Scientific and Cultural Organization and National Governments     3. Natural Resource Protection: Assesses whether countries are protecting up to 17 percent of all their biomes (e.g , deserts, tropical rainforests, grasslands, savannas and tundra). Pass: Score must be above the median score for the income group. Source: The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy     4. Immunization Rates: The average of DPT3 and measles immunization coverage rates for the most recent year available. Pass: Score must be above the median score for LICs, and 90% or higher for LMICs. Source: The World Health Organization and the United Nations Children's Fund     5. Girls Education:     a. Girls' Primary Completion Rate: The number of female students enrolled in the last grade of primary education minus repeaters divided by the population in the relevant age cohort (gross intake ratio in the last grade of primary). LICs are assessed on this ***indicator***. Pass: Score must be above the median score for the income group. Source: United Nations Educational, Scientific and Cultural Organization     b. Girls Secondary Enrollment Education: The number of female pupils enrolled in lower secondary school, regardless of age, expressed as a percentage of the population of females in the theoretical age group for lower secondary education. LMICs are assessed on this ***indicator*** instead of Girls Primary Completion Rates. Pass: Score must be above the median score for the income group. Source: United Nations Educational, Scientific and Cultural Organization     6. Child Health: An index made up of three ***indicators***: (i) access to improved water, (ii) access to improved sanitation, and (iii) child (ages 1-4) mortality. Pass: Score must be above the median score for the income group. Source: The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

Relationship to Legislative Criteria

    Within each policy category, the Act sets out a number of specific selection criteria. A set of objective and quantifiable policy ***indicators*** is used to inform eligibility decisions for assistance and to measure the relative ***performance*** by candidate countries against these criteria. The Board's approach to determining eligibility ensures that ***performance*** against each of these criteria is assessed by at least one of the objective ***indicators***. Most are addressed by multiple ***indicators***. The specific ***indicators*** appear in parentheses next to the corresponding criterion set out in the Act.     Section 607(b)(1): Just and democratic governance, including a demonstrated commitment to--     (A) promote political pluralism, equality and the rule of law (Political Rights, Civil Liberties, Rule of Law, and Gender in the Economy);     (B) respect human and civil rights, including the rights of people with disabilities (Political Rights, Civil Liberties, and Freedom of Information);     (C) protect private property rights (Civil Liberties, Regulatory Quality, Rule of Law, and Land Rights and Access);     (D) encourage transparency and accountability of government (Political Rights, Civil Liberties, Freedom of Information, Control of Corruption, Rule of Law, and Government Effectiveness); and     (E) combat corruption (Political Rights, Civil Liberties, Rule of Law, Freedom of Information, and Control of Corruption);     Section 607(b)(2): Economic freedom, including a demonstrated commitment to economic policies that--     (A) encourage citizens and firms to participate in global trade and international capital markets (Fiscal Policy, Inflation, Trade Policy, and Regulatory Quality);     (B) promote private sector growth (Inflation, Business Start-Up, Fiscal Policy, Land Rights and Access, Access

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to Credit, Gender in the Economy, and Regulatory Quality);     (C) strengthen market forces in the economy (Fiscal Policy, Inflation, Trade Policy, Business Start-Up, Land Rights and Access, Access to Credit, and Regulatory Quality); and     (D) respect worker rights, including the right to form labor unions (Civil Liberties and Gender in the Economy); and     Section 607(b)(3): Investments in the people of such country, particularly women and children, including programs that--     (A) promote broad-based primary education (Girls' Primary Completion Rate, Girls' Secondary Education Enrollment Rate, and Total Public Expenditure on Primary Education);     (B) strengthen and build capacity to provide quality public health and reduce child mortality (Immunization Rates, Public Expenditure on Health, and Child Health); and     (C) promote the protection of biodiversity and the transparent and sustainable management and use of natural resources (Natural Resource Protection).

Appendix D: Subsequent Compact Considerations

    MCC reporting and data in the following chart are used to assess compact ***performance*** of MCC partners nearing the end of compact implementation (i.e , within 18-months of compact end date). Some reporting used for assessment may contain sensitive information and adversely affect implementation or MCC-partner country relations. This information is for MCC's internal use and is not made public. However, key implementation information is summarized in compact status and results reports that are published quarterly on MCC's website under MCC country programs ([*https://www.mcc.gov/where-we-work*](https://www.mcc.gov/where-we-work)) or monitoring and evaluation (   [*https://www.mcc.gov/our-impact/m-and-e*](https://www.mcc.gov/our-impact/m-and-e)) webpages.

------------------------------------------------------------------------                                 MCC reporting/             Topic                 data source       Published documents ------------------------------------------------------------------------                            COUNTRY PARTNERSHIP rrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr Political Will:                Quarterly   Quarterly  Status of major       implementation      results published as  conditions precedent.         reporting.          ``Table of Key  Program oversight/    Quarterly   ***Performance***  implementation.               results             ***Indicators***'' [cir] project restructures.    reporting.          (available by [cir] partner response to      Survey of   country): https://  MCA capacity issues.          MCC staff.          [*www.mcc.gov/our-*](http://www.mcc.gov/our-)  Political                                 impact/m-and-e.  independence of MCA.                              Survey                                                    questions to be                                                    posted:   [*https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy18*](https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy18). Management Capacity:      Project      management capacity.      Project      ***performance***.      Level of MCC      ***intervention***/oversight.      Relative level      of resources required. ------------------------------------------------------------------------                              PROGRAM RESULTS rrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr Financial Results:             ***Indicator***   Monitoring  Commitments--         tracking tables.    and Evaluation Plans  including contributions to    Quarterly   (available by  compact funding.              financial           country): https://  Disbursements.        reporting.            [*www.mcc.gov/our-*](http://www.mcc.gov/our-) Project Results:               Quarterly   impact/m-and-e.  Output, outcome,      implementation      Quarterly  objective targets.            reporting.          Status Reports  MCA commitment to     Quarterly   (available by  `focus on results'.           results             country): https://  MCA cooperation on    reporting.            [*www.mcc.gov/our-*](http://www.mcc.gov/our-)  impact evaluation.            Survey of   impact/m-and-e.  Percent complete      MCC staff.          Quarterly  for process/outputs.          Impact      results published as  Relevant outcome      evaluations.        ``Table of Key  data.                                             ***Performance***  Details behind                            ***Indicators***''  target delays.                                    (available by                                                    country):   [*https://www.mcc.gov/our-impact/m-and-e*](https://www.mcc.gov/our-impact/m-and-e).                                                    Survey                                                    questions to be                                                    posted:   [*https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy18*](https://www.mcc.gov/resources/doc/summary-compact-survey-summary-fy18). Target Achievements. ------------------------------------------------------------------------                          ADHERENCE TO STANDARDS rrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr  Procurement.          Audits      Published OIG  Environmental and     (GAO and OIG).      and GAO audits.  social.                       Quarterly   Survey  Fraud and             implementation      questions to be  corruption.                   reporting.          posted: https://  Program closure.      Survey of     [*www.mcc.gov/resources*](http://www.mcc.gov/resources)/  Monitoring and        MCC staff.          doc/summary-compact-  evaluation.                                       survey-summary-fy18.  All other legal  provisions. ------------------------------------------------------------------------                             COUNTRY SPECIFIC rrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrrr Sustainability:                Quarterly   Quarterly  Implementation        implementation      results published as  entity.                       reporting.          ``Table of Key  MCC investments.      Quarterly   ***Performance*** Role of private sector or      results             ***Indicators***''  other donors:                 reporting.          (available by  Other relevant        Survey of   country): https://  investors/investments.        MCC staff.            [*www.mcc.gov/our-*](http://www.mcc.gov/our-)  Other donors/                             impact/m-and-e.  programming.                                      Survey  Status of related                         questions to be  reforms.                                          posted: https://  Trajectory of                               [*www.mcc.gov/resources*](http://www.mcc.gov/resources)/  private sector involvement                        doc/summary-compact-  going forward.                                    survey-summary-fy18. ------------------------------------------------------------------------

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[***FEDERAL REGISTER: Applications for New Awards; Promise Neighborhoods Program Pages 33881 - 33894 [FR DOC # 2017-15359]***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5P2W-7F71-JDG9-Y1X0-00000-00&context=1516831)

Impact News Service

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**Body**

Washington: Office of the Federal Register has issued the following notice:

DEPARTMENT OF EDUCATION Applications for New Awards; Promise Neighborhoods Program AGENCY: Office of Innovation and Improvement, Department of Education. ACTION: Notice. ----------------------------------------------------------------------- SUMMARY: The Department of Education is issuing a notice inviting applications for new awards for fiscal year (FY) 2017 for the Promise Neighborhoods Program--Grant Competition, Catalog of Federal Domestic Assistance (CFDA) number 84.215N DATES: Applications Available: July 21, 2017. Deadline for Notice of Intent to Apply: August 21, 2017. Date of Pre-Application Webinars: The Promise Neighborhoods team intends to hold pre-application webinars to provide technical assistance to interested applicants. Detailed information regarding these webinar times will be provided on the Promise Neighborhoods' Web site at [*https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/*](https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/). Deadline for Transmittal of Applications: September 5, 2017. Deadline for Intergovernmental Review: November 3, 2017. FOR FURTHER INFORMATION CONTACT: Adrienne Hawkins, U.S Department of Education, 400 Maryland Avenue SW., Room 4W256, Washington, DC 20202. Telephone: (202) 453-5638 or by email:

[*PromiseNeighborhoods@ed.gov*](mailto:PromiseNeighborhoods@ed.gov) If you use a telecommunications device for the deaf (TDD) or a text telephone (TTY), call the Federal Relay Service (FRS), toll free, at 1- 800-877-8339. SUPPLEMENTARY INFORMATION: Full Text of Announcement I. Funding Opportunity Description Purpose of Program The Promise Neighborhoods program is newly authorized under the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Every Student Succeeds Act (ESSA). The purpose of the Promise Neighborhoods program is to significantly improve the academic and developmental outcomes of children living in the most distressed communities of the United States, including ensuring school readiness, high school graduation, and access to a community-based continuum of high-quality services. The program serves neighborhoods with high concentrations of low-income individuals; multiple signs of distress, which may include high rates of poverty, childhood obesity, academic failure, and juvenile delinquency, adjudication, or incarceration; and schools implementing comprehensive support and improvement activities or targeted support and improvement activities under section 1111(d) of the ESEA. All strategies in the continuum of solutions must be accessible to children with disabilities and English learners. Background The vision of the Promise Neighborhoods program is that all children and youth living in our most distressed communities have access to great schools and strong systems of family and community support that will prepare them to attain an excellent education and successfully transition to postsecondary education and a career. A Promise Neighborhood is both a place and a strategy. A place eligible to become a Promise Neighborhood is a geographic area \1\ that is distressed, often facing inadequate access to high-quality early learning programs and services, with struggling schools, low high school and college graduation rates, high rates of unemployment, high rates of crime, and ***indicators*** of poor health. These conditions contribute to and intensify [[Page 33882]] the negative outcomes associated with children and youth living in poverty. --------------------------------------------------------------------------- \1\ For the purpose of this notice, the Department uses the terms ``geographic area'' and ``neighborhood'' interchangeably. --------------------------------------------------------------------------- A Promise Neighborhood strategy addresses the complex, interconnected issues in the distressed community it serves. Promise Neighborhoods are led by organizations, such as nonprofit organizations, institutions of higher education, offices of chief elected officials of local governments, or Indian Tribes or Tribal organizations, that work to ensure that all children and youth in the target geographic area have access to services that lead to improved educational and developmental outcomes from cradle-to-career. The organizations ensure that services are based on the best available evidence and employ robust data collection and management systems to learn about the impact of approaches for which there is less evidence; that services are linked and integrated seamlessly; and that services include education programs as well as programs that provide family and community supports. Promise Neighborhoods enable children and youth within targeted distressed communities to participate in the full range of cradle-to-career supports that are necessary for them to realize their potential. The Department of Education's expectation is that over time, a greater proportion of the neighborhood residents receive these supports and that neighborhood ***indicators*** (see Table 1) show significant progress. For this reason, each Promise Neighborhood applicant must demonstrate several core features: (1) Significant need in the neighborhood; (2) a strategy to build pipeline services (as defined in this notice) with strong schools at the center; and (3) the organizational and relational capacity to achieve results. This year's Promise Neighborhoods competition is different from previous years' competitions in several ways. The Promise Neighborhoods program, under the ESEA as amended by ESSA, requires applicants to propose the use of not less than 50 percent of grant funds in year one, and not less than 25 percent in year two, to support planning activities for the development and implementation of pipeline services. Because applicants must now propose to use grant funds for limited planning activities, the Department will no longer award separate Promise Neighborhoods planning and implementation grants. The priorities and some program requirements for this year's competition have also changed from previous competitions. In this year's competition, we introduce new data and ***performance*** management requirements while continuing to prioritize evidence-based (see section 8101(21) of the ESEA) activities and programs. Previously funded Promise Neighborhoods grantees have struggled to conduct meaningful data collection and evaluation activities, which include collecting the full range of data necessary to effectively employ comprehensive case and longitudinal data management systems. Such data systems are critical to effectively coordinate a range of services for high-need students and their families within a Promise Neighborhood. In response to this challenge, we now require applicants to address specific data collection and ***performance*** management requirements. In addressing these requirements, we strongly encourage applicants to review a publication released by the Department in 2013 entitled, ``Measuring ***Performance***: A Guidance Document for Promise Neighborhoods on Collecting Data and Reporting Results.'' \2\ This publication provides guidance on Promise Neighborhoods case management and longitudinal data systems; data collection strategies, sources, and methods; and data tracking and reporting procedures. --------------------------------------------------------------------------- \2\ [*https://www2.ed.gov/programs/promiseneighborhoods/pndataguidance.pdf*](https://www2.ed.gov/programs/promiseneighborhoods/pndataguidance.pdf) --------------------------------------------------------------------------- Priorities: This competition includes three absolute priorities and four competitive preference priorities. The three absolute priorities focus on the types of neighborhoods or geographic areas that the proposed project will serve. Absolute Priority 1 is focused on non- ***rural*** and non-Tribal applicants; Absolute Priority 2 is focused on ***rural*** communities; and Absolute Priority 3 is focused on Tribal communities. Absolute Priorities: We are establishing Absolute Priorities 1, 2, and 3 for the FY 2017 grant competition and any subsequent year in which we make awards from the list of unfunded applications from this competition in accordance with section 437(d)(1) of the General Education Provisions Act (GEPA). Applicants should indicate in their application whether they are applying under Absolute Priority 1, Absolute Priority 2, or Absolute Priority 3. If an applicant applies under Absolute Priority 2 or Absolute Priority 3 and is deemed ineligible, the application still may be considered for funding under Absolute Priority 1. The Secretary prepares a rank order of applications for each absolute priority based solely on the evaluation of their quality according to the selection criteria. Each of the three absolute priorities constitutes its own funding category. Assuming that applications in each funding category are of sufficient quality, the Secretary intends to award grants under each absolute priority. Under 34 CFR 75.105(c)(3) we consider only applications that meet one or more of these priorities. These priorities are: Absolute Priority 1--Promise Neighborhoods in Non-***Rural*** and Non- Tribal Communities.\3\ --------------------------------------------------------------------------- \3\ An applicant that serves one or more non-***rural*** or non-Tribal communities will not be disqualified because it also proposes to serve ***rural*** or Tribal communities. --------------------------------------------------------------------------- To meet this priority, an applicant must propose to implement a Promise Neighborhood strategy that serves one or more non-***rural*** or non- Tribal communities. Absolute Priority 2--Promise Neighborhoods in ***Rural*** Communities. To meet this priority, an applicant must propose to implement a Promise Neighborhood strategy that serves one or more ***rural*** communities (as defined in this notice) only. Under section 4623 of the ESEA, the Department will use at least 15 percent of the funds available for the Promise Neighborhoods program to award grants to eligible entities (as defined in this notice) that propose to carry out the Promise Neighborhoods activities in ***rural*** areas. The Department will reduce the funds reserved for ***rural*** areas if we do not receive enough applications of sufficient quality. Absolute Priority 3--Promise Neighborhoods in Tribal Communities. To meet this priority, an applicant must propose to implement a Promise Neighborhood strategy that serves one or more Indian Tribes (as defined in this notice). Competitive Preference Priorities: We are establishing Competitive Preference Priorities 1 and 2 for the FY 2017 grant competition and any subsequent year in which we make awards from the list of unfunded applications from this competition in accordance with section 437(d)(1) of the GEPA, 20 U.S.C 1232(d)(1). Competitive Preference Priority 3 is from section 4624 of the ESEA, as amended by the ESSA, 20 U.S.C 7231e. Competitive Preference Priority 4 is from the Promise Zones notice of final priority published in the Federal Register on March 27, 2014 (79 FR 17035) (Promise Zones NFP). For FY 2017 and any subsequent year in which we make awards from the list of unfunded applications from this competition, these priorities are competitive preference priorities. Under 34 CFR 75.105(c)(2)(i), we award an additional three points to an application that meets Competitive Preference [[Page 33883]] Priority 1; we award three additional points to an application that meets Competitive Preference Priority 2; we award one additional point to an application that meets Competitive Preference Priority 3; and we award one additional point to an application that meets Competitive Preference Priority 4. Applicants may address all of the competitive preference priorities. Also, applicants should identify on the abstract form and in the project narrative section of their application which competitive preference priority or priorities the applicants address. We will not award competitive preference priority points to an application that fails to clearly identify the competitive preference priority or priorities it wishes the Department to consider for purposes of earning the competitive preference priority points. These priorities are: Competitive Preference Priority 1--Byrne Criminal Justice Innovation (BCJI) Program (0 or 3 points). To meet this priority, an applicant must propose to serve geographic areas that were the subject of a targeted strategy addressing crime in a specific community pursuant to a BCJI grant awarded by the U.S Department of Justice during FY 2012 or later years. To be eligible under this priority, the applicant must either: (1) Be able to demonstrate that it has received a BCJI grant; or (2) provide, in its application, a memorandum of understanding between it and a partner that is a recipient of a BCJI grant. The memorandum of understanding must indicate a commitment on the part of the applicant and partner to coordinate implementation and align resources to the greatest extent practicable. Competitive Preference Priority 2--Drug Free Communities (DFC) Support Program (0 or 3 points). To receive points under this priority, the applicant must either: (1) Demonstrate that it has received a DFC grant to prevent opioid abuse (as one of its areas of focus); or (2) provide, in its application, a memorandum of understanding between it and a partner that is a recipient of a DFC grant to address opioid abuse prevention as one of its areas of focus. Competitive Preference Priority 3--Evidence-Based Activities, Strategies, or ***Interventions*** (0 or 1 point). To meet this priority, an applicant must propose to carry out evidence-based activities, strategies, or ***interventions*** that, based on information included in their application, are supported by promising evidence (as defined in this notice). Competitive Preference Priority 4--Promise Zones (0 or 1 point). This priority is for projects that are designed to serve and coordinate with a federally designated Promise Zone. To meet this priority, an applicant must include a Certification of Consistency with Promise Zone Goals and Implementation (HUD Form 50153) signed by an authorized representative of the lead organization of a Promise Zone designated by the Department of Housing and Urban Development (HUD) or the United States Department of ***Agriculture***. An application for Promise Neighborhoods grant funds that is not accompanied by a signed certification (HUD Form 50153) will receive zero points for this priority. The certification form is available at / /portal.hud.gov/hudportal/documents/huddoc?id=HUD\_Form\_50153.pdf To view the list of designated Promise Zones and lead organizations please go to   [*www.hud.gov/promisezones*](http://www.hud.gov/promisezones). Definitions The definition of ``strong theory'' is from 34 CFR 77.1 The remaining definitions are established in accordance with section 437(d)(1) of GEPA, 20 U.S.C 1232(d)(1). The following definitions apply to this program: Eligible entity means an organization that: (1) Is representative of the geographic area (as defined in this notice) proposed to be served; (2) Operates or proposes to work with and involve in carrying out its proposed project, in coordination with the school's local educational agency (LEA), at least one public elementary or secondary school that is located within the identified geographic area that the grant will serve; (3) Is one of the following: (a) An institution of higher education, as defined in section 102 of the Higher Education Act of 1965, as amended (HEA) (20 U.S.C 1002); (b) An Indian Tribe or Tribal organization, as defined in section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304); or (c) One or more nonprofit entities working in formal partnership with not less than one of the following entities: i. A high-need LEA. ii. An institution of higher education, as defined in section 102 of the HEA (20 U.S.C 1002). iii. The office of a chief elected official of a unit of local government. iv. An Indian Tribe or Tribal organization, as defined under section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304); and (4) Currently provides at least one of the solutions from the applicant's proposed pipeline services in the geographic area proposed to be served. Experimental study means a study, such as a randomized controlled trial (RCT) (as defined in this notice), that is designed to compare outcomes between two groups of individuals that are otherwise equivalent except for their assignment to either a treatment group receiving a project component (as defined in this notice) or a control group that does not. In some circumstances, a finding from a regression discontinuity design study (RDD) (as defined in this notice) or findings from a collection of single-case design studies (SCDs) (as defined in this notice) may be considered equivalent to a finding from an RCT. RCTs, RDDs, and collections of SCDs, depending on design and implementation, can Meet What Works Clearinghouse Evidence Standards without reservations. Graduation rate means the four-year or extended-year adjusted cohort graduation rate as defined by 34 CFR 200.19(b)(1). Note: This definition is not meant to prevent a grantee from also collecting information about the reasons why students do not graduate from the target high school, e.g , dropping out or moving outside of the school district for non-academic or academic reasons. Indian Tribe means an Indian Tribe or Tribal organization, as defined in section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304) ***Indicators*** of need means currently available data that describe-- (1) Education need, which means-- (a) All or a portion of the neighborhood includes or is within the attendance zone of a low-performing school that is a high school, especially one in which the graduation rate (as defined in this notice) is less than 60 percent or a school that can be characterized as low- performing based on another proxy ***indicator***, such as students' on-time progression from grade to grade; and (b) Other ***indicators***, such as significant achievement gaps between subgroups of students (as identified in section 1111(b)(2)(B)(xi) of the ESEA) within a school or LEA, high teacher and principal turnover, or high student absenteeism; and (2) Family and community support need, which means-- (a) Percentages of children with preventable chronic health conditions (e.g , asthma, poor nutrition, dental [[Page 33884]] problems, obesity) or avoidable developmental delays; (b) Immunization rates; (c) Rates of crime, including violent crime; (d) Student mobility rates; (e) Teenage birth rates; (f) Percentage of children in single-parent or no-parent families; (g) Rates of vacant or substandard homes, including distressed public and assisted housing; or (h) Percentage of the residents living at or below the Federal poverty threshold. Logic model (also known as a theory of action) means a reasonable conceptual framework that identifies key components of the proposed project (i.e , the active ``ingredients'' that are hypothesized to be critical to achieving the relevant outcomes) and describes the theoretical and operational relationships among the key components and outcomes. Meets What Works Clearinghouse Evidence Standards without reservations is the highest possible rating for a study finding reviewed by the What Works Clearinghouse (WWC). Studies receiving this rating provide the highest degree of confidence that an observed effect was caused by the project component studied. Experimental studies (as defined in this notice) may receive this highest rating. These standards are described in the WWC Procedures and Standards Handbooks, Version 3.0, which can be accessed at   [*http://ies.ed.gov/ncee/wwc/Handbooks*](http://ies.ed.gov/ncee/wwc/Handbooks). Meets What Works Clearinghouse Evidence Standards with reservations is the second-highest rating for a group design study reviewed by the WWC. Studies receiving this rating provide a reasonable degree of confidence that an observed effect was caused by the project component studied. Both experimental studies (such as randomized controlled trials with high rates of sample attrition) and quasi-experimental design studies (as defined in this notice) may receive this rating if they establish the equivalence of the treatment and comparison groups in key baseline characteristics. These standards are described in the WWC Procedures and Standards Handbooks, Version 3.0, which can be accessed at   [*http://ies.ed.gov/ncee/wwc/Handbooks*](http://ies.ed.gov/ncee/wwc/Handbooks). Pipeline services means a continuum of coordinated supports, services, and opportunities for children from birth through entry into and success in postsecondary education, and career attainment. Such services shall include, at a minimum, strategies to address through services or programs (including integrated student supports) the following: (a) High-quality early childhood education programs. (b) High-quality school and out-of-school-time programs and strategies. (c) Support for a child's transition to elementary school, from elementary school to middle school, from middle school to high school, and from high school into and through postsecondary education and into the workforce, including any comprehensive readiness assessment determined necessary. (d) Family and community engagement and supports, which may include engaging or supporting families at school or at home. (e) Activities that support postsecondary and work-force readiness, which may include job training, internship opportunities, and career counseling. (f) Community-based support for students who have attended the schools in the area served by the pipeline, or students who are members of the community, facilitating their continued connection to the community and success in postsecondary education and the workforce. (g) Social, health, nutrition, and mental health services and supports. (h) Juvenile crime prevention and rehabilitation programs. Project component means an activity, strategy, or ***intervention*** included in a project. Evidence (as this term is used in this notice) may pertain to an individual project component, or to a combination of project components (e.g , training teachers on instructional practices for English learners and follow-on coaching for these teachers). Promising evidence means the following conditions are met: (a) There is at least one study that is a correlational study with statistical controls for selection bias with a relevant finding (quasi- experimental design studies or experimental studies may also qualify); and (b) The relevant finding in the study described in paragraph (a) is of a statistically significant and positive (i.e , favorable) effect of the project component on a student outcome or other relevant outcome with no statistically significant and overriding negative (i.e , unfavorable) evidence on that project component from other findings on the ***intervention*** reviewed by and reported in the What Works Clearinghouse that Meet What Works Clearinghouse Evidence Standards with or without reservations. Public officials means elected officials (e.g , council members, aldermen and alderwomen, commissioners, State legislators, Congressional representatives, members of the school board), appointed officials (e.g , members of a planning or zoning commission, or of any other regulatory or advisory board or commission), or individuals who are not necessarily public officials (as defined in this notice), but who have been appointed by a public official to serve on the Promise Neighborhoods governing board or advisory board. Quasi-experimental design study means a study using a design that attempts to approximate an experimental design by identifying a comparison group that is similar to the treatment group in important respects. This type of study, depending on design and implementation, can Meet What Works Clearinghouse Evidence Standards with reservations (but not without reservations). Randomized controlled trial (RCT) means a study that employs random assignment of, for example, students, teachers, classrooms, or schools to receive the project component being evaluated (the treatment group) or not to receive the project component (the control group). The estimated effectiveness of the project component is the difference between the average outcomes for the treatment group and for the control group. These studies, depending on design and implementation, can Meet What Works Clearinghouse Evidence Standards without reservations. Regression discontinuity design study (RDD) means a study that assigns the project component being evaluated using a measured variable (e.g , assigning students reading below a cutoff score to tutoring or developmental education classes) and controls for that variable in the analysis of outcomes. The effectiveness of the project component is estimated for individuals who barely qualify to receive that component. These studies, depending on design and implementation, can Meet What Works Clearinghouse Evidence Standards without reservations. Relevant finding means a finding from a study regarding the relationship between (A) an activity, strategy, or ***intervention*** included as a component of the logic model (as defined in this notice) for the proposed project, and (B) a student outcome or other relevant outcome included in the logic model for the proposed project. Relevant outcome means the student outcome(s) (or the ultimate outcome if not related to students) the proposed project component is designed to [[Page 33885]] improve, consistent with the specific goals of a program. Representative of the geographic area proposed to be served means that residents of the geographic area proposed to be served have an active role in decision-making and that at least one-third of the eligible entity's (as defined in this notice) governing board or advisory board is made up of-- (1) Residents who live in the geographic area proposed to be served, which may include residents who are representative of the ethnic and racial composition of the neighborhood's residents and the languages they speak; (2) Residents of the city or county in which the neighborhood is located but who live outside the geographic area proposed to be served, and who are low-income (which means earning less than 80 percent of the area's median income as published by HUD); (3) Public officials (as defined in this notice) who serve the geographic area proposed to be served (although not more than one-half of the governing board or advisory board may be made up of public officials); or (4) Some combination of individuals from the three groups listed in paragraphs (1), (2), and (3) of this definition. ***Rural*** community means a neighborhood that-- (1) Is served by an LEA that is currently eligible under the Small ***Rural*** School Achievement (SRSA) program or the ***Rural*** and Low-Income School (RLIS) program authorized under Title VI, Part B of the ESEA. Applicants may determine whether a particular LEA is eligible for these programs by referring to information on the following Department Web sites. For the SRSA program:   [*https://www2.ed.gov/programs/reapsrsa/eligible16/index.htmlFor*](https://www2.ed.gov/programs/reapsrsa/eligible16/index.htmlFor) the RLIS program:   [*https://www2.ed.gov/programs/reaprlisp/eligibility.html;*](https://www2.ed.gov/programs/reaprlisp/eligibility.html;) or (2) Includes only schools designated with a school locale code of 41, 42, or 43. Applicants may determine school locale codes by referring to the following Department Web site:   [*http://nces.ed.gov/ccd/schoolsearch/*](http://nces.ed.gov/ccd/schoolsearch/). Segmentation analysis means the process of grouping and analyzing data from children and families in the geographic area proposed to be served according to ***indicators*** of need (as defined in this notice) or other relevant ***indicators***. The analysis is intended to allow grantees to differentiate and more effectively target ***interventions*** based on what they learn about the needs of different populations in the geographic area. Single-case design study (SCD) means a study that uses observations of a single case (e.g , a student eligible for a behavioral ***intervention***) over time in the absence and presence of a controlled treatment manipulation to determine whether the outcome is systematically related to the treatment. According to the WWC Single Case Design Pilot Standards, a collection of these studies, depending on design and implementation (e.g , including a sufficient number of cases and of data points per condition), can Meet What Works Clearinghouse Evidence Standards without reservations. Strong theory means a rationale for the proposed process, product, strategy, or practice that includes a logic model. Student achievement means-- (1) For tested grades and subjects: (a) A student's score on the State's assessments under the ESEA; and, as appropriate, (b) Other measures of student learning, such as those described in paragraph (2) of this definition, provided they are rigorous and comparable across classrooms and programs. (2) For non-tested grades and subjects: Alternative measures of student learning and ***performance***, such as student scores on pre-tests and end-of-course tests; student ***performance*** on English language proficiency assessments; and other measures of student achievement that are rigorous and comparable across classrooms. Student mobility rate is calculated by dividing the total number of new student entries and withdrawals at a school, from the day after the first official enrollment number is collected through the end of the academic year, by the first official enrollment number of the academic year. Note: This definition is not meant to limit a grantee from also collecting information about why students enter or withdraw from the school, e.g , transferring to charter schools, moving outside of the school district for non-academic or academic reasons. Waiver of Proposed Rulemaking: Under the Administrative Procedure Act (5 U.S.C 553) the Department generally offers interested parties the opportunity to comment on proposed priorities, selection criteria, definitions, and other requirements. Section 437(d)(1) of GEPA, however, allows the Secretary to exempt from rulemaking requirements, regulations governing the first grant competition under a new or substantially revised program authority. This is the first grant competition for this program under section 4623-4624 of the ESEA, 20 U.S.C 7273-7274, and therefore qualifies for this exemption. In order to ensure timely grant awards, the Secretary has decided to forgo public comment on the priorities, requirements, definitions, and selection criteria under section 437(d)(1) of GEPA. These priorities, requirements, definitions, and selection criteria will apply to the FY 2017 grant competition and any subsequent year in which we make awards from the list of unfunded applications from this competition. Program Authority: 20 U.S.C 7273-7274. Applicable Regulations: (a) The Education Department General Administrative Regulations (EDGAR) in 34 CFR parts 75, 77, 79 81, 82, 84, 86, 97, 98, and 99. (b) The OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement) in 2 CFR part 180, as adopted and amended as regulations of the Department in 2 CFR part 3485. (c) The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in 2 CFR part 200, as adopted and amended as regulations of the Department in 2 CFR part 3474. (d) Promise Zones NFP. Note: The regulations in 34 CFR part 79 apply to all applicants except federally recognized Indian Tribes. Note: The regulations in 34 CFR part 86 apply to institutions of higher education only. II. Award Information Type of Award: Discretionary grants. Estimated Available Funds: $30,000,000. Contingent upon the availability of funds and the quality of applications, we may make additional awards in subsequent years from the list of unfunded applications from this competition. Estimated Range of Awards: $4,000,000 to $6,000,000. Estimated Average Size of Awards: $5,000,000. Maximum Award: $6,000,000. The maximum award amount is $6,000,000 per 12-month budget period. We will not fund an annual budget exceeding $6,000,000 per 12-month budget period. Estimated Number of Awards: 5-7. Note: The Department is not bound by any estimates in this notice. Project Period: Up to 60 months. Under section 4623 of the ESEA, a grant awarded under this competition will be for a period of not more than five years, and may be extended for an additional period of not more than two [[Page 33886]] years. In addition, continued funding of a grant under this competition, including an extended grant, after the third year of the initial grant period will be contingent on the eligi

ble entity's progress toward meeting the ***performance*** metrics and annual ***performance*** objectives and outcomes under section 4625(a)(4)(C) of the ESEA. III. Eligibility Information 1. Eligible Applicants: Under section 4623 of the ESEA, an eligible organization must: (1) Be representative of the geographic area proposed to be served; (2) Operate or propose to work with and involve in carrying out its proposed project, in coordination with the school's LEA, at least one public elementary or secondary school that is located within the identified geographic area that the grant will serve; (3) Be one of the following: (a) An institution of higher education, as defined in section 102 of the HEA (20 U.S.C 1002); (b) An Indian Tribe or Tribal organization, as defined in section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304); or (c) One or more nonprofit entities working in formal partnership with not less than one of the following entities: i. A high-need LEA. ii. An institution of higher education, as defined in section 102 of the HEA (20 U.S.C 1002). iii. The office of a chief elected official of a unit of local government. iv. An Indian Tribe or Tribal organization, as defined under section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304); and (4) Currently provide at least one of the solutions from the applicant's proposed pipeline services in the geographic area proposed to be served. 2. Cost-Sharing or Matching: To be eligible for a grant under this competition, an applicant must demonstrate a commitment from one or more entities in the public or private sector, which may include Federal, State, and local public agencies, philanthropic organizations, private businesses, or individuals, to provide matching funds. An applicant proposing a project that meets Absolute Priority 1--Promise Neighborhoods in Non-***rural*** and Non-Tribal Communities must obtain matching funds or in-kind donations equal to at least 100 percent of its grant award. An applicant proposing a project that meets Absolute Priority 2--Promise Neighborhoods in ***Rural*** Communities or Absolute Priority 3--Promise Neighborhoods in Tribal Communities must obtain matching funds or in-kind donations equal to at least 50 percent of its grant award. Eligible sources of matching funds include sources of funds used to pay for solutions within the pipeline services, initiatives supported by the LEA, or public health services for children in the neighborhood. At least 10 percent of an applicant's total match must be cash or in- kind contributions from the private sector, which may include philanthropic organizations, private businesses, or individuals. Applicants must demonstrate a commitment of matching funds in the application. Applicants must specify the source of the funds or contributions and in the case of a third-party in-kind contribution, a description of how the value was determined for the donated or contributed goods or service. Applicants must demonstrate the match commitment by including letters in their applications explaining the type and quantity of the match commitment with original signatures from the executives of organizations or agencies providing the match. The Secretary may consider decreasing the matching requirement in the most exceptional circumstances, on a case-by-case basis. An applicant that is unable to meet the matching requirement must include in its application a request to the Secretary to reduce the matching requirement, including the amount of the requested reduction, the total remaining match contribution, and a statement of the basis for the request. The Secretary will grant this request only if an applicant demonstrates a significant financial hardship. An applicant should review the Department's cost-sharing and cost-matching regulations, which include specific limitations, in 2 CFR 200.306 and the cost principles regarding donations, capital assets, depreciations and allowable costs, set out in subpart E of 2 CFR part 200. 3. Application Requirements: Each applicant that receives a grant award for the Promise Neighborhoods competition must use the grant funds to implement the pipeline services and continuously evaluate the success of the program and improve the program based on data and outcomes. Applicants may use not less than 50 percent of grant funds in year one, and not less than 25 percent of grant funds in year two for planning activities to develop and implement pipeline services. Under section 4624 of the ESEA, as amended by the ESSA, applicants must submit and address the following: (1) A plan to significantly improve the academic outcomes of children living in the geographically defined area (neighborhood) that is served by the eligible entity by providing pipeline services that address the needs of children in the neighborhood, as identified by the needs analysis; and that is supported by effective practices. (2) A description of the neighborhood the eligible entity will serve. Applicants may propose to serve multiple, non-contiguous geographically defined areas. In cases where target areas are non- contiguous, the applicant must explain its rationale for including non- contiguous areas. (3) An analysis of the needs and assets of the neighborhood, including: (a) The size and scope of the population affected; (b) A description of the process through which the needs analysis was produced, including a description of how parents, families, and community members were engaged in such analysis; (c) An analysis of community assets and collaborative efforts (including programs already provided from Federal and non-Federal sources) within, or accessible to, the neighborhood, including, at a minimum, early learning opportunities, family and student supports, local businesses, local educational agencies, and institutions of higher education; (d) The steps that the eligible entity is taking at the time of the application to address the needs identified in the needs analysis; and (e) Any barriers the eligible entity, public agencies, and other community-based organizations have faced in meeting such needs. (4) A description of all information the entity used to identify the pipeline services to be provided, which shall not include information that is more than 3 years old. This description should address how the eligible entity plans to collect data on children served by each pipeline service; and increase the percentage of children served over time. (5) A description of the process used to develop the Promise Neighborhoods application, including the involvement of family and community members. (6) A description of how the pipeline services will facilitate the coordination of the following activities: (a) Providing early learning opportunities for children, including by: (i) Providing opportunities for families to acquire the skills to promote early learning and child development; and (ii) Ensuring appropriate diagnostic assessments and referrals for children with disabilities and children aged 3 [[Page 33887]] through 9 experiencing developmental delays, consistent with the Individuals with Disabilities Education Act (20 U.S.C 1400 et seq.), where applicable. (b) Supporting, enhancing, operating, or expanding rigorous, comprehensive, effective educational improvements, which may include high-quality academic programs, expanded learning time, and programs and activities to prepare students for postsecondary education admissions and success. (c) Supporting partnerships between schools and other community resources with an integrated focus on academics and other social, health, and familial supports. (d) Providing social, health, nutrition, and mental health services and supports, for children, family members, and community members, which may include services provided within the school building. (e) Supporting evidence-based programs (see section 8101(21) of the ESEA) that assist students through school transitions, which may include expanding access to postsecondary education courses and postsecondary education enrollment aid or guidance, and other supports for at-risk youth. (7) A description of the strategies that will be used to provide pipeline services (including a description of which programs and services will be provided to children, family members, community members, and children within the neighborhood) to support the purpose of the Promise Neighborhoods program. (8) An explanation of the process the eligible entity will use to establish and maintain family and community engagement, including: (a) Involving representative participation by the members of such neighborhood in the planning and implementation of the activities of each grant awarded; (b) The provision of strategies and practices to assist family and community members in actively supporting student achievement and child development; (c) Providing services for students, families, and communities within the school building; and (d) Collaboration with institutions of higher education, workforce development centers, and employers to align expectations and programming with postsecondary education and workforce readiness. (9) An explanation of how the eligible entity will continuously evaluate and improve the continuum of high-quality pipeline services to provide for continuous program improvement and potential expansion. (10) A commitment to collecting the required Promise Neighborhoods ***performance*** ***indicators***' data; establishing the conditions for effective case and data management; and using data to improve program outcomes. In understanding the conditions necessary to collect, manage, and utilize data for Promise Neighborhoods, an applicant is required to: (a) Hire dedicated staff to ensure its project has sufficient personnel and/or contractors to effectively manage its data collection activities, case management, and data systems; (b) Submit a detailed data collection and reporting plan that includes a description of how it will conduct a bi-annual neighborhood survey of children and adults in the Promise Neighborhood; collect, at least annually, data on the ***performance*** ***indicators*** in Table 1; establish clear, annual targets and goals for growth on the ***performance*** ***indicators***; and report those data to the Department annually; Table 1--Promise Neighborhoods ***Performance*** ***Indicators*** ---------------------------------------------------------------------------------------------------------------- Result ***Indicator*** Source ---------------------------------------------------------------------------------------------------------------- 1. Children enter kindergarten 1. Number and percentage of children in Administrative data from ready to succeed in school. kindergarten who demonstrate at the beginning LEA. of the program or school year age-appropriate functioning across multiple domains of early learning as determined using developmentally- appropriate early learning measures. 2. Students are proficient in core 2.1 Number and percentage of students at or academic subjects. above grade level according to State mathematics assessments in at least the grades required by the ESEA (3rd through 8th grades and once in high school). 2.2 Number and percentage of students at or above grade level according to State English language arts assessments in at least the grades required by the ESEA. 3. Students successfully transition 3.1 Attendance rate of students in 6th, 7th, from middle school grades to high 8th, and 9th grade as defined by average daily school. attendance. 3.2 Chronic absenteeism rate of students in 6th, 7th, 8th, and 9th grades. 4. Youth graduate from high school. 4. Four-year adjusted cohort graduation rate... 5. High school graduates obtain a 5.1 Number and percentage of Promise Third party data such as postsecondary degree, Neighborhood students who enroll in a two-year the National Student certification or credential. or four-year college or university after Clearinghouse. graduation. 5.2 Number and percent of Promise Neighborhood students who graduate from a two-year or four- year college or university or vocational certification completion. 6. Students are healthy............ Number and percentage of children who consume Neighborhood survey, five or more servings of fruits and vegetables school climate survey or daily. other reliable data source for population level data collection. 7. Students feel safe at school and 7. Number and percentage of children who feel in their community. safe at school and traveling to and from school as measured by a school climate survey. 8. Students live in stable 8. Student mobility rate (as defined in the communities. notice). [[Page 33888]] 9. Families and community members 9.1 Number and percentage of parents or family support learning in promise members that read to or encourage their Neighborhood Schools. children to read three or more times a week or reported their child read to themselves three or more times a week (birth-8th grade). 9.2 Number and percentage of parents/family members who report talking about the importance of college and career (9th-12th grade). 10. Students have access to 21st 10. Number and percentage of students who have century learning tools. school and home access to broadband internet and a connected computing device. ---------------------------------------------------------------------------------------------------------------- Note: The ***indicators*** in Table 1 are not intended to limit an applicant from collecting and using data from additional Family and Community Support ***indicators*** proposed to the Department. Applicants are strongly encouraged, but not required, to propose additional ***performance*** ***indicators*** aligned to the specific pipeline services proposed in their application. (c) Describe how it will develop a case management system to track key information and progress toward outcomes for individual children and adults participating in its Promise Neighborhoods programs and to facilitate communication and the coordination of services on behalf of these individuals; and (d) Describe how it will develop and maintain a longitudinal data system to track outcome measures and other ***performance*** ***indicators*** over time (e.g , snapshots and extracts from the case management system at different points in time). The established ***performance*** ***indicators*** for the Promise Neighborhoods program serve as ***indicators*** of improved academic and developmental outcomes for children, including ***indicators*** of school readiness, high school graduation, postsecondary education and career readiness, and other academic and developmental outcomes. Each grantee is required to collect and report data on the ***performance*** ***indicators*** annually. Subsequently, the Department will make a determination for continuation funding and grant extensions based on ***performance*** ***indicator*** outcomes and available funding. (11) A commitment to work with the Department, and with a national evaluator for Promise Neighborhoods or another entity designated by the Department, to ensure that data collection and program design are consistent with plans to conduct a rigorous national evaluation of the Promise Neighborhoods program and of specific solutions and strategies pursued by individual grantees. This commitment must include, but need not be limited to-- (a) Ensuring that, through memoranda of understanding with appropriate entities, the national evaluator and the Department have-- consistent with applicable privacy requirements--access to relevant program and project data sources (e.g , administrative data and program and project ***indicator*** data), including on a quarterly basis if requested by the Department; (b) Developing, in consultation with the national evaluator, an evaluation strategy, including identifying a credible comparison group; and (c) Developing, in consultation with the national evaluator, a plan for identifying and collecting reliable and valid baseline data for both program participants and a designated comparison group of non- participants. (12) Each applicant must submit, as part of its application, a preliminary memorandum of understanding, signed by each organization or agency with which it would partner in implementing the proposed Promise Neighborhood. Within the preliminary memorandum of understanding, all applicants must detail each partner's financial, programmatic, and long-term commitment with respect to the strategies described in the application. Under section 4624(c) of the ESEA, applicants that are non-profit entities must submit a preliminary memorandum of understanding signed by each partner entity or agency, which must include at least one of the following: A high-need LEA; an institution of higher education, as defined in section 102 of the HEA (20 U.S.C 1002); the office of a chief elected official of a unit of local government; or an Indian Tribe or Tribal organization as defined in section 4 of the Indian Self-Determination and Education Assistance Act (25 U.S.C 5304). Each eligible entity that receives a grant under this program is required to prepare and submit an annual report to the Secretary that must include the following: (1) Information about the number and percentage of children in the neighborhood who are served by the grant program, including a description of the number and percentage of children accessing each support service offered as part of the pipeline of services; and (2) information relating to the metrics established under the Promise Neighborhood ***Performance*** ***Indicators***. In addition, grantees are required to make these data publicly available, including through electronic means. To the extent practicable, and as required by law, such information must be provided in a form and language accessible to parents and families in the neighborhood served under the Promise Neighborhoods grant. In addition, data on academic ***indicators*** pertinent to the Promise Neighborhoods program will, in most cases, already be part of statewide longitudinal data systems. IV. Application and Submission Information 1. Address to Request Application Package: You can obtain an application package via the internet or from the Education Publications Center (ED Pubs). To obtain a copy via the internet, use the following address: [*www.ed.gov/fund/grant/apply/grantapps/*](http://www.ed.gov/fund/grant/apply/grantapps/). To obtain a copy from ED Pubs, write, fax, or call: ED Pubs, U.S Department of Education, P.O Box 22207, Alexandria, VA 22304. Telephone, toll free: 1-877-433- 7827. FAX: (703) 605-6794. If you use a TDD or a TTY, call FRS, toll free: 1-877-576-7734. You can contact ED Pubs at its Web site, also:   [*www.EDPubs.gov*](http://www.EDPubs.gov) or at its email address: [*edpubs@inet.ed.gov*](mailto:edpubs@inet.ed.gov) If you request an application package from ED Pubs, be sure to identify this program or competition as follows: CFDA number 84.215N Individuals with disabilities can obtain a copy of the application package in an accessible format (e.g , braille, large print, audiotape, or compact disc) by contacting the person or team listed under Accessible Format in section VII of this notice. 2. a. Content and Form of Application Submission: Requirements concerning the content of an application, together [[Page 33889]] with the forms you must submit, are in the application package for this competition. The Department will be able to develop a more efficient process for reviewing grant applications if it has a better understanding of the number of entities that intend to apply for funding under this competition. Therefore, the Secretary strongly encourages each potential applicant to notify the Department of the applicant's intent to submit an application for funding by completing a web-based form. When completing this form, applicants will provide (1) the applicant organization's name and address, and (2) information on the competitive preference priority or priorities under which the applicant intends to apply. Applicants may access this form online at   [*https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/*](https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/). Applicants that do not complete this form may still apply for funding. Page Limit: The application narrative (Part III of the application) is where you, the applicant, address the selection criteria that reviewers use to evaluate your application. We recommend that you (1) limit the application narrative to 75 pages, and (2) use the following standards:  A ``page'' is 8.5 x 11, on one side only, with 1 margins at the top, bottom, and both sides.      Double space (no more than three lines per vertical inch) all text in the application narrative, including titles, headings, footnotes, quotations, references, and captions, as well as all text in charts, tables, figures, and graphs.      Use a font that is either 12 point or larger or no smaller than 10 pitch (characters per inch).      Use one of the following fonts: Times New Roman, Courier, Courier New, or Arial.     The recommended page limit does not apply to Part I, the cover sheet; Part II, the budget section, including the narrative budget justification; Part IV, the assurances and certifications; or the one- page abstract, the resumes, the bibliography, or the letters of support. However, the recommended page limit does apply to all of the application narrative.     2. b. Submission of Proprietary Information: Given the types of projects that may be proposed in applications for the Promise Neighborhoods program, your application may include business information that you consider proprietary. In 34 CFR 5.11 we define ``business information'' and describe the process we use in determining whether any of that information is proprietary and, thus, protected from disclosure under Exemption 4 of the Freedom of Information Act (5 U.S.C 552, as amended).     Because we plan to make successful applications available to the public, you may wish to request confidentiality of business information.     Consistent with Executive Order 12600, please designate in your application any information that you feel is exempt from disclosure under Exemption 4. In the appropriate Appendix section of your application, under ``Other Attachments Form,'' please list the page number or numbers on which we can find this information. For additional information please see 34 CFR 5.11(c).     3. Submission Dates and Times:     Applications Available: July 21, 2017.     Deadline for Notice of Intent to Apply: August 21, 2017.     Date of Pre-Application Webinar: Promise Neighborhoods intends to hold pre-application webinars to provide technical assistance to interested applicants. Detailed information regarding pre-application webinar times will be provided on the Web site at   [*https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/*](https://innovation.ed.gov/what-we-do/parental-options/promise-neighborhoods-pn/).     Deadline for Transmittal of Applications: September 5, 2017.     Applications for grants under this competition must be submitted electronically using the Grants.gov Apply site (Grants.gov). For information (including dates and times) about how to submit your application electronically, or in paper format by mail or hand delivery if you qualify for an exception to the electronic submission requirement, please refer to Other Submission Requirements in section IV of this notice. We do not consider an application that does not comply with the deadline requirements.     Individuals with disabilities who need an accommodation or auxiliary aid in connection with the application process should contact the person listed under FOR FURTHER INFORMATION CONTACT. If the Department provides an accommodation or auxiliary aid to an individual with a disability in connection with the application process, the individual's application remains subject to all other requirements and limitations in this notice.     Deadline for Intergovernmental Review: November 3, 2017.     4. Intergovernmental Review: This program is subject to Executive Order 12372 and the regulations in 34 CFR part 79. Information about Intergovernmental Review of Federal Programs under Executive Order 12372 is in the application package for this competition.     Applicants that operate a school in a neighborhood served by a grant program must provide such school with the operational flexibility, including autonomy over staff, time, and budget, needed to effectively carry out the activities described in this Notice.     Grantees cannot, in carrying out activities to improve early childhood education programs, use Promise Neighborhoods funds to carry out the following activities:     (1) Assessments that provide rewards or sanctions for individual children or teachers.     (2) A single assessment that is used as the primary or sole method for assessing program effectiveness.     (3) Evaluation of children, other than for the purposes of improving instruction, classroom environment, professional development, or parent and family engagement, or program improvement.     6. Data Universal Numbering System Number, Taxpayer Identification Number, and System for Award Management: To do business with the Department of Education, you must--     a. Have a Data Universal Numbering System (DUNS) number and a Taxpayer Identification Number (TIN);     b. Register both your DUNS number and TIN with the System for Award Management (SAM), the Government's primary registrant database;     c. Provide your DUNS number and TIN on your application; and     d. Maintain an active SAM registration with current information while your application is under review by the Department and, if you are awarded a grant, during the project period.     You can obtain a DUNS number from Dun and Bradstreet at the following Web site:   [*http://fedgov.dnb.com/webform*](http://fedgov.dnb.com/webform). A DUNS number can be created within one to two business days.     If you are a corporate entity, agency, institution, or organization, you can obtain a TIN from the Internal Revenue Service. If you are an individual, you can obtain a TIN from the Internal Revenue Service or the Social Security Administration. If you need a new TIN, please allow two to five weeks for your TIN to become active.     The SAM registration process can take approximately seven business days, but may take upwards of several weeks, depending on the completeness and accuracy of the data you enter into the SAM database. Thus, if you think you might want to apply for Federal financial assistance under a program

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administered by the Department, please allow sufficient time to obtain and register your DUNS number and TIN. We strongly recommend that you register early.

    Note:  Once your SAM registration is active, it may be 24 to 48 hours before you can access the information in, and submit an application through, Grants.gov

    If you are currently registered with SAM, you may not need to make any changes. However, please make certain that the TIN associated with your DUNS number is correct. Also note that you will need to update your registration annually. This may take three or more business days.     Information about SAM is available at [*www.SAM.gov*](http://www.SAM.gov) To further assist you with obtaining and registering your DUNS number and TIN in SAM or updating your existing SAM account, we have prepared a SAM.gov Tip Sheet, which you can find at: www2.ed.gov/fund/grant/apply/sam-faqs.html     In addition, if you are submitting your application via Grants.gov, you must (1) be designated by your organization as an Authorized Organization Representative (AOR); and (2) register yourself with Grants.gov as an AOR. Details on these steps are outlined at the following Grants.gov Web page:   [*www.grants.gov/web/grants/register.html*](http://www.grants.gov/web/grants/register.html)     7. Other Submission Requirements: Applications for grants under this competition must be submitted electronically unless you qualify for an exception to this requirement in accordance with the instructions in this section.     a. Electronic Submission of Applications.     Applications for grants under Promise Neighborhoods, CFDA number 84.215N, must be submitted electronically using the Governmentwide Grants.gov Apply site at   [*www.Grants.gov*](http://www.Grants.gov) Through this site, you will be able to download a copy of the application package, complete it offline, and then upload and submit your application. You may not email an electronic copy of a grant application to us.     We will reject your application if you submit it in paper format unless, as described elsewhere in this section, you qualify for one of the exceptions to the electronic submission requirement and submit, no later than two weeks before the application deadline date, a written statement to the Department that you qualify for one of these exceptions. Further information regarding calculation of the date that is two weeks before the application deadline date is provided later in this section under Exception to Electronic Submission Requirement.     You may access the electronic grant application for the Promise Neighborhoods program at   [*www.Grants.gov*](http://www.Grants.gov) You must search for the downloadable application package for this competition by the CFDA number. Do not include the CFDA number's alpha suffix in your search (e.g , search for 84.215, not 84.215N).     Please note the following:      When you enter the Grants.gov site, you will find information about submitting an application electronically through the site, as well as the hours of operation.      Applications received by Grants.gov are date and time stamped. Your application must be fully uploaded and submitted and must be date and time stamped by the Grants.gov system no later than 4:30:00 p.m , Washington, DC time, on the application deadline date. Except as otherwise noted in this section, we will not accept your application if it is received--that is, date and time stamped by the Grants.gov system--after 4:30:00 p.m , Washington, DC time, on the application deadline date. We do not consider an application that does not comply with the deadline requirements. When we retrieve your application from Grants.gov, we will notify you if we are rejecting your application because it was date and time stamped by the Grants.gov system after 4:30:00 p.m , Washington, DC time, on the application deadline date.      The amount of time it can take to upload an application will vary depending on a variety of factors, including the size of the application and the speed of your internet connection. Therefore, we strongly recommend that you do not wait until the application deadline date to begin the submission process through Grants.gov      You should review and follow the Education Submission Procedures for submitting an application through Grants.gov that are included in the application package for this competition to ensure that you submit your application in a timely manner to the Grants.gov system. You can also find the Education Submission Procedures pertaining to Grants.gov under News and Events on the Department's G5 system home page at   [*www.G5.gov*](http://www.G5.gov) In addition, for specific guidance and procedures for submitting an application through Grants.gov, please refer to the Grants.gov Web site at:   [*www.grants.gov/web/grants/applicants/apply-for-grants.html*](http://www.grants.gov/web/grants/applicants/apply-for-grants.html)      You will not receive additional point value because you submit your application in electronic format, nor will we penalize you if you qualify for an exception to the electronic submission requirement, as described elsewhere in this section, and submit your application in paper format.      You must submit all documents electronically, including all information you typically provide on the following forms: The Application for Federal Assistance (SF 424), the Department of Education Supplemental Information for SF 424, Budget Information--Non- Construction Programs (ED 524), and all necessary assurances and certifications.      You must upload any narrative sections and all other attachments to your application as files in a read-only, flattened Portable Document Format (PDF), meaning any fillable PDF documents must be saved as flattened non-fillable files. Therefore, do not upload an interactive or fillable PDF file. If you upload a file type other than a read-only, flattened PDF (e.g , Word, Excel, WordPerfect, etc.) or submit a password-protected file, we will not review that material. Please note that this could result in your application not being considered for funding because the material in question--for example, the application narrative--is critical to a meaningful review of your proposal. For that reason it is important to allow yourself adequate time to upload all material as PDF files. The Department will not convert material from other formats to PDF. There is no need to password protect a file in order to meet the requirement to submit a read-only flattened PDF. And, as noted above, the Department will not review password protected files.      Your electronic application must comply with any page limit requirements described in this notice.      After you electronically submit your application, you will receive from Grants.gov an automatic notification of receipt that contains a Grants.gov tracking number. This notification indicates receipt by Grants.gov only, not receipt by the Department. Grants.gov will also notify you automatically by email if your application met all the Grants.gov validation requirements or if there were any errors (such as submission of your application by someone other than a registered Authorized Organization Representative, or inclusion of an attachment with a file name that contains special characters). You will be given an opportunity to correct any errors and resubmit, but you must still meet the deadline for submission of applications.     Once your application is successfully validated by Grants.gov, the Department will retrieve your application from Grants.gov and send you an email with

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a unique PR/Award number for your application.     These emails do not mean that your application is without any disqualifying errors. While your application may have been successfully validated by Grants.gov, it must also meet the Department's application requirements as specified in this notice and in the application instructions. Disqualifying errors could include, for instance, failure to upload attachments in a read-only, flattened PDF; failure to submit a required part of the application; or failure to meet applicant eligibility requirements. It is your responsibility to ensure that your submitted application has met all of the Department's requirements.      We may request that you provide us original signatures on forms at a later date.     Application Deadline Date Extension in Case of Technical Issues with the Grants.gov System: If you are experiencing problems submitting your application through Grants.gov, please contact the Grants.gov Support Desk, toll free, at 1-800-518-4726. You must obtain a Grants.gov Support Desk Case Number and must keep a record of it.     If you are prevented from electronically submitting your application on the application deadline date because of technical problems with the Grants.gov system, we will grant you an extension until 4:30:00 p.m , Washington, DC time, the following business day to enable you to transmit your application electronically or by hand delivery. You also may mail your application by following the mailing instructions described elsewhere in this notice.     If you submit an application after 4:30:00 p.m , Washington, DC time, on the application deadline date, please contact the person listed under FOR FURTHER INFORMATION CONTACT and provide an explanation of the technical problem you experienced with Grants.gov, along with the Grants.gov Support Desk Case Number. We will accept your application if we can confirm that a technical problem occurred with the Grants.gov system and that the problem affected your ability to submit your application by 4:30:00 p.m , Washington, DC time, on the application deadline date. We will contact you after we determine whether your application will be accepted.

    Note:  The extensions to which we refer in this section apply only to the unavailability of, or technical problems with, the Grants.gov system. We will not grant you an extension if you failed to fully register to submit your application to Grants.gov before the application deadline date and time or if the technical problem you experienced is unrelated to the Grants.gov system.

    Exception to Electronic Submission Requirement: You qualify for an exception to the electronic submission requirement, and may submit your application in paper format, if you are unable to submit an application through the Grants.gov system because--      You do not have access to the Internet; or      You do not have the capacity to upload large documents to the Grants.gov system; and      No later than two weeks before the application deadline date (14 calendar days or, if the fourteenth calendar day before the application deadline date falls on a Federal holiday, the next business day following the Federal holiday), you mail or fax a written statement to the Department, explaining which of the two grounds for an exception prevents you from using the internet to submit your application.     If you mail your written statement to the Department, it must be postmarked no later than two weeks before the application deadline date. If you fax your written statement to the Department, we must receive the faxed statement no later than two weeks before the application deadline date.     Address and mail or fax your statement to: Adrienne Hawkins, U.S Department of Education, 400 Maryland Avenue SW., Room 4W256, Washington, DC 20202-5970. FAX: (202) 205-5630.     Your paper application must be submitted in accordance with the mail or hand delivery instructions described in this notice.     b. Submission of Paper Applications by Mail.     If you qualify for an exception to the electronic submission requirement, you may mail (through the U.S Postal Service or a commercial carrier) your application to the Department. You must mail the original and two copies of your application, on or before the application deadline date, to the Department at the following address: U.S Department of Education, Application Control Center, Attention: (CFDA Number 84.215N), LBJ Basement Level 1, 400 Maryland Avenue SW., Washington, DC 20202-4260.     You must show proof of mailing consisting of one of the following:     (1) A legibly dated U.S Postal Service postmark.     (2) A legible mail receipt with the date of mailing stamped by the U.S Postal Service.     (3) A dated shipping label, invoice, or receipt from a commercial carrier.     (4) Any other proof of mailing acceptable to the Secretary of the U.S Department of Education.     If you mail your application through the U.S Postal Service, we do not accept either of the following as proof of mailing:     (1) A private metered postmark.     (2) A mail receipt that is not dated by the U.S Postal Service.

    Note:  The U.S Postal Service does not uniformly provide a dated postmark. Before relying on this method, you should check with your local post office.

    We will not consider applications postmarked after the application deadline date.     c. Submission of Paper Applications by Hand Delivery.     If you qualify for an exception to the electronic submission requirement, you (or a courier service) may deliver your paper application to the Department by hand. You must deliver the original and two copies of your application by hand, on or before the application deadline date, to the Department at the following address: U.S Department of Education, Application Control Center, Attention: (CFDA Number 84.215N), 550 12th Street SW., Room 7039, Potomac Center Plaza, Washington, DC 20202-4260.     The Application Control Center accepts hand deliveries daily between 8:00 a.m and 4:30:00 p.m , Washington, DC time, except Saturdays, Sundays, and Federal holidays.

    Note for Mail or Hand Delivery of Paper Applications:  If you mail or hand deliver your application to the Department--     (1) You must indicate on the envelope and--if not provided by the Department--in Item 11 of the SF 424 the CFDA number, including suffix letter, if any, of the competition under which you are submitting your application; and     (2) The Application Control Center will mail to you a notification of receipt of your grant application. If you do not receive this notification within 15 business days from the application deadline date, you should call the U.S Department of Education Application Control Center at (202) 245-6288.

V. Application Review Information

    1. Selection Criteria: The selection criteria are either from 34 CFR 75.210 or established in accordance with section 437(d)(1) of GEPA, 20 U.S.C 1232(d)(1). All of the selection criteria are listed in this section and in the application package. The maximum score for all of the selection criteria is 100 points. The maximum score for each criterion is included in parentheses following the title of the specific selection criterion. Each criterion also includes the factors that reviewers will consider in

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determining the extent to which an applicant meets the criterion.     Points awarded under these selection criteria are in addition to any points an applicant earns under the competitive preference priorities in this notice. The maximum score that an application may receive under the competitive preference priorities and the selection criteria is 108 points.     (a) Need for the Project (15 points).     The Secretary considers the need for the proposed project. In determining the need for the proposed project, the Secretary considers:     (1) The magnitude or severity of the problems to be addressed by the proposed project as described by ***indicators*** of need (as defined in this notice) and other relevant ***indicators*** identified in part by the needs assessment and segmentation analysis (as defined in this notice);     (2) The extent to which the geographically defined area has been described; and     (3) The extent to which specific gaps or weaknesses in services, infrastructure, or opportunities have been identified and will be addressed by the proposed project, including the nature and magnitude of those gaps or weaknesses. (34 CFR 75.210)     (b) Quality of Project Design (30 points).     The Secretary reviews each application to determine the quality of the project design. In determining the quality of the design of the proposed project, the Secretary considers the following factors:     (1) The extent to which the applicant describes a plan to create a complete pipeline of services, including early learning through grade 12, college- and career-readiness, and family and community supports, without time and resource gaps, that will prepare all children in the neighborhood to attain an excellent education and successfully transition to college and a career, and that will significantly increase the proportion of students in the neighborhood that are served by the complete continuum to reach scale over time;     (2) The extent to which the methods of evaluation include the use of objective ***performance*** measures that are clearly related to the intended outcomes of the project and will produce quantitative and qualitative data to the extent possible (34 CFR 75.210); and     (3) The extent to which the proposed project is supported by strong theory (as defined in this notice) (34 CFR 75.210).     (c) Quality of Project Services (20 points).     The Secretary considers the quality of the services to be provided by the proposed project. In determining the quality of the project services, the Secretary considers:     (1) The quality and sufficiency of strategies for ensuring equal access and treatment for eligible project participants who are members of groups that have traditionally been underrepresented based on race, color, national origin, gender, age, or disability (34 CFR 75.210);     (2) The likelihood that the services to be provided by the proposed project will lead to improvement in the achievement of students as measured against rigorous academic standards (34 CFR 75.210); and     (3) The quality of the applicant's plan to establish formal and informal partnerships, including the alignment of the visions, theories of action, and theories of change described in its memorandum of understanding, and to create a system for holding partners accountable for ***performance*** in accordance with the memorandum of understanding.     (d) Quality of the Management Plan (20 points).     The Secretary considers the quality of the management plan for the proposed project. In determining the quality of the management plan for the proposed project, the Secretary considers the following factors:     (1) The adequacy of the management plan to achieve the objectives of the proposed project on time and within budget, including clearly defined responsibilities, timelines, and milestones for accomplishing project tasks (34 CFR 75.210); and     (2) The adequacy of the management plan's provisions on collecting, analyzing, and using data for decision-making, learning, continuous improvement, and accountability, including whether the applicant has a plan to build, adapt, or expand a longitudinal data system that integrates student-level data from multiple sources in order to measure progress while abiding by privacy laws and requirements, and ensuring that any systems built, adapted, or expanded upon includes essential security controls.     (e) Adequacy of Resources (15 points).     The Secretary considers the adequacy of resources for the proposed project. In determining the adequacy of resources for the proposed project, the Secretary considers:     (1) The extent to which the costs are reasonable in relation to the number of persons to be served and to the anticipated results and benefits (34 CFR 75.210);     (2) The extent to which the applicant demonstrates that it has the resources to operate the project beyond the length of the grant, including a multi-year financial and operating model and accompanying plan; the demonstrated commitment of any partners; evidence of broad support from stakeholders (e.g , State educational agencies, teachers' unions) critical to the project's long-term success; or more than one of these types of evidence (34 CFR 75.210); and     (3) The extent to which the applicant identifies existing neighborhood assets and programs supported by Federal, State, local, and private funds that will be used to implement pipeline services.     2. Review and Selection Process: The Department will screen applications submitted in accordance with the requirements in this notice, and will determine which applications have met eligibility and other statutory requirements.     The Department will use independent reviewers from various backgrounds and professions including: Pre-kindergarten through grade 12, teachers and principals, college and university educators, researchers and evaluators, social entrepreneurs, strategy consultants, grant makers and managers, and others with community development and education expertise. The Department will thoroughly screen all reviewers for conflicts of interest to ensure a fair and competitive review process.     Reviewers will read, prepare a written evaluation of, and score the applications assigned to their panel, using the selection criteria provided in this notice.     The Secretary prepares a rank order of applications for each absolute priority based solely on the evaluation of their quality according to the selection criteria and competitive preference priority points. The Department may use more than one tier of reviews in determining grantees, including possible site visits for applicants. Additional information about the review process will be posted on the Department's Web site.     We remind potential applicants that in reviewing applications in any discretionary grant competition, the Secretary may consider, under 34 CFR 75.217(d)(3), the past ***performance*** of the applicant in carrying out a previous award, such as the applicant's use of funds, achievement of project objectives, and compliance with grant conditions. The Secretary may also consider whether the applicant failed to submit a timely ***performance*** report or

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submitted a report of unacceptable quality.     In addition, in making a competitive grant award, the Secretary also requires various assurances including those applicable to Federal civil rights laws that prohibit discrimination in programs or activities receiving Federal financial assistance from the Department of Education (34 CFR 100.4, 104.5, 106.4, 108.8, and 110.23).     3. Risk Assessment and Special Conditions: Consistent with 2 CFR 200.205, before awarding grants under this competition the Department conducts a review of the risks posed by applicants. Under 2 CFR 3474.10, the Secretary may impose specific conditions and, in appropriate circumstances, high-risk conditions on a grant if the applicant or grantee is not financially stable; has a history of unsatisfactory ***performance***; has a financial or other management system that does not meet the standards in 2 CFR part 200, subpart D; has not fulfilled the conditions of a prior grant; or is otherwise not responsible.

VI. Award Administration Information

    1. Award Notices: If your application is successful, we notify your U.S Representative and U.S Senators and send you a Grant Award Notification (GAN); or we may send you an email containing a link to access an electronic version of your GAN. We may notify you informally, also.     If your application is not evaluated or not selected for funding, we notify you.     2. Administrative and National Policy Requirements: We identify administrative and national policy requirements in the application package and reference these and other requirements in the Applicable Regulations section of this notice.     We reference the regulations outlining the terms and conditions of an award in the Applicable Regulations section of this notice and include these and other specific conditions in the GAN. The GAN also incorporates your approved application as part of your binding commitments under the grant.     3. Reporting: (a) If you apply for a grant under this competition, you must ensure that you have in place the necessary processes and systems to comply with the reporting requirements in 2 CFR part 170 should you receive funding under the competition. This does not apply if you have an exception under 2 CFR 170.110(b). If awarded a grant under this competition, information about the number and percentage of children in the neighborhood who are served by the grant program, including a description of the number and percentage of children accessing each support or service offered as part of the pipeline services; and information relating to the ***performance*** metrics must be stated in each annual report.     (b) At the end of your project period, you must submit a final ***performance*** report, including financial information, as directed by the Secretary. If you receive a multiyear award, you must submit an annual ***performance*** report that provides the most current ***performance*** and financial expenditure information as directed by the Secretary under 34 CFR 75.118 The Secretary may also require more frequent ***performance*** reports under 34 CFR 75.720(c). For specific requirements on reporting, please go to [*www.ed.gov/fund/grant/apply/appforms/appforms.html*](http://www.ed.gov/fund/grant/apply/appforms/appforms.html)     4. Integrity and ***Performance*** System: If you are selected under this competition to receive an award that over the course of the project period may exceed the simplified acquisition threshold (currently $150,000) under 2 CFR 200.205(a)(2) we must make a judgment about your integrity, business ethics, and record of ***performance*** under Federal awards--that is, the risk posed by you as an applicant--before we make an award. In doing so, we must consider any information about you that is in the integrity and ***performance*** system (currently referred to as the Federal Awardee ***Performance*** and Integrity Information System (FAPIIS)), accessible through SAM. You may review and comment on any information about yourself that a Federal agency previously entered and that is currently in FAPIIS.     Please note that, if the total value of your currently active grants, cooperative agreements, and procurement contracts from the Federal Government exceeds $10,000,000, the reporting requirements in 2 CFR part 200, Appendix XII, require you to report certain integrity information to FAPIIS semiannually. Please review the requirements in 2 CFR part 200, Appendix XII, if this grant plus all the other Federal funds you receive exceed $10,000,000.     5. ***Performance*** Measures: The Secretary has established ***performance*** ***indicators*** (i.e , ***performance*** measures) for Promise Neighborhoods. ***Performance*** ***indicators*** established by the Secretary include improved academic and development outcomes for children, including ***indicators*** of school readiness, high school graduation, postsecondary education and career readiness, and other academic and developmental outcomes. These outcomes promote data-driven decision-making and access to a community- based continuum of high quality services for children living in the most distressed communities of the United States, beginning at birth. All grantees will be required to submit data annually against these ***performance*** measures as part of their annual ***performance*** report.     5. Continuation Awards: In making a continuation award, the Secretary considers, among other things: Whether a grantee has made substantial progress in achieving the goals and objectives of the project; whether the grantee has expended funds in a manner that is consistent with its approved application and budget; and, the ***performance*** of the grantee in meeting the targets established for each ***performance*** ***indicator*** identified in the grantee's approved data plan.     In making a continuation award, the Secretary also considers whether the grantee is operating in compliance with the assurances in its approved application, including those applicable to Federal civil rights laws that prohibit discrimination in programs or activities receiving Federal financial assistance from the Department (34 CFR 100.4, 104.5, 106.4, 108.8, and 110.23).

VII. Other Information

    Accessible Format: Individuals with disabilities can obtain this document and a copy of the application package in an accessible format (e.g , braille, large print, audiotape, or compact disc) on request to the program contact person listed under FOR FURTHER INFORMATION CONTACT.     Electronic Access to This Document: The official version of this document is the document published in the Federal Register. Free Internet access to the official edition of the Federal Register and the Code of Federal Regulations is available via the Federal Digital System at: [*www.gpo.gov/fdsys*](http://www.gpo.gov/fdsys). At this site you can view this document, as well as all other documents of this Department published in the Federal Register, in text or PDF. To use PDF you must have Adobe Acrobat Reader, which is available free at the site.     You may also access documents of the Department published in the Federal Register by using the article search feature at:   [*www.federalregister.gov*](http://www.federalregister.gov) Specifically, through the advanced search feature at this site, you can limit your search to documents published by the Department.

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    Dated: July 18, 2017. Margo Anderson, Acting Assistant Deputy Secretary for Innovation and Improvement. [FR Doc. 2017-15359 Filed 7-20-17; 8:45 am]  BILLING CODE 4000-01-P

**Load-Date:** August 1, 2017

**End of Document**



[***Council of the European Union:Commission staff working document: Summary of Executive summaries Internal audit engagements finalised by the IAS in 2016 Accompanying the document Report from the Commission to the European Parliament and the Council Annual report to the Discharge Authority on Internal audits carried out in 2016 (Art 99(5) of the Financial Regulation) ST 12267 2017 ADD 1***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R13-FF01-JDG9-Y3H1-00000-00&context=1516831)

Impact News Service

November 21, 2017 Tuesday

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**Body**

Brussels: Council of the European Union has issued the following document:

12267/17 ADD 1 RGP/ab DG G 2A EN Council of the European Union Brussels, 18 September 2017 (OR. en) 12267/17 ADD 1 FIN 553 COVER NOTE From: Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director date of receipt: 15 September 2017 To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union No. Cion doc.: SWD(2017) 306 final Subject: Commission staff working document: Summary of Executive summaries Internal audit engagements finalised by the IAS in 2016 Accompanying the document Report from the Commission to the European Parliament and the Council Annual report to the Discharge Authority on Internal audits carried out in 2016 (Art 99(5) of the Financial Regulation) Delegations will find attached document SWD(2017) 306 final. Encl.: SWD(2017) 306 final EN EN EUROPEAN COMMISSION Brussels, 15.9.2017 SWD(2017) 306 final COMMISSION STAFF WORKING DOCUMENT Summary of Executive summaries Internal audit engagements finalised by the IAS in 2016 Accompanying the document Report from the Commission to the European Parliament and the Council Annual report to the Discharge Authority on Internal audits carried out in 2016 (Art 99(5) of the Financial Regulation) {COM(2017) 497 final} 2 Contents CONTENT OF THIS STAFF WORKING DOCUMENT: ............................................................................... 8 PART 1: FINAL REPORTS ...................................................................................................................... 9 1. 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Each executive summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of the finalisation and aims to provide a quick understanding of the audits and their main results. Part 2 of this SWD contains a summary of the IAS follow-up engagements in the period from 1 February 2016 to 31 January 20171. Part 3 provides a summarised overview of the 18 long overdue very important recommendations as at 31 January 2017. 1 The summary reflects the assessment of the IAS on the status of implementation of the audit recommendations at the end of the follow-up assignment. It does not take into account any further actions that may have been undertaken by the auditee and reported to the IAS since the release of the IAS follow-up note or report, possibly having an impact on the status of the recommendation. 9 PART 1: FINAL REPORTS 1. HORIZONTAL AUDITS 1.1 Audit on the management of intra-muros contractors Audit objectives and scope The overall objective of the audit was to assess if the Commission uses the external contractors working intra-muros in an effective and efficient way. The audit covered the arrangements both at the corporate level aimed at facilitating the management of intra-muros contractors by DGs and the way in which they are managed in practice at the individual DG level. At the corporate level, the audit scope included the overall framework put in place by DG HR, responsible for coordinating the personnel and administrative policy of the Commission, as well as by DG BUDG, responsible for laying down the procurement procedures and contract templates. The audit also focussed on DG DIGIT, given that a large number of intra-muros contractors work in the IT domain. At the individual DG level, the audit scope included the process of monitoring the work performed by intra-muros contractors to ensure that DGs get value for the money spent and that the associated risks are adequately identified and appropriate mitigating measures put in place. There are no observations/reservations in the 2015 Annual Activity Reports of any of the DGs covered by this audit that relate to the area/process audited. The fieldwork was finalised on 25 May 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Lack of a corporate framework for the use of intra-muros contractors Despite the significant number of intra-muros contractors in the Commission, there is no corporate framework and there are no comprehensive corporate guidelines to support DGs in their management. Certain DGs have developed guidelines at the local level, but these lack the corporate dimension needed to properly address not just the contractual issues, but also to allow them to take into account the HR implications of significant dependency levels. The need for such corporate guidance was clearly expressed by the audited DGs. • Value for money in 'time and means' contracts DGs/Services can use two major categories of service contracts. Either 'result' contracts, which involve buying pre-defined deliverables, or 'time and means' contracts, which are used to purchase human resource capacity with certain skills for a given period of time, but without necessarily pre-defined deliverables. Although 'time and means' contracts may be appropriate in certain circumstances, for example in the early stages of a project or operational service in which an output 10 cannot be clearly defined upfront, they tend to be used more because of their flexibility and the relatively lighter contract preparation work needed up front. However, they generally involve much less stringent reporting requirements on the work actually performed by the contractor and, unless properly monitored, provide less assurance on the achievement of value for money. Although the IAS identified certain good practices where framework contracts used on a 'time and means' basis also included reporting requirements to allow implementation progress to be tracked, these appear to be exceptions rather than the rule. Furthermore, DG DIGIT's recent guidelines on outsourcing in the IT domain do not clearly advise DGs to use 'result' contracts in preference over 'time and means' contracts. Recommendations To address these issues, the IAS formulated the following recommendations: • A corporate framework for the use of intra-muros contractors The IAS recommends that the responsibility for defining the corporate framework for the use of intra-muros contractors should be allocated to the main central services involved (DGs BUDG, HR and DIGIT), under the general oversight of the ABM Steering Group. These central services should work with the DGs that make most significant use of intra-muros contractors to define a corporate framework. This should build upon the existing guidance at local level and be more specific in spelling out which types of contract are most applicable to different situations. • Value for money in 'time and means' contracts As corporate domain leaders in IT and communication, DGs DIGIT and COMM should, for any new framework contract using 'time and means' and, to the extent possible, for existing ones, build in contractual safeguards aimed at ensuring value for money. This could include the use of indicative milestones and/or defining deliverables, together with reporting requirements on the activities performed by intra-muros contractors. Finally, DG DIGIT should revise the recently finalised guidelines to clearly state that a reflection should be carried out prior to the launch of the procurement procedure and that 'result oriented' contracts should be privileged over 'time and means' contracts. 1.2 Audit on coordination and working arrangements with EU decentralised Agencies in DG SANTE and DG HOME Audit objectives and scope The overall objective of the audit was to assess the adequacy of the coordination and working arrangements of the partner DGs (HOME and SANTE) with their Agencies to ensure that Agencies' activities contribute efficiently and effectively to the DGs' policy objectives. The audit focussed on the following three areas: (1) the clarity of the role and responsibility of the partner DG vis à vis its Agencies; (2) the adequacy of the overall strategy of the partner DG vis à vis its Agencies to ensure that their activities contribute efficiently and effectively to the achievement of the DG's policy objectives 11 and (3) the adequacy of the organisational structure of the partner DG in order to have efficient and effective interactions with its Agencies. As the areas under review are managed separately and under different organisational structures in the partner DGs (HOME and SANTE), two separate reports have been issued by the IAS for clarity purposes and to facilitate the follow up of the recommendations at partner DG level. There are no observations/reservations in the 2014 Annual Activity Reports (AAR) of the DGs that relate to the area/process audited. The fieldwork was finalised on 15 January 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue with regard to the overall strategy of each partner DG towards its Agencies in three key areas (i.e programming, monitoring and control/reporting) as follows: DG HOME • Partner DG's contribution to Agencies' programming and link to the DG's own programming activities The Commission (via DG HOME) has to provide an opinion on the work programmes of its Agencies as requested by the Agencies' Founding Acts. The IAS observed that the work programmes of certain Agencies lack quality in terms of objective setting (i.e no SMART objectives) and the definition of Key ***Performance*** ***Indicators*** (KPIs) (i.e no result and impact ***indicators***). Furthermore, some issues on the programming process have been noted: delays in providing the Commission's opinion, the need for closer links between the partner DG and the Agency and for a more proactive Commission's role to facilitate the timely assessment of Agency's budget needs. In addition, despite the link between the DG's policy objectives and the outputs of the Agencies, ***performance*** ***indicators*** are not systematically included in the DG's Management Plan which reflect the Agencies' contribution towards the achievement of DG HOME's policy objectives. Finally, DG HOME does not explicitly take into account the extent to which the risks reported by the Agencies may hamper the achievement of those policy objectives. • Partner DG's monitoring of Agencies' activities The main mechanisms for monitoring the ***performance*** of decentralised Agencies are through the work of the respective Management Boards as well as through regular (informal) contacts. As is the case for other partner DGs, DG HOME is represented on the Boards of its Agencies. Key to effective monitoring is to have appropriate KPIs and adequate ***performance*** measurement systems and reporting at Agency's level. While this is the Agencies' responsibility, DG HOME has a vested interest that these arrangements adequately support the achievement of its own policy objectives. As noted above appropriate KPIs are not always in place and the quality and regularity of ***performance*** measurement and reporting in the Agencies varies considerably. Furthermore, although the DG has supported the Agencies in implementing certain actions under the 'Common approach' and associated 'Roadmap' aimed at making the 12 Agencies more coherent, effective and accountable, the IAS considers that it could further strengthen its monitoring in this area. • Partner DG's control strategy to build assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report DG HOME has not formalised yet its control strategy towards its Agencies, including a provision for adapting the intensity of controls to match the Agencies' respective risk profiles. Furthermore, no 'differentiated' control strategy exists for the two Agencies which have been entrusted by DG HOME with budget implementation tasks through 'Delegation Agreements'. The risks of fraud and of conflict of interest (CoI) are not systematically monitored by the partner DG as a member of the Management Board. In addition, there is room for improvement in the way in which the DG builds up its assurance on the activities of the Agencies, due to the inefficient use of independent sources of assurance such as evaluation and audit work but also due to the limited nature of the reporting process on Agencies' matters by the AOSD which does not systematically report on the results of the Agencies' activities and on the DG's monitoring arrangements towards its Agencies. DG SANTE • Partner DG's contribution to Agencies' programming and link to the DG's own programming activities DG SANTE has a very limited role in the establishment of the work programmes of its Agencies. This is mainly due to the fact that under the Agencies' Founding Acts, there is no legal requirement for the DG to provide an opinion on the work programmes, but also due to the fact that in some cases the Agencies allow the DG only a limited opportunity to participate in the discussions at an early stage of the programming phase. The IAS observed that the work programmes of certain Agencies lack quality in terms of objective setting (i.e no ***strategic*** objectives) and KPIs (i.e no result and impact ***indicators***). Furthermore, despite the link between the DG's policy objectives and the outputs of the Agencies, there are no ***performance*** ***indicators*** in the DG's Management Plan which reflect the Agencies' contribution towards the achievement of DG SANTE's policy objectives. In addition, in its risk assessment, DG SANTE does not document the extent to which the risks reported by the Agencies may hamper the achievement of those policy objectives. • Partner DG's monitoring of Agencies' activities The main mechanisms for monitoring the ***performance*** of decentralised Agencies are through the work of the respective Management Boards and Audit Committees (when applicable) as well as through regular (informal) contacts. To support these monitoring activities, amongst other sources of information, appropriate ***performance*** ***indicators*** should be in place. While this is the Agencies' responsibility, DG SANTE has a vested interest that these ***indicators*** adequately support the monitoring of the achievement of the DG's policy objectives. As noted above this is not always the case. Furthermore, although the DG has supported the Agencies in implementing certain actions under the 'Common approach' and associated 'Roadmap' aimed at making the Agencies more coherent, effective and accountable, the IAS considers that it could further strengthen its monitoring in this area. Finally, although the IAS acknowledges that the quality checks performed by DG SANTE on its Agencies' scientific opinions necessarily 13 follow different approaches depending on the particular circumstances, it found that neither the common principles nor the justification for the different approaches were documented. • Partner DG's control strategy to build assurance and r

eport on the tasks entrusted to its Agencies in the framework of the Annual Activity Report The IAS notes that DG SANTE has formalised its overall control strategy towards its Agencies. Although this is risk-based, it does not describe the different Agencies' risk profiles and does not explain how the intensity of controls should be adapted to those risk profiles. In addition, there is room for improvement in the way in which the DG builds up its assurance and reports on the activities of the Agencies. Currently, independent sources of assurance such as evaluation and audit work are not used as efficiently as they could be and the reporting made by the AOSD on Agencies matters focuses more on budget execution than on results linked to policy achievements, operations and monitoring arrangements. Recommendations To address these issues, the IAS formulated the following recommendations for each partner DG: DG HOME • Partner DG's contribution to Agencies' programming and link with DG's programming DG HOME should reinforce its leverage effect on Agencies' programming. Firstly by being involved earlier in the programming phase to support more effectively the Agencies for the setting of adequate objectives and the definition of appropriate KPIs and secondly by establishing closer links between Agencies (i.e field expertise) and Commission (i.e 'Policy') to ensure that lessons learnt can feed into all levels of policy development. The DG should also reinforce its risk assessment process by taking account of the risks reported by the Agencies and strengthen its planning documents (i.e ***Strategic*** Plan (2016/2020) and annual Management Plans), by explaining clearly how the Agencies activities contribute to the achievement of the policy objectives and how this is in turn supported/measured by appropriate ***indicators***. • Partner DG's monitoring of Agencies' activities Through its role as a member of the respective Management Boards, DG HOME should strengthen its ***performance*** monitoring using the KPIs established by the Agencies. It should further promote and support the implementation of the 'Common Approach' by its Agencies and follow up on the implementation of the 'Roadmap' in each individual Agency. • Partner DG's control strategy for building assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report DG HOME should strengthen its control and assurance building process as follows. Firstly, a control strategy should be formalised for the Agencies, allowing for different levels of control intensity in line with the Agencies' respective risk profiles. Secondly, a separate control strategy for Agencies with delegated budget implementation tasks (i.e Delegation agreements) should be established as the discharge in respect of the 14 delegated funds is given to the Commission (not to the Agency) and the Director General of DG HOME is the Authorising Officer by Delegation (not the Director of the Agency). Thirdly, the building blocks supporting the Authorising Officer by Delegation's declaration of assurance should be reinforced by a more efficient use of independent sources of assurance and by a more systematic bottom-up reporting process aimed at ensuring that the information needed for the DG's AAR on the Agencies' activities is reported consistently and on a timely basis and properly identifies issues which could have an impact on the declaration of assurance. Fourthly, the information included in the AAR on the Agencies' activities should be improved, particularly with regard to the main results and the contribution to DG HOME's policy objectives. Finally, the DG should monitor that Agencies establish adequate Anti-Fraud and conflict of interest policies which we recommend to be adopted by their respective Management Boards. DG SANTE • Partner DG's contribution to Agencies' programming and link with DG's programming DG SANTE should reinforce its leverage effect on Agencies' programming. Firstly by being involved earlier in the programming phase to support more effectively the Agencies for the setting of adequate objectives and the definition of appropriate KPIs and secondly by establishing closer links between Agencies (i.e science/field expertise) and Commission (i.e 'Policy'), while respecting both the independence of the Agencies and the role of the Commission to ensure that lessons learnt can feed into all levels of both organisations. The DG should also reinforce its risk assessment process by documenting properly how the risks reported by the Agencies are taken into account. It should also strengthen its planning documents (i.e ***Strategic*** Plan (2016/2020) and annual Management Plans) by explaining clearly how the Agencies activities contribute to the achievement of the policy objectives and how this is in turn supported/measured by appropriate ***indicators***. • Partner DG's monitoring of Agencies' activities Through its role as a member of the respective Management Boards, DG SANTE should strengthen its ***performance*** monitoring using the KPIs established by the Agencies. It should further promote and support the implementation of the 'Common Approach' by its Agencies and follow up on the implementation of the Roadmap in each individual Agency. The DG should ensure that the different approaches used as regards quality checks on Agencies' scientific opinions are properly documented and justified accordingly. • Partner DG's control strategy for building assurance and report on the tasks entrusted to its Agencies in the framework of the Annual Activity Report DG SANTE should strengthen its control and assurance building process as follows. Firstly, the control strategy should describe the different Agencies' risk profiles and how the level of control intensity should be adapted to these risk profiles. Secondly, the building blocks supporting the AOD Declaration of assurance should be reinforced by a more efficient use of independent sources of assurance. Thirdly, there should be a more systematic bottom-up reporting process aimed at ensuring that the information needed for the DG's AAR on the Agencies' activities is reported consistently and on a 15 timely basis. Finally, the information included in the AAR on the Agencies' activities should be improved, particularly as regards the main results and the contribution to DG SANTE's policy objectives. 1.3 Audit on ***performance*** and coordination of Anti-Fraud activities in the Traditional Own Resources area Audit objectives and scope The overall objective of the audit engagement was to assess whether or not the Anti-Fraud activities in the area of Traditional Own Resources (TOR) are planned, managed and coordinated in an effective manner to ensure the best protection of the Commission's financial interests. The scope of this audit engagement covered the Commission’s Anti-Fraud activities in the TOR area with a particular focus on customs duties and cigarette smuggling. The audit covered: • The Commission Anti-Fraud Strategies (CAFS) and high level coordination and policy in the TOR area; • Anti-Fraud Strategies (AFS) of the main DGs involved in TOR-related activities; • Operational activities in the audited DGs to address the fraud risks at each stage of the Anti-Fraud cycle; • Communication and information within the framework of Commission governance and reporting such as the annual risk assessment exercise, the Annual Activity Reports (AARs), Management Plans (MPs), etc. The audit focused on the activities of OLAF, DG BUDG and DG TAXUD. There are no observations or reservations in the 2015 AARs of the audited DGs, which relate to the audited process. The fieldwork was finalised on 30 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: • Anti-Fraud Strategies in own resources at Commission and DG level The CAFS and the individual DGs' AFSs do not sufficiently address specific fraud risks in the domain of EU own resources. In particular, the CAFS does not provide a clear framework for fighting fraud in the own resource areas as a whole (including TOR), while concerning the AFSs, the TOR DGs do not coordinate their preparation to ensure that common fraud risks are adequately identified and addressed. • OLAF support OLAF's support and facilitation activities on fraud prevention and detection in the TOR area are less structured and comprehensive than in the expenditure area. In particular, the central guidance, support and coordination provided to the DGs, the 16 training programme and the information provided in the Anti-Fraud website are mostly focusing on the expenditure area and very limitedly on TOR. There is moreover no working group or forum for all the TOR DGs to discuss and share common challenges and best practices in the TOR area. • Roles and responsibilities in the TOR area There is no clear overview of how the TOR DGs share the Commission's competence for fraud prevention and detection in the TOR area, and how they ensure effective cooperation and resolve ***strategic*** issues on fraud prevention and detection. In addition, the different committees with the Member States address Anti-Fraud aspects to a very limited extent, not all the TOR DGs attend them or are involved in the preparation of meetings to define a common EC position or propose issues for discussion. Lastly, the TOR DGs do not sufficiently coordinate their preparation and distribution of reports to the Member States on Anti-Fraud activities and ***performance***. Recommendations To address these issues, the IAS formulated the following recommendations: • Anti-fraud Strategies in own resources at Commission and DG level OLAF should revise the CAFS in order to address appropriately issues and risks related to own resources, including TOR and facilitate a better coordination among the TOR DGs to enable identifying common risks and defining coordinated mitigating actions. • OLAF support OLAF should strengthen its support to the TOR DGs by ensuring an enhanced service to TOR DGs as for expenditure DGs. This should include revising the AFS guidance in the TOR area, developing an appropriate range of awareness, communication and training tools and ensuring that the Fraud, Prevention and Detection Network addresses TOR issues. • Roles and responsibilities in the TOR area OLAF, DG BUDG and DG TAXUD should better cooperate by setting up a ***strategic*** steering function responsible for AFS in TOR, defining clearly the respective roles and responsibilities and establishing procedures for the cooperation among them (including when preparing reports on Anti-Fraud activities). The DGs should also review and formalise the different current practices for Member State committees and working groups. 1.4 Audit on the new Better Regulation agenda in the Commission - what is the state of play approximately one year after its adoption? Audit objectives and scope The overall objective of the audit was to assess the state of play of the Better Regulation (BR) package approximately one year after its adoption. Although still relatively early for such an important and wide ranging initiative, with expectation levels so high, it is important to assess the progress made so far, confirm or otherwise 17 that it is on track and to highlight as early as possible any areas for possible improvement/corrective action. The audit scope included: • At the corporate level: the framework put in place to support the implementation of the BR package at Commission level and the measures taken by the SG so that DGs are ready to manage, monitor and report on the efficient and effective implementation of the package; • At the DG level: the preparedness of a sample of DGs (EMPL, ENV and GROW) to efficiently and effectively implement the BR package in practice. • There are no observations/reservations in the 2015 Annual Activity Reports of the audited services that relate to the area/process audited. The fieldwork was finalised in mid-June 2016 and all observations and recommendations relate to the situation as of that date. However, the situation is continuously evolving and various factors and events have come to light since the end of the fieldwork. These have been taken into account when finalising the audit engagement. Major audit findings The IAS identified two very important issues: • State of play of the main Better Regulation components Although the Commission has put in place the main components of the package (REFIT - Regulatory Fitness and ***Performance*** Programme - Platform, Regulatory Scrutiny Board, feedback/consultation mechanism and agenda planning etc.), it has yet to establish proper monitoring and measurement arrangements for assessing whether these components are functioning adequately in practice. The IAS notes that the continual development of the supporting IT tools (the BR portal and Decide) will allow key data/statistics to be collected and indeed this is already underway. However, it still remains to be decided how these will be best used for monitoring and assessment purposes. As regards the REFIT platform, the IAS found that the working arrangements still need to be finalised, together with clearer explanations as to precisely what is expected from the platform. At the fieldwork date, these were still not clear to the platform's members. Concerning the Regulatory Scrutiny Board (RSB), there is a need for DGs to be better informed about the quality and content requirements for impact assessments and evaluations, as this would help them to prepare high-quality outputs from the outset. Furthermore, the RSB's rules of procedure and working arrangements, which were available only in draft at the time of fieldwork, still need to be finalised. Although the feedback and consultation mechanisms have been strengthened as part of an attempt to reach out to stakeholders, in practice this has proven to be a challenge as the response rate is, with a few notable exceptions, generally quite low. The language requirement appears to be a particular problem with less than 20% of the 2016 open public consultations being made in all EU languages. This poses a natural barrier in the attempts to reach out to all EU citizens. In addition, the operational DGs audited 18 expressed concerns as to the proportionality of the feedback/consultation mechanism, although the IAS acknowledges that it may be too early to draw conclusions in this area in the absence of relevant ***performance*** information referred to above. As regards the new approach for planning and validating major initiatives, the statistics available for 2016 at the time of the fieldwork show that the average time for the validation process is very encouraging overall, at ten working days, but about one quarter experienced considerable delays. In order to address this issue, the IAS notes that towards the end of the fieldwork the SG simplified the process and it expects the situation to improve. • Fostering the Better Regulation culture The new impetus that the BR agenda brought also requires a change in culture whereby the objectives and principles need to be deeply embedded in the regulatory activities of the Commission. To this end, the IAS found that whilst tools and guidelines have been made available, much less emphasis was given in practice to helping foster the necessary change in culture. However, it notes that a communication strategy was developed early this year and is gradually being put in place in the context of the roll-out of the new BR portal. Furthermore, the audit identified a need to communicate more clearly on the workflow for policy development, the roles and responsibilities within the SG and the support that the SG is offering to the DGs. In addition, the coordination within the SG, in particular between the Directorate responsible for the BR agenda and those responsible for coordinating the policies throughout the Commission needs to be improved. The role of the SG is pivotal in fostering the BR culture and it follows therefore that the BR principles are understood, applied and communicated to the DGs in a coherent manner. The IAS also noted room for improvement with regard to quality review by the SG. In particular, supporting documents to guide the quality review are not used consistently and there is no indicative timeline for the submission of documents. Recommendations To address these issues, the IAS formulated the following recommendations: • State of play of the main Better Regulation components SG and, where relevant, the RSB, should define appropriate ***performance*** measures for the main components of the BR package and monitor and evaluate these in practice. Furthermore, the SG should explain to the REFIT platform members more precisely what is expected from them and from the process and should ensure that the working arrangements are agreed and properly understood amongst the platform's members. The RSB, in collaboration with the SG, should make it clear to the DGs what is expected of them in terms of quality and content for impact assessments and evaluations and should also finalise its rules of procedure and working arrangements. Concerning the feedback/consultation mechanisms, the SG should carefully monitor progress, particularly as regards both the application of the language regime used for consultations, and the proportionality of the efforts made (inputs) to responses received (outputs) in relation to both consultation and feedback mechanisms. 19 Furthermore, it should investigate the reasons for the low feedback rate and adapt the communication approach accordingly. Finally, as regards the planning of major initiatives, the SG should monitor the application of the new simplified process to assess whether the expected benefits are actually being achieved in practice and take any necessary remedial action. • Fostering the Better Regulation culture To better foster the BR culture in the Commission and building on what is in place already, the SG should further develop its communication strategy promoting the BR objectives. Particular emphasis should be placed on the importance of the 'tone at the top' and for Senior Management to be sending the right signals as to the importance of this initiative. This could be further complemented through stronger support from the political level. On a very practical level, the SG should clearly set out (and communicate accordingly) who does what and when, highlighting key review points for documents. Finally, the SG should strengthen its internal coordination and quality review arrangements to provide more consistent support to the DGs/services 1.5 Audit on financial management in the SG, LS, EPSC and DGT The overall objective of the audit was to assess the adequacy of the financial management of the SG, LS, EPSC and DGT. In particular, it reviewed the design and the implementation of the controls in place to assess whether they ensure the legality and regularity of the financial transactions. Furthermore, the audit assessed the efficiency of the financial workflow. This audit covered the key controls designed and implemented in the following processes: • The procurement process, from the determination of the needs and planning to the effective implementation of the contract; • The financial circuits of procurement, including commitments, payments (including payment deadlines) and recovery orders, to ensure proper segregation of duties and authorisation; • The recording of exceptions and ABAC access rights; • The risk register and Anti-Fraud strategy; • The reporting of the financial activity in the Annual Activity Report (AAR). The engagement covered the period 2015 and the first five months of 2016. There are no reservations in the 2015 AAR of the SG, LS, EPSC and DGT that relate to the area/process audited. The fieldwork was finalised during September and October 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The SG, EPSC and DGT 20 The IAS did not identify any material risks that would give rise to critical or very important recommendations. The LS The IAS identified one very important issue: • Procurement process: Weaknesses in documentation The IAS found that as regards the procurement procedures relating to legal services, the documentation lacks a sufficient degree of formalisation to ensure a proper audit trail, as required by the Financial Regulation (FR). For example, there is no trail of the exclusion, selection and award criteria used for the procedure. In addition, exceptions to the FR and its rules of application (RAP) are not properly documented as required by the relevant internal control standard. Moreover, there is no formal evaluation and award decision and the relevant manual used by the LS is very brief and does not explain in sufficient detail the main steps to be followed for the procurement procedure. The IAS also noted that the LS does not request a declaration on honour from the legal service contractors and is currently seeking the opinion of DG BUDG on the necessity to do so. Finally, the audit found that the requirements of the RAP regarding the publication of contracts awarded were not fully complied with. Their publication on the website of the LS was not exhaustive and did not meet the deadline as set in the RAP. Recommendation To address this issue, the IAS formulated the following recommendation: • Procurement process: Weaknesses in documentation The LS should: • Develop a document (or further develop the existing template), which formalises the main steps of the procurement procedure for legal services, including exceptions to the FR and RAP; • Update its internal operational manual (Guide sur l'activité 'contentieux' du service juridique - 2016) to provide more detailed guidance to the legal officers in this respect; • Clarify with DG BUDG whether the LS has to request the ESPD/declaration of honour before awarding a contract for legal services and follow the position as expressed by DG BUDG. For procurement procedures below EUR 15 000, carry out a risk assessment in order to assess whether or not to request these documents; • Publish a full list of all legal service contracts awarded in a given year respecting the deadline of 30 June year n+1. 1.6 Audit on the early implementation of ESIF control strategy 2014-2020 in DGs REGIO, EMPL and MARE Audit objectives and scope 21 The overall objective of the audit was to assess if the control strategy of DGs REGIO, EMPL and MARE for the management of their European Structural and Investment Fund (ESIF) was properly designed, effectively implemented and well-coordinated in the early stages of the 2014-2020 programming period. The scope of the audit focussed on the following three main areas for the ESI funds managed by DGs REGIO (ERDF and CF), EMPL (ESF) and MARE (EMFF): • The appropriateness of the design of the control strategy for building up assurance on the management of the ESI funds for the 2014-2020 period; • The effective implementation of the control strategy in the early stages of the 2014-2020 period to ensure that sufficient assurance is available before reception of the first assurance packages with declared expenditure; • The appropriateness of the coordination arrangements between the three DGs (i.e internal coordination) and with Member State authorities (i.e external coordination) to ensure a consistent and sound control approach as well as an efficient use of resources in the early stages of the 2014-2020 period. The assessment of the IT systems used for the control/audit activities were excluded from the scope of the audit. There are no observations/reservations in the 2015 Annual Activity Reports (AAR) of DGs REGIO, EMPL and MARE that relate to the area/process audited. The fieldwork was finalised on 29 July 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Design of the ESIF control strategy 2014-2020 DGs' assurance process The legal basis for the 2014-2020 programming period introduced a number of new features which the DGs are yet to fully assess in terms of their impact from a control/assurance perspective. In particular, this concerns the impact of the 10% retention of interim payments on: (a) the procedure for interruption and suspension of payments, (b) the DG's decisions whether or not to issue a reservation in the AAR and its quantification and (c) the calculation of the 'amount at risk'. Also, it is not yet clear how multi-fund Operational Programmes (OPs) will be treated (a) when drawing conclusions and making financial corrections based on audit results resulting from common samples (i.e covering both funds) and (b) when defining in the audit methodology the scope when covering those OPs. Finally, also not yet fully addressed is the control approach to be applied on the legality and regularity of payments under each stage of the control cycle. DGs' audit plans Delays in the start-up of the 2014-2020 programming period have resulted in the need for continuous adjustments of the DGs' audit plans. Although these are risk-based (in line with auditing standards) and properly supported by a workload analysis, there is a lack of consistency between the DGs on how to take into account resources shortages 22 when developing their plans and it is not clear to what extent those shortages might impact on the assurances needed for a given reporting period. 'Control-related' simplification measures It is not yet sufficiently clear how the control related simplification measures introduced in the 2014-20 programming period will deliver the expected results. Issues still to be clarified include: (1) article 148 of the Common Provisions Regulation (CPR) on 'proportional control of OPs', setting out provisions to avoid overlap with Member States/ECA audits under certain conditions, (2) article 140(1) of the CPR on 'shorter retention period of documents', limiting the time for audit activities and financial corrections and (3) article 122(3) of the CPR on 'e-Cohesion', providing that by 31/12/2015 Member States have to exchange all information between beneficiaries and their national authorities by means of electronic data exchange systems. • Implementation of the ESIF control strategy in the early stages Designation review The Commission's progress in reviewing Member States designations depends very much on progress made by the Member States on the designation process itself, which is under their responsibility and has been subject to persistent delays. As at September 2016, the Commission had received notice of complete designation for only 214 out of the 538 approved OPs (i.e 40%). The DGs have provided guidance to help facilitate the designation process and some Audit Authorities found this to be useful. However, others raised concerns about the feasibility to implement the so-called 'Light designation' for management and control systems, whereby the authorities concerned have essentially the same systems which existed in the previous period. The risk factors used by the Commission to select OPs subject to designation reviews (DR) are driven mainly by the amount of EU-co-financing at stake, rather than other factors such as the reliability of the Independent Audit Body (IAB). The IAS considers the latter to be more critical given the objective of the DR is to confirm the reliability of the IAB report. Also, although the DGs' methodology for the DR and guidelines to IABs on how to treat IT issues at the designation stage are clear on paper, the IAS found that in two out of the four sampled cases, either the DG's auditors (in one case) or the IAB (in the second case), had not completely followed the set procedures in practice. Early Preventive System Audits (EPSA) Concerning the EPSA methodology, the IAS notes that the impact of such audits on the application of article 148 of the CPR (which limits the audits that can be performed on the same beneficiary by the DGs, the AA and the ECA) has not been properly reflected in the methodology. Also, the DGs have yet to update the checklist to verify compliance with the EU public procurement directive to cover the contracts published from April 2016. Additionally, the risk assessment process used to select OPs for such audits is lacking in so far as the decision-making is not always clearly documented and weightings are not adequately assigned to certain risk factors. Review of National Audit Strategies (AS) The DGs' review of the AS is risk-based and includes the AS of the OPs which are subject to DR. However, the DR automatically excludes lower-value OPs (i.e below the thresholds in the legal basis) even though these may have a high-risk profile. The 23 IAS notes that the DGs do not currently plan to review the AS for certain OPs identified as risky according to the EPSA risk assessment. Also, there is room for improvement on the process and tools used for monitoring the reviews of AS. Thematic audits on: (1) ***Performance*** Data Reliability (PDR) and (2) Financial Instruments (FI) The single audit strategy attaches priority in the first years of implementation, in addition to the compliance audits, to audits on the reliability of data in the Member States and on Financial Instruments. However, at the end of the IAS audit fieldwork, in REGIO and MARE there had been no audits on assessing data reliability and a number of underlying methodological issues have yet to be resolved in the existing methodology developed jointly by the DGs. These include the question as to which ***performance*** ***indicators*** should be included in the scope of the audit, the risk factors used for selecting OPs, the extent to which desk officers and evaluation experts can be used and finally the impact on suspension/interruption of payments and on financial corrections. Concerning Financial Instruments, there is no audit methodology in place yet and no audits performed so far. However, the IAS notes that a working group has been set up to develop a methodology for mid-2017. Recommendations To address these issues, the IAS formulated the following recommendations: • Design of the ESIF control strategy 2014-2020 DGs REGIO, EMPL and MARE should clarify: (1) the impact of the 10% retention from interim payments on the interruption and suspension of payments, on the calculation of the 'amount at risk' and when deciding on the need to qualify the annual declaration of assurance by a reservation; (2) the impact of the 'multi-fund' OPs on the sampling method and the scope of the enquiry planning memorandum when covering those OPs and (3) the control approach and level of assurance for each type of payment and for each stage of the control cycle and clearly disclose this in the AAR. The DGs should revise their audit plans for the 2016-June2017 period to address any changes needed as a result of new events (e.g new AA system audits reported). The plans should be either aligned to the resources available or alternatively explain the impact of any shortages in resources on the level of assurance in the reporting year. Finally, the DGs should address some points resulting from the control-related simplification measures: (1) clarifying the sampling implications and a process to exchange information on samples at beneficiary level, so as to avoid overlaps between audits on the same beneficiary by the DGs, the AAs and, under certain conditions, the ECA as per article 148 of the CPR; (2) consideration of the time limit for audit as per article 140.1 of the CPR in the risk assessment used for the selection of the OPs to be audited and (3) addressing the potential audit detection risk resulting from the use of 'e-cohesion' through audit work on this topic. • Implementation of the ESIF control strategy in the early stages DGs REGIO, EMPL and MARE should: 24 • 'Designations': in the short term, better facilitate the designation process through, for example, bilateral contacts with the Member States, giving priority to the risky OPs selected for designation review. In the long term, the DGs should assess the experiences of the 2014-2020 designation process to draw lessons and define the control approach for the post-2020 legislative framework; • 'EPSAs': strengthen the methodology and risk assessment process, including improving the audit trail and attaching a higher weight to the reliability of the AA's work; • 'Review of national audit strategies': include as part of their review the additional high risk OPs identified in the EPSA risk assessment. DGs should also improve the existing tools and further develop the monitoring process; • 'PDR audits': strengthen the methodology by clarifying the scope, the role of desk officers and evaluation experts and the impact of any errors detected and ensure that such audits are carried out on the selected OPs as a matter of priority; • Audits on 'Financial Instruments': develop the necessary methodology and launch audits as soon as possible, after taking due consideration of any audit work by the AA on Financial Instruments to respect the 'single audit principle' and based on the first substantial data on Financial Instruments reported by the Member States. 1.7 Audit on effectiveness of simplification measures under 2014-2020 ESI Funds in DG EMPL, REGIO and MARE Audit objectives and scope The overall objective of this audit was to assess whether or not DGs REGIO, EMPL and MARE have put in place the necessary processes to ensure that the simplification measures introduced in the 2014-2020 regulatory framework are effective in achieving the objective of reducing the administrative burden (at beneficiary and Member State level), whilst at the same time obtaining the necessary assurances on legality and regularity of transactions and ***performance*** of programmes. The IAS audit focused on the following three areas: • The appropriateness of the design of the processes for implementing simplification measures; • The activities of the European Structural and Investment Funds (ESIF) DGs in the areas of promoting the use and monitoring the take-up of simplification measures and in identifying any weaknesses in their implementation; • The DGs' efforts to identify any further simplification measures as well as take action in order to address the identified weaknesses in the existing measures. The scope of the Commission's simplification exercise for the multi-annual financial framework period 2014-2020 encompasses the Member States' national authorities as well as the beneficiaries of ESIF grants. It does not include simplification measures at the Commission level. The main simplification measures covered by this audit are: • Measures related to simplifying cost reimbursement rules, notably Simplified Cost Options (SCO), simplifying eligibility rules and reducing 'gold plating', and simpler rules for revenue generating projects; • Joint Action Plans (JAP); 25 • e-Cohesion. Another 2016 IAS audit on 'Early implementation of ESIF control strategy 2014-2020 in DGs REGIO, EMPL and MARE' has covered the design aspects of several control related simplification measures. There are no observations/reservations in the DGs' 2015 Annual Activity Reports that relate to the area/process audited. The fieldwork was finalised on 28 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Uptake and impact of simplification measures and the DGs' processes to promote and monitor these measures The provisional results of a DG REGIO study show that the reduction in administrative costs is likely to be lower than expected, largely as a result of the lower than expected uptake of a number of simplification measures. A notable exception concerns the ESF, where the expected uptake of SCO represents some 36% of the total ESF funding. This compares to some 2% for the ERDF/CF, and zero for the EMFF. For the ESF, this is a significant increase in comparison to the 7% uptake rate for the 2007-2013 programming period, but still below the ambitious target of 50% set for this period. For the other Funds, the DGs have not set any targets for the 2014-2020 programming period and there is no significant increase in the use of SCO yet in comparison to the previous period. Furthermore, the e-Cohesion requirements were fulfilled for only 58% of the ERDF/CF Operational Programmes (OPs) as at 31 December 2015. No information was available on the uptake of this measure in the case of the ESF. In addition, there has been no take up of JAP so far. Despite the ESIF DGs' efforts, they have not yet succeeded in overcoming a number of obstacles to further increase the uptake of simplification measures and to reduce the administrative burden of beneficiaries and the administrative costs of the Member States. The expected uptake of SCO is very much dependent on the type of projects funded. ESF funded actions are often more suitable for applying SCO. For ERDF/CF and EMFF, it is often not feasible to use flat rates, unit costs or lump sums. According to a survey of ESF Management Authorities carried out by DG EMPL, all intend to use SCO in this programming period. However, other surveys/studies indicate that respondents have certain doubts about the attractiveness of SCO that need to be addressed. Furthermore, SCO under article 67 Common Provisions Regulation cannot be used for operations that are fully publically procured. This limits the potential for the further uptake of SCO for ERDF/CF and EMFF. The different rules applicable to State Aid and simplification measures have not yet been sufficiently clarified and explained. The lengthy adoption procedure of delegated acts under article 14(1) of the ESF Regulation is among the blocking factors for Member States opting for SCO. The lack 26 of legal certainty on the Commission accepting the Member States SCO calculation methodologies is also an obstacle the DGs need to overcome, except for DG EMPL when applying article 14(1) of the ESF Regulation. The DGs lack a comprehensive analysis of the Member States' rules and procedures implementing the ESI Funds at the local level to be able to help them reduce gold-plating in general and assess if the target for reducing gold-plating at the national level can be reached. Furthermore, overall, corrective actions for a significant number of Management Authorities not yet complying with the e-Cohesion legal requirements are not yet sufficiently clear. Finally, whilst acknowledging that it is early in the programming period, the IAS found a number of weaknesses in the arrangements the DGs have put in place for monitoring the uptake and impact of simplification measures. • Mitigating risks associated with simplified cost options SCO expose the ESIF DGs to a number of risks they will need to address in the current programming period. The impact assessment supporting the legislative proposal for the 2014-2020 programming period did not sufficiently assess the impact of applying simplified rules on the level of assurance on legality and regularity to be obtained when using these new instruments. Furthermore, it is not certain if the new flat rates introduced in the Omnibus Regulation are a reliable proxy for real costs of certain types of funded operations, as these have not been backed-up by an in-depth study into the various types of cost categories that comprise the financed operations of the ESI funds. Applying article 14(1) of the ESF Regulation does not guarantee simplification for the final beneficiaries. Firstly, national managing authorities can use a SCO to reimburse beneficiaries which is different to the one approved under article 14(1) or can reimburse them based on actual costs incurred, necessitating a double accounting system adding administrative burden. Secondly, beneficiaries have to keep a full audit trail when the operations are financed by more than one ESI fund and the Member State has chosen a SCO provided under article 67 of the CPR for part of the financed operation (i.e when the operations are 'cross-financed'). The IAS has also found certain weaknesses in the procedures for applying article 14(1), mainly regarding key supporting documentation. Furthermore, the ESIF DGs have yet to develop their approach for assessing the continued relevance of the methodologies approved ex-ante under article 14(1) and possible over or under reimbursements to beneficiaries if they take another form than the SCO applied under article 14(1) for the reimbursement of Member States by the Commission. DG EMPL considers that the principle behind the use of article 14(1) ESF SCO means that this is not required. The use of SCO does not necessarily result in a stronger focus on results, as Member States using article 14(1) have chosen to be reimbursed based on process or output based ***indicators*** rather than results in several cases. Furthermore, previous Commission audits have identified risks concerning the reliability of ***performance*** data collected and reported by the Member States, but it is unclear how the DGs and national audit authorities intend to cover the reliability of ***performance*** measurement ***indicators*** for SCO. It is also not yet clear how the DGs will keep an overview of all the findings concerning SCO resulting from audit work in order to be able to identify systemic 27 issues and identify the need for a thematic approach to audit SCO. Finally, the role of the national audit authorities in providing assurance on the SCO calculation methods is yet unclear, as the applicable Regulations are silent about their precise role in this area. Certain national audit authorities are reluctant to get involved in assessing these methods because they fear that this would endanger their independence. Recommendations To address these issues, the IAS formulated the following recommendations: • Uptake and impact of simplification measures and the DGs' processes to promote and monitor these measures DGs EMPL, REGIO and MARE should, for the 2014-2020 period, further remove the above obstacles hindering the implementation of simplification measures, monitor the uptake and effectiveness of the simplification measures further along the programming period and take corrective measures where necessary. For the post 2020 period, they should gather up-to-date data on the Member States' progress regarding simplification before submitting their legislative proposals for the post 2020 period. They should also set targets and ***indicators*** for the improved uptake of simplification measures and ensure that these are translated into the different funding priorities and OPs for the post 2020 period to enable both the Member States and the Commission to monitor the Member States' actions in the area of simplification. • Mitigating risks associated with Simplified Cost Options DG EMPL should further strengthen its procedures for approving the Member States' SCO methodologies under article 14(1) of the ESF Regulation. The DG should also analyse any potential instances of significant differences between reimbursement by the EC of the Member State and payments made by the Member State to beneficiaries to assess the underlying reasons and decide whether or not the approved SCOs need to be adjusted for future operations, where appropriate. DGs EMPL and REGIO should ensure that their own or the national audit authorities' audit work sufficiently covers the risks related to using an SCO throughout the 2014-2020 programming period, if necessary through thematic audit work. They should also ensure that the SCO related data/***indicators*** are output/results based where possible and their quality is sufficiently covered by audit work. For the post 2020 period the DGs should properly assess the effects of simplification on the assurance on legality and regularity of the underlying transactions and ***performance***, and analyse the cost profiles and real costs incurred by publically financed projects that have similar characteristics to those funded under the ERDF/CF, ESF and EMFF to provide a solid basis for calculating the flat rates proposed in the EU Regulations. 1.8 Audit on the processes for managing and sharing data on agri-environmental-climate issues in DG AGRI, DG CLIMA and DG ENV Audit objectives and scope 28 The overall objective of the audit was to assess whether DG AGRI, DG CLIMA and DG ENV have put in place effective and efficient processes for managing and sharing agri-environmental-climate data. Agri-environmental-climate data was defined for the purpose of this audit as data and information related to the impact of ***agriculture*** on the environment and climate. The concept of knowledge management, which involves elements over and above the simple sharing of data, namely the use of skills and expertise needed to analyse and interpret data, was not included in the scope of the audit. The audit covered the review of the following processes in DG AGRI, DG CLIMA and DG ENV: • Processes for identifying and prioritising agri-environmental-climate data needs for policy support; • Processes for collecting agri-environmental-climate data, including the identification and mapping of available data; • Processes for storing, sharing and disseminating agri-environmental-climate data. The audit also included the review of the collaboration between DG AGRI, DG CLIMA and DG ENV and with other Commission services and European Union (EU) bodies that play a major role in the collection and dissemination of agri-environmental-climate data, in particular Eurostat, the Joint Research Centre (JRC), DG RTD and the European Environmental Agency (EEA). However, the audit did not cover the data management and sharing processes in these other Commission services and EU bodies. The audit work took into account the rules and regulations regarding access to documents, protection of personal data and confidential statistical data and protection of intellectual property rights. However, its primary purpose was not to assess compliance with these rules and regulations. The 2015 Annual Activity Reports of DG AGRI, DG CLIMA and DG ENV do not contain any reservation/observation related to the processes audited. The fieldwork was finalised on 11 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Mapping of information needs and available data related to agri-environmental-climate issues Despite certain initiatives undertaken by the DGs to list information needs and available data, there is no comprehensive and coordinated inventory of information needs, together with a list of already available data in the field of agri-environmental-climate issues. Existing inventories are limited in scope and not always shared amongst the three DGs. As a consequence, the IAS noted during its review of a sample of contracts for procuring studies in the agri-environmental-climate field, that it was often left to the contractors to make an inventory of available data/ information, 29 including data/ information produced by the Commission itself, by the EEA and through EU research projects. In the addition, current coordination mechanisms do not always function effectively. The IAS found in particular that there is insufficient coordination on the ***indicators*** related to agri-environmental-climate data and that DG AGRI, DG ENV as well as Eurostat and the EEA have developed ***indicators*** which either address the same information needs, but are formulated differently or, should be the same, but in fact are calculated using different sources and/or methodologies and hence lead to different results. • Coordination of Member State reporting requirements and reuse of data There is insufficient coordination of the Member State reporting requirements, including insufficient reuse of collected data. This results in overlaps in Member State reporting requirements, increase in the workload and possible inconsistencies. The DGs informed the IAS that in some cases this was caused by insufficient coordination in Member States themselves, coupled with resistance on their part to build into the underlying legislation the need for consistency between the different reports/data they are responsible for. In addition, the IAS noted that the spatial data collected by Member States (and belonging to Member States) under the Common ***Agricultural*** Policy (CAP) control system and which could be useful for environmental/climate policy, is not in fact available to be used in this way in certain Member States or in the Commission. In practice, this data is used essentially for controlling the CAP on the basis that under the personal data protection rules, as recalled in the CAP horizontal regulation, personal data should not be used for another purpose than it was collected for. These restrictions occur in spite of the requirements of the Inspire Directive for sharing spatial data for environmental purposes. Recommendations To address these issues, the IAS formulated the following recommendations: • Mapping of information needs and available data related to agri-environmental-climate issues DG AGRI, DG CLIMA and DG ENV should (taking account of the role played by the main EU data providers and building on existing arrangements) reinforce the coordination of agri-environmental-climate data and related ***indicators*** and enhance its sharing. They should also establish a coordinated inventory of agri-environmental-climate information needs and available data. • Coordination of Member State reporting requirements and reuse of data DG AGRI, DG ENV and DG CLIMA should: Actively coordinate between themselves and with the EEA and Eurostat to ensure better consistency and, where possible, simplification through more effective re-use of collected data in Member States reporting requirements. In particular, this can be included in the European Commission's Regulatory Fitness and ***Performance*** 30 Programme (REFIT) aimed at making EU law simpler and reducing the regulatory costs. In addition, DG AGRI, DG CLIMA and DG ENV should: Clarify with the Legal Service what can be legally required from Member States under EU legislation, regarding the sharing of CAP spatial data between public authorities at national level and with the European Commission and the EEA for environmental/climate purposes. Upon clarification of the Legal Service, work together and with Member States to define clear arrangements/processes for the sharing of the CAP spatial data for environmental-climate purposes. 1.9 Audit on the procurement process in OIB, OIL and DG BUDG Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effective implementation of DG BUDG, OIB and OIL's internal control systems for the management of the procurement process and the effectiveness and efficiency of the related financial circuits. This audit tested the key controls as well as management and monitoring controls throughout the procurement process, from the identification and planning of the needs until the signature of the contract, including amendments and price revisions, if applicable. The audit covered the controls on the financial transactions in the period 1 January 2015 – 31 May 2016 related to procurement procedures awarded in the same period as well as payments for procurement processed in the same period, which may however not necessarily be linked to procurement procedures awarded in the period under review. There are no reservations in DG BUDG, OIB or OIL's 2015 Annual Activity Reports relating to the process audited. The fieldwork was finalised in November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified four very important issues: OIB • Procurement procedures The audit identified weaknesses in the planning phase (i.e needs analysis) and in relation to the transparency of public procurement procedures. During testing of the planning phase, the IAS found weaknesses in OIB's needs analysis in one of the eleven high value procedures tested. In this case, OIB did not sufficiently consider local building regulations before the start of the procedure. As a 31 consequence, OIB could not sufficiently demonstrate the proper use of an exceptional procurement procedure. The IAS also noted that the real estate procedure currently in place (the 'Kallas procedure') has not been updated to reflect the changes made to the Financial Regulation that requires a greater degree of involvement of the Budgetary Authorities. The 'Kallas procedure' is currently being revised and OIB has already prepared a first draft. Transparency is one of the fundamental principles in public procurement law. In this respect, the audit found that in the real estate procedure tested, OIB excluded one tenderer without formally explaining the grounds on which the decision was taken. However, a bilateral meeting was arranged at a later stage with the tenderer excluded. The IAS also noted that OIB did not take minutes of the meetings held with tenderers at the initial stages of the negotiation phase. • Ex-post controls The audit also identified weaknesses in the methodology applied to ex-post controls. In particular, no pre-determined risk factors are defined and applied to the additional risk based sample of OIB. Furthermore, OIB does not make use of advanced sampling techniques, such as stratification of the population, which could increase the efficiency of the ex-post control function. In addition, the IAS found that the OIB had not tested the full number of transactions required for statistically meaningful results. This occurred because OIB made certain assumptions when selecting the sample during the year without assessing the need to adjust it at year-end in order to take account of significant differences between the assumptions made and the actual situation. Also, it did not correctly extrapolate the errors found in the sample across the entire population. The IAS does acknowledge however, that this had no significant impact on the 2015 error rate. Furthermore, although the services subjected to ex-post control receive recommendations from the ex-post control team, they do not establish action plans which could help foster the timely implementation of these recommendations. Finally, the IAS noted that a high number of recommendations are still open some of which were classified as errors of importance up to level 2 which means that they could have a financial or reputational impact. However, OIB has not carried out an assessment of the actual risks that the office is facing by not implementing these recommendations and whether it would be cost-effective to do so. OIL • Procurement procedures The audit identified weaknesses mainly concerning the initial steps of procurement procedures, namely the planning phase and the drafting of tender specifications. As regards the planning, the IAS found that that OIL does not provide sufficient information on how such needs have been quantified, which meant in practice that OIL could not sufficiently justify using exceptional procedures. Furthermore, in one particular case, services vital for the implementation of a contract were not included at the needs assessment stage and consequently the tender specifications. They needed to be estimated by the Commission services at the evaluation stage. 32 Regarding the tender specifications, the audit found that in one case, these were overly specific and even included brands, which had the effect of limiting the competition. In one of the real estate procedures we tested, the award criteria were not clearly defined, although this constitutes a key element of the procurement procedure. • Ex-post controls The audit also identified weaknesses in the methodology applied for ex-post control. In particular, OIL's ex-post controls do not cover procurement procedures. Hence, a key risk is not covered, even though this constitutes a key building block for the assurance of the Authorising Officer by Delegation. In addition, the statistical method for selecting the sample and the extrapolation of the error rate were not correctly applied in practice. Recommendations To address these issues, the IAS formulated the following recommendations: OIB • Procurement procedures OIB should improve the needs analysis by including compliance with specific building laws and regulations. Furthermore, OIB should take the necessary steps to launch a College decision on the revision of the 'Kallas procedure' by taking into account, inter alia, the changes to the Financial Regulation by including the new procedure as stipulated in Art. 203 of the Financial Regulation and Art. 286 of the Rules of Application to the Financial Regulation. All relevant actors in the field of real estate procurement should be consulted during the course of the revision. OIB should also formally justify to tenderers when the decision is taken to exclude any one of them. • Ex-post control OIB should comprehensively document its sampling methodology, in particular the risk factors applied for the additional risk based sample. Furthermore, OIB should consider stratifying the sampled population to increase the efficiency of the sample testing. It should also assess the need to adjust the selection of the sample at year-end to take account of significant differences between the assumptions made and the actual situation as required by the Monetary Unit Sampling technique and correctly apply the statistical methodology when extrapolating the errors identified. Finally, the services that are subjected to the ex-post control should establish an action plan with target dates for the most significant recommendations made by the ex-post control team. Furthermore, OIB should make an assessment of the risks associated with open recommendations for the lesser important errors and evaluate whether it is still cost-effective to implement these. OIL 33 • Procurement procedures OIL should improve the needs analysis and, in particular, document how it has quantified its needs. When drafting tender specifications, it should avoid restrictive clauses or references to brands or trademarks, except for duly substantiated exceptions. Furthermore, OIL should also set clear award criteria for real estate procurement procedures. • Ex-post control OIL should include the key steps of the public procurement procedures in the scope of its ex-post controls and correctly apply the statistical method when sampling and extrapolating the errors identified. 1.10 Audit on the procurement process in DG COMM, DG Interpretation (SCIC) and EPSO/EUSA Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the service's internal control system with regard to the management of the procurement process and, in particular, its compliance with the Financial Regulation and its Rules of Application. This audit tested the key controls related to the procurement process, including the management and monitoring controls. Testing covered the identification and planning of the needs until the signature of the contract, including amendments and price revisions, if applicable. It also included payments relating to procurements processed in 2015. The responsibilities of DG HR laid down in the Service Level Agreement concluded between EPSO/EUSA and DG HR for the provision of financial management and procurement services were also included in the audit scope. There are no reservations in DG COMM, SCIC or EPSO/EUSA 2015 Annual Activity Reports that relate to the area/process audited. The fieldwork was finalised between 25 May and 13 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings DG COMM and EPSO/EUSA The IAS did not identify any material risks that would give rise to critical or very important recommendations. SCIC The IAS identified one very important issue: • Procurement process: weaknesses in tender documents, compliance issues 34 The audit revealed non-compliance issues with the Financial Regulation (FR), its Rules of Applications (RAP) or the case law of the European Court of Justice. More specifically, the IAS found weaknesses in the tender documents, such as one procedure in which an award criterion which referred to the experience of the tenderer and therefore overlapped with a similar selection criterion and two procedures in which the tender specifications were either not entirely clear for the tenderers or not fully defined. With regard to the evaluation of tenders, the IAS identified two cases in which the tender specifications were not strictly followed. Furthermore, in one procedure, some tenderers were contacted without ensuring that the other tenderers received the same level of information. Finally, the IAS noted one missing declaration of honour by a tenderer and four missing award decisions for low value procedures. DG SCIC's manual on public procurement provides for a formal visa by the finance unit at the stage of the draft tender documents. However, in practice this control is exercised only in an informal manner. The audit showed that, while the relevant ex-ante controls were carried out at the stage of the budgetary and legal commitment, i.e after the evaluation and before awarding and signing of the contract, they neither prevented nor detected and corrected the weaknesses observed by the IAS. Recommendation To address this issue, the IAS formulated the following recommendation: • Procurement Process: weaknesses in tender documents, compliance issues DG SCIC should: • Remind all services and potential members of evaluation committees to ensure compliance with the FR, its RAP and the case law of the European Court of Justice for the cases identified through this audit; • Update its procedures on ex-ante controls on public procurement procedures and formalise the control ensuring that the tender specifications meet the main requirements as set out by the FR and the RAP before the tender documents are published. This should be done for all high value procedures, together with a risk-based selection of low-value procedures; • Revise the internal checklists used for commitments and payments by specifically including the main elements to be checked. 2. ***AGRICULTURE***, NATURAL RESOURCES AND HEALTH 2.1 Audit on the design of DG AGRI's ***performance*** measurement system for the CAP 2014-2020 Audit objectives and scope The overall objective of the audit was to assess whether DG AGRI has adequately designed the Common Monitoring and Evaluation Framework (CMEF), including the 35 Common Monitoring and Evaluation System (CMES), in order to monitor, evaluate and report on the ***performance*** of the CAP 2014-2020. As the CMEF is still in an early stage of implementation, the audit focused on its design and covered the following main steps: • A review of the design of the Common ***Agricultural*** Policy (CAP) ***intervention*** logic, including the CAP objectives and their related ***indicators***; • A review of the design and preparedness of the processes put in place by DG AGRI for ensuring that reliable data will be available on time for calculating the CMEF ***indicators*** values and reporting on them; • A review of the processes put in place by DG AGRI for providing support to the Member States in the implementation of the CMES, including through the European Evaluation Helpdesk for ***Rural*** Development; • A review of the processes put in place by DG AGRI for planning evaluations of the CAP 2014-2020. The audit scope did not include the following: • Processes related to the detailed monitoring activities performed by the different units of DG AGRI for the policies they implement; • Processes for conducting evaluations, as well as processes for managing the contractual relationship with the contractors implementing the European Evaluation Helpdesk; • Processes for the ***performance*** review linked to the ***performance*** reserve that Regulation (EU) No 1303/2013 introduced for the European Structural and Investment Funds (ESIF), including the EAFRD. This is a specific process, which may be the subject of a separate audit at a later stage. DG AGRI's 2014 Annual Activity Report (AAR) does not contain any reservation related to the ***performance*** measurement framework. The fieldwork was finalised on 4 February 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: • Quality of objectives, ***indicators*** and ***intervention*** logic The specific objectives set for Pillar I/Horizontal Provisions (and related ***indicators***) do not always clearly define what the related policy is expected to achieve and, in a few cases, appear not to cover some essential aspects of the CAP's general objectives. In addition, the ***intervention*** logic does not always allow to identify which CAP instruments contribute to which objectives and how. • Consistency and completeness of the CMEF The CMEF does not cover all the various CAP instruments, although it should be noted that those which are not included are subject to ***performance*** measurement provisions laid down in their individual legal bases. Furthermore, while the CMEF 36 integrates Pillar I/Horizontal provisions and Pillar II at the level of impact ***indicators***, this is not the case for result ***indicators***. This complicates the work of DG AGRI in demonstrating the combined direct effect of different CAP instruments pursuing the same specific objectives (for example for the payment for young farmers under Pillar I and the measures for young farmers under Pillar II). • Reliability and availability of data Despite the fact that DG AGRI cooperates effectively with Eurostat, it faces continued problems in obtaining reliable data for calculating the values of certain CMEF ***indicators***, in particular for environmental ***indicators***. This mainly concerns those for which there is no explicit legal basis for requiring the data from Member States. According to DG AGRI, there is a strong resistance from Member States to provide additional data due to the costs involved. Recommendations To address these issues, the IAS formulated the following recommendations: • Quality of objectives, ***indicators*** and ***intervention*** logic DG AGRI should ensure that the CAP specific objectives for Pillar I/Horizontal Provisions are more compliant than at present with the SMART criteria and assess whether there is a need to include related additional ***indicators***, based where possible on available data and taking into account cost effectiveness considerations in order to better demonstrate the achievement of policy objectives. The CAP ***intervention*** logic needs to be explained much more clearly. • Consistency and completeness of the CMEF DG AGRI should develop additional ***indicators*** to cover the CAP instruments which are not adequately addressed through the current set of CMEF ***indicators*** and use if possible existing data to integrate Pillar I and Pillar II aspects. This does not necessarily mean including additional ***rural*** development ***indicators***, which have already been established. In the longer term and for the next multi-annual financial framework programming period, DG AGRI should consider developing a set of result ***indicators*** aimed at showing the combined effects of both ***rural*** development and Pillar I/Horizontal Provisions. • Reliability and availability of data For the data which is currently missing, including that relating to environmental ***indicators***, it should follow this up with Eurostat and seek to obtain additional data through the mapping and cross-linking of available data, as well as through research projects. For the data needed to support the CMEF ***indicators***, but for which there is no specific legal obligation on Member States to provide, the DG should assess whether this needs to be addressed through an implementing regulation. 2.2 Audit on DG AGRI's management and control system for Voluntary Coupled Support (VCS) Audit objectives and scope 37 The overall objective of the audit was to assess the design and as far as possible, depending on their stage of implementation, the processes put in place by DG AGRI for managing and controlling VCS. The audit assessed in particular whether these processes effectively contribute to the DG's assurance building process and ensure an effective monitoring of the VCS scheme. The audit assessed the management and control system put in place by DG AGRI for VCS, including ***performance*** aspects. It covered the processes put in place by DG AGRI for the review of Member State notifications on their VCS decisions, the guidance provided to Member States, the general design of the internal monitoring process for the implementation of the scheme and the preparedness of the conformity clearance of accounts process regarding the VCS. The audit scope did not include certain provisions permitted under the amended delegated act (i.e modulated per unit amounts and transfers between measures), as the related processes were either only in progress during the fieldwork of the audit or only applicable to claim year 2016 to be paid under financial year 2017. The first claim year for the VCS was 2015. The Commission reimburses only since the beginning of 2016, the expenditure made by a Member State for 2015. Thus, the 2015 Annual Activity Report (AAR) includes no reservations relating to the VCS. However, it includes a reservation on Direct Payments with regard to 10 Paying Agencies involving 6 Member States. Moreover, in annex 10 of the AAR concerning direct payments (including VCS), DG AGRI identifies risks linked to the past implementation of art. 68 of Regulation (EC) No 73/2009, which might affect the implementation of VCS. It also identifies risks linked to the implementation of the reformed system of Direct Payments, having as root cause the greater complexity of the support schemes, the flexibility given to Member States and their diverging interpretations. In the same annex, DG AGRI defines actions to mitigate these risks. The fieldwork was finalised on 7 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: • Follow-up of VCS notification assessments Through its assessment of VCS notifications, DG AGRI identified a number of issues, which indicated non-compliance and/or the risk of non-compliance and in certain cases had started planning EU pilot procedures. However, there is currently no formalised typology used to categorise the detected issues according to their nature, scope, frequency and seriousness. In addition, there is no clear approach on how to follow up these issues through appropriate available tools (e.g EU PILOT procedures, reduction or suspension as well as conformity clearance procedures). Finally, it is not clear which service in DG AGRI should primarily be responsible for following up the specific cases where DG AGRI detected a risk of potential cumulative/overlapping support with ***rural*** development. • Monitoring and control of the 2015 financial ceilings 38 DG AGRI is required under the legislation to monitor and control that the amounts of support per measure do not breach the measure-specific ceilings. However, these ceilings are not always clearly specified. Furthermore, for the claim year 2015, although the general VCS ceiling per Member State is systematically controlled on a monthly basis by the EAGF financial unit, this is not the case for the measure-specific ceilings. The IAS analysed the draft working arrangements that were being developed in this regard at the time of the audit fieldwork and concluded that they needed to be further improved from an effectiveness and efficiency viewpoint. • Monitoring of VCS ***performance*** The objective of the VCS scheme is to create an incentive to maintain ***agricultural*** production in vulnerable sectors and /or regions. In monitoring the ***performance*** of VCS, DG AGRI compares the total area and the total number of animals for which VCS has been paid with the area or number of animals notified by the Member State in 2014. However, the data on which this analysis is based is not always correct or clear (cases were identified where data were missing and/or calculations were erroneous). In addition, the IAS found only very limited evidence that DG AGRI had assessed whether the amount of support given is proportionate to the difficulties described in relation to those sectors or regions concerned. Also, there is no structured monitoring of the impact of VCS in areas of high overall aggregated EU support or in those areas which are most vulnerable to ***agricultural*** market crises. Currently the monitoring arrangements focus more on whether quantitative limits, as notified by the Member States, are respected, rather than at assessing the effect of VCS on the corresponding sector and/or regions. Recommendations To address these issues, the IAS formulated the following recommendations: • Follow-up of VCS notification assessments DG AGRI should send letters of findings in the context of the conformity clearance procedure as soon as possible so that Member States can resolve the deficiencies identified in time for the claim year 2017. It should also clarify the main conditions on how to follow up issues identified both in the 2014 notifications and for future years, for example through triggering EU PILOT procedures, reduction or suspension provisions as well as conformity clearance procedures. DG AGRI should also develop internally a typology to support the comments made when assessing the VCS notifications. Finally, where DG AGRI detects a risk of potential cumulative/overlapping support with ***rural*** development, it should ensure that they are properly followed up on a timely basis. The unit primarily responsible should be clearly designated. • Monitoring and control of the 2015 financial ceilings DG AGRI should ensure that, for all VCS measures, a fixed measure-specific ceiling is defined. It should also specifically check for the claim year 2015 that the respective ceilings are met and ensure that the staff responsible for this task are properly trained. As from claim year 2016, the checks should be automated. • Monitoring of VCS ***performance*** 39 DG AGRI should identify those VCS measures where the risks of not meeting the scheme's objectives are highest and where there is the greatest likelihood of market distortion. For these measures, DG AGRI should strengthen the current monitoring arrangements, for example by making more use of available complementary data and analysis. 2.3 Audit on public procurement in DG CLIMA Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the service's internal control system with regard to the management of the procurement process and, in particular, its compliance with the Financial Regulation (FR) and its Rules of Application (RAP). This audit tested the key controls throughout the procurement process, from the identification and planning of the needs through to the signature of the contract, including amendments and price revisions and related payments. The audit covered the procurement procedures awarded in 2015 and in 2016 as well as procurement related payments processed in 2015. The activities of the Advisory Committee were also covered. Public procurement procedures relating to budget appropriations that CLIMA has sub-delegated to other DGs or that DG CLIMA has received as sub-delegation from other DGs were excluded from the scope of the audit. There are no reservations in DG CLIMA's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 24 June 2016. All observations and recommendations relate to the situation at that date. Major audit findings The IAS identified one very important issue: • Justification of public procurement needs The audit revealed weaknesses in relation to the justification of public procurement needs. More specifically, it was not always possible to clearly demonstrate that a needs analysis had been systematically and consistently made. Furthermore, the documentary evidence to support the justification, verification and approval of certain significant changes to the procurement plan initially decided (for example procurement procedure or budget line) was very limited in practice. The IAS also identified additional weaknesses concerning the definition and the assessment of award criteria and the way in which studies are identified. Recommendation To address this issue, the IAS formulated the following recommendation: DG CLIMA should: 40 • Ensure that a systematic and consistent analysis of the needs for procurement is performed and documented and that any major modifications in planned procurement procedures during the year are properly justified in writing, approved and documented; • Intensify awareness-raising activities (guidance, training) and strengthen ex-ante controls (internal supervision) as appropriate to ensure full compliance with the applicable rules and guidance (notably as regards award criteria and identification of studies). 2.4 Audit on staff allocation and process management in response to staff reduction in DG ENV Audit objectives and scope The overall objective of the audit was to assess whether, in the light of the challenges it faces, DG ENV has adequate systems in place for allocating staff and is ensuring that its processes are managed as efficiently as possible. The audit covered DG ENV's HR management processes and in particular, the procedures, systems, methods and tools used to allocate staff aligned with the DG's key priorities and objectives. It also covered the DG's overall approach (including methodologies and practices in place) to identify, propose and implement efficiency gains in its processes. However, the audit did not address the issue as to whether or not the DG has the right organisational structure in place. The 2015 Annual Activity Report (AAR) of DG ENV do not include any reservations related to the process audited. The fieldwork was finalised on 10 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue: • Workload assessment Currently, DG ENV does not have a structured monitoring framework, together with key workload ***indicators*** (including proxy ***indicators***), providing regular and quantitative information on workload in the DG. Recommendation To address this issue, the IAS formulated the following recommendation: DG ENV should develop key workload ***indicators***, supported by a clear methodological base and ensure that these are periodically monitored and reported in order to optimise the efficient and effective allocation of its resources. 2.5 Audit on pilot projects and preparatory actions in DG SANTE Audit objectives and scope 41 The overall objective of the audit was to assess the effectiveness of the controls covering the financial management of pilot projects and preparatory actions in DG SANTE. In particular, the design and the implementation of the controls in place were reviewed to assess whether they ensure the legality and regularity of the financial procedures and the financial transactions and whether they are effective. The audit also assessed DG SANTE's internal organisation for the prior assessment of the proposed pilot projects and preparatory actions as well the design and implementation of the financial circuits. This audit covered the key controls designed and implemented in the following processes of the financial management of pilot projects and preparatory actions for 2014-2015: • The processes for ex-ante assessment of the proposed pilot projects and preparatory actions, allocating them within DG SANTE and monitoring and reporting on their implementation; • The procurement process, from the determination of the needs and planning to the effective implementation of the contract; • The grants process, from the planning and preparation of the call for proposal to the closure of the grant; and • The financial circuits of the related grants and procurement, including commitments, payments, de-commitments and recovery orders. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3. RESEARCH, ENERGY AND TRANSPORT 3.1 Audit on Human Resources management in DG CONNECT Audit objectives and scope The overall objective of the audit was to assess the effectiveness of DG CONNECT's Human Resource management system to support the achievement of the DG's priorities and core business. The audit aimed to answer the following main question: 'Has DG CONNECT designed and implemented an adequate HR management process to deploy a competent and engaged workforce, in order to deliver the DG's priorities and core business?' The audit covered the design and implementation of the HR strategy and the HR planning process, including workforce planning (in the light of potential efficiency gains), staff allocation and change management. The audit also covered the activities performed in terms of learning & development, redeployment and career management. Major audit findings 42 The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.2 Audit on closure of projects of legacy programmes in DG CONNECT Audit objective and scope The objective of the audit was to assess the effectiveness of the process for the closure of DG CONNECT’s projects belonging to the following legacy programmes: • The Sixth Research Framework Programme (FP6 2003-2006); • The Seventh Research Framework Programme (FP7 2007-2013); • The Competitiveness and Innovation Framework Programme (CIP 2007-2013); • Safer Internet (2009-2013). The audit covered the monitoring and reporting on the closure of projects and the management of the financial distribution report, decommitments, archiving, amendments, complaints and of the implementation of ex-post audit results. There are no observations/reservations in DG CONNECT's 2015 Annual Activity Report that relate to the area/process audited. The following reservations were however made in the 2015 Annual Activity Report concerning legacy programmes: • For FP7, DG CONNECT estimated a residual error rate of 2.58%, which is above the 2% materiality threshold, and therefore issued a reservation in line with similar reservations expressed by the other DGs of the research family. • The residual error rate for CIP amounts to 4.42%. DG CONNECT estimated that the residual error rate will not decrease under the materiality threshold at the end of the programme and therefore expressed a reservation on the legality and regularity of these payments. The fieldwork was finalised on 28 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.3 Audit on the management and functioning of Euratom Safeguards in DG ENER Audit objective and scope The overall objective of the audit engagement was to assess the efficiency and effectiveness of the systems and procedures in place in DG ENER in ensuring that the EC fulfils its obligations stemming from the Euratom Treaty and international agreements. 43 The audit focused on (1) the EC governance framework associated with the Euratom Safeguards; (2) the design and methodologies of the safeguards system; (3) the procurement of services and equipment supporting inspection activities and (4) human resources management. The audit did not cover IT systems and related operations, the cooperation and coordination with the Euratom Supply Agency and with ENER.D - Nuclear energy, safety and ITER, as well as accompanying inspectors to on-site missions. There are no observations/reservations in the DG's 2014 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 16 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.4 Audit on the supervision of ITER in DG ENER Audit objective and scope The overall objective of the audit was to assess whether the strategy for the supervision of the ITER project has been adequately designed and effectively implemented. The audit focused in particular on: • The legal/administrative arrangements of the supervision framework; • The Commission's supervision strategy on the ITER project management; • Participation in the work of the ITER IO/F4E governance bodies. There have been no observations/reservations in the Annual Activity Reports of the respective DGs (RTD until 2014, ENER in 2015) that relate to the area/process audited. The fieldwork was finalised on 31 March 2016. All observations and recommendations relate to the situation on that date. However, during the validation/reporting stage, the IAS also took note of the discussion of the evolution of the ITER project, which led to the agreement ad referendum of the long-term schedule by the ITER Council (IC) in June 2016 for the period until 2025. Major audit findings This IAS identified two very important issues: • DG ENER's supervision strategy for the ITER organisation and project A number of internal notes on ITER supervision highlight the different aspects and weaknesses of the ITER project set-up (including action plans) but the Commission 44 has not yet defined and implemented a comprehensive supervision strategy for the ITER project. It is not yet defined what the DG and Euratom aim to achieve with their supervision activities (objectives), taking into account the available supervision tools and their effectiveness and how the effectiveness of the supervision activities will be assessed. In addition, the rules to provide relevant documents for the preparation of the line-to-take at the ITER governing bodies (ITER Council, Management Advisory Committee and Science and Technology Advisory Committee) were not respected (ITER Council) or were non-existent (Management Advisory Committee, Science and Technology Advisory Committee). • Supervision and monitoring of F4E activities The IAS observed that the Commission is currently not in a position to effectively monitor F4E and use this knowledge in the discussions in the relevant governance bodies. This is because it does not receive all the information that is essential to find the best way to address the delays in the critical and highly critical components managed by F4E. Furthermore, the latest F4E annual report and quarterly report are not aligned with the structure of the work programme and neither is the structure of the work programme aligned with the project plan, which makes it very difficult to monitor the proposed activities and their level of achievement. In addition, 'The F4E Administrative Arrangement', signed in 2008, has not been updated to take into account several legislative changes while 'The working relations' with F4E have not yet been fully implemented. Recommendations To address these issues, the IAS formulated the following recommendations: • DG ENER's supervision strategy for the ITER organisation and project DG ENER should develop its ITER project supervision strategy, which should set out the supervision needs, the objectives for the supervision activities and the tools to be used. DG ENER should also define working methods and procedures needed to achieve the supervision objectives. This supervision strategy should then be translated into short-term operational activities to mitigate the risks and should be accompanied by ***indicators*** to allow the monitoring of the ***performance*** of the strategy. DG ENER should have all the necessary information for the subsequent decision-making. To this end, it has to ensure that ITER submits the documents for the meetings on time and to agree formally a submission deadline for the Management Advisory Committee and Science and Technology Advisory Committee documents. It has also to ensure the availability of/accessibility to all the pieces of information/results of analysis necessary to take a considered position in the ITER Council. • Supervision and monitoring of F4E activities DG ENER should reach an agreement with F4E on the type of information it needs on procurement/contract/technical aspects of F4E operations and the results of related risk assessments and in which format this information should be shared to allow DG ENER to effectively address ***performance*** issues. Furthermore, DG ENER should 45 update 'the F4E administrative arrangement' to take into account the newly adopted legislation and assess the effectiveness of the existing 'working relations' established between DG RTD and F4E. 3.5 Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG ENER Audit objective and scope The overall objective of this limited review was to examine the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by DG ENER in its (draft) 2015 Annual Activity Report (AAR), and in doing so, help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report. The review covered the following aspects: • The process and methodology for the calculation of the RER; • The calculated RER; • The presentation of the RERs in the draft AAR; • Compliance with the Standing Instructions for the 2015 AAR. The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 29 February 2016. It also reviewed the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed. The limited review fieldwork was finalised on 15 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.6 Audit on Human Resources management in ERCEA Audit objectives and scope The overall objective of the audit was to answer the following question: Has ERCEA designed and implemented an adequate HR management process to deploy a competent (knowledgeable) and engaged workforce in order to deliver its priorities and core business? The audit covered in particular: • The design and implementation of the HR strategy; • The HR planning process, including workload assessment and staff allocation; • Selection, recruitment and retention of staff; • Knowledge management (training, coaching, competence management); • Monitoring and reporting on HR. 46 There is no reservation in ERCEA's 2015 Annual Activity Report regarding the scope of this audit. The fieldwork was finalised on 2 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.7 Audit on the coordination by INEA with its parent DGs during the key stages of the ***Strategic*** Planning and Programming cycle Audit objective and scope The overall objective of the audit was to assess whether INEA has put in place appropriate coordination and working arrangements with its parent DGs to ensure the effective implementation of the key stages of the ***Strategic*** Planning and Programming (SPP) cycle. The audit focused on INEA's coordination with its parent DGs during the three key stages of the SPP cycle: a) the planning phase (including the preparation of the CEF and H2020 work programmes and the Agency's Annual Work Programme (AWP)), b) the implementation phase (implementation of the AWP) and c) the reporting phase. The parent DGs were not audited. There are no observations/reservations in the 2015 Annual Activity Report (AAR) of INEA that relate to the area/process audited. The fieldwork was finalised on 27 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.8 Audit on competitive activities in DG JRC Audit objective and scope The overall objective of this audit was to assess whether the Competitive Activities (CA) are: (i) effectively planned, monitored and reported on, (ii) effectively and efficiently implemented, and (iii) compliant with the applicable rules and guidance. The audit scope covered: • At DG level, the CA governance arrangements and administrative set-up as well as their ***strategic*** planning, monitoring and reporting; 47 • At operational level, the CA contracts' life cycle, namely the contracts' proposals, preparation and implementation, the clients' payments, and the closure of the CA contracts. The financial management of CA was not included in the scope of the present audit. There are no observations/reservations in the JRC's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 3 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.9 Audit on setting of objectives and measurement of ***performance*** in DG MOVE Audit objective and scope The overall objective of this audit was to assess whether DG MOVE has an adequate ***performance*** management framework in place for its day-to-day operational and administrative activities (internal) and for the delivery of its policy objectives (external). The audit assessed the internal processes for setting objectives and key ***performance*** ***indicators*** as well as the related reporting and monitoring. The audit focused in particular on the following areas: • The process of setting high quality objectives and ***performance*** ***indicators*** (design and implementation of the process) in line with the policy; • The ***performance*** measurement framework for monitoring, evaluating and reporting the (internal and external) ***performance*** of activities. The audit covered the processes related to the preparation of the ***Strategic*** Plan (SP) (2016-2020), the Management Plans (MP) (2014, 2015 and 2016), the Annual Activity Reports (AAR) (2014, 2015) and he Programme Statements (PS) for the Draft Budgets 2016 and 2017. In the context of this engagement, the IAS also performed a follow up audit of the 2014 SIAC Audit of Internal Control Standard 5 'objectives and ***indicators***' in DG MOVE. There are no observations/reservations in the 2015 AAR of DG MOVE that relate to the area/process audited. The fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: 48 • DG MOVE ***performance*** framework The different tools DG MOVE currently uses to plan and monitor its activities, actions and initiatives are not complemented by an overarching ***strategic*** vision describing how the DG organises its ***interventions*** and how short-term outputs will lead to medium and long-term results and impacts and contribute to the achievement of its ***strategic*** objectives. Consequently, there is no overview, which demonstrates how the different DG's activities contribute to the achievement of its ***strategic*** and operational objectives without gaps or overlaps. Furthermore, there is no centralised approach to monitoring and reporting on longer-term policy achievements (i.e results and outcomes/impacts of transport legislation and programmes). Due to weaknesses identified in the SP and PS (in particular the quality of objectives and ***indicators***), the DG does not have a complete picture of the progress made towards the achievement of its objectives. • Quality of objectives and ***indicators*** in the 2016 SP/MP DG MOVE’s Specific Objectives (SOs) are not sufficiently specific and relevant. In particular, they do not clearly specify the situation which needs to be changed and (if relevant) the target group concerned and do not address the needs of society /stakeholders and the wider political context. In addition, six result ***indicators*** are not relevant since they measure output and not result. Furthermore, for the spending programmes CEF and H2020, objectives and ***indicators*** in the SP are different from the objectives and ***indicators*** in the PS and DG MOVE does not ensure the coherence between the two ***performance*** management tools. • CEF PS There is no formal process to prepare the CEF PS and DG MOVE did not complement DG BUDG's Instructions with internal guidance defining the tasks to be performed, the responsibilities and roles of each unit, the timing and workflow, the definition of the ***indicators*** with the source of information, the methodology to calculate the ***indicators*** and the unit in charge. Due to the lack of clear responsibilities and ownership for the preparation of the CEF PS, the process to collect relevant information was not launched on time, resulting in shortened deadlines and finally in reduced quality of the submitted document. Recommendations To address these issues, the IAS formulated the following recommendations: • DG MOVE ***performance*** framework DG MOVE should complete its ***performance*** framework by preparing a ***strategic*** view of the DG's activities that establishes a clear logical link (***intervention*** logic) between its high level priorities, objectives and short term actions. The ***strategic*** view/***intervention*** logic should show how the DG intends to prioritise and organise its actions in order to contribute to the SOs, assess whether or not the actions planned for a given year will contribute to achievement of its SOs and assess the overall progress made towards this achievement. DG MOVE should also develop an integrated approach to ***performance*** monitoring and reporting on policy achievements. • Quality of objectives and ***indicators*** in the 2016 SP/MP 49 DG MOVE should ensure that its specific objectives meet the SMART criteria and are in line with the DG's responsibilities by either reformulating them or by complementing them with a set of RACER result ***indicators***. These latter should cover the most essential aspects of the DG's activities and focus on results in terms of added value to the EU stakeholders. Furthermore, DG MOVE should streamline the process to set objectives and ***indicators*** (and to monitor them) by re-using, to the extent possible, elements included in different ***performance*** management tools (SP/MP, Programme Statement) or in the legal basis. • CEF PS DG MOVE should formally attribute the responsibilities for the preparation of CEF PS, and develop and document a procedure for its preparation and coordination. 3.10 Audit on DG MOVE's monitoring of the aviation and maritime security policies, including related working arrangements with the EMSA Regulatory Agency Audit objective and scope The overall objective of the audit was to assess the effectiveness and efficiency of DG MOVE's monitoring of aviation and maritime security policies. The audit reviewed the planning and execution of DG MOVE's inspection activities, the use of the Member States annual reporting as well as the management of the necessary human resources for fulfilling the Commission’s obligations. The scope also included: i) DG MOVE’s reporting to the main stakeholders on the assurance obtained from its monitoring activities; ii) DG MOVE's preventive and reactive measures in case of serious aviation and maritime incidents; and iii) cooperation with EMSA. The audit covered the activities conducted in the period 2011-2016. There are no observations/reservations in DG MOVE's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on the 8 December 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: Aviation security field • Monitoring strategy for aviation security policy The EU legislation on aviation security does not provide a precise indication of the level of assurance the Commission has to obtain with its monitoring activities, which, consequently, has to be defined by the Commission itself. DG MOVE's approach has not been formalised in a comprehensive strategy describing the level of assurance to be provided, the monitoring objectives, criteria and methodology, the timeframe, how to use the different monitoring tools and how many resources are needed for that. In addition, DG MOVE has not defined objectives and ***indicators*** to measure the ***performance*** of the monitoring activity and to evaluate if the current resources are sufficient to achieve the required level of assurance. 50 • Monitoring tools – aviation security policy The information provided by the Member States in the annual report to the Commission on the measures taken to fulfil their obligations under the Regulation concerning their national quality control programmes is not always sufficient to allow DG MOVE to conclude on the effective implementation of these programmes. There is no documentation describing the exact use made by DG MOVE of the annual reports when monitoring the implementation of EU rules by Member States. In this respect, DG MOVE does not send a formal individual comprehensive evaluation to the Member States emphasising points of reported non-compliance by the appropriate authority (AA). When summarising the information from the annual Member State reports and sharing it in the regulatory committee for civil aviation security (AVSEC), DG MOVE does not complement it with relevant conclusions about the effective implementation of the national quality control programmes. Maritime security field • Monitoring strategy for maritime security policy The EU legislation on maritime security does not provide a precise indication of the level of assurance the Commission has to achieve with its monitoring activities (i.e the monitoring objective), which consequently has to be defined by the Commission itself. DG MOVE's monitoring approach has not been formalised in a comprehensive strategy describing the level of assurance to be provided, the monitoring objectives, criteria and methodology, the timeframe, how to use the different monitoring tools and how many resources are needed for that. In addition, DG MOVE has not defined objectives and ***indicators*** to measure the ***performance*** of the monitoring activity and it is not possible to evaluate if the current resources are sufficient to achieve the required level of assurance. Recommendations To address these issues the IAS formulated the following recommendations: • Monitoring strategy for aviation security policy DG MOVE should formalise a comprehensive overall strategy for the EC monitoring of the implementation of the EU aviation security standards by the Member States. The strategy should set out the degree of assurance to be obtained through the EC monitoring activities and from the different monitoring tools (individually and collectively), the ***indicators*** to be used to measure ***performance*** and progress towards the achievement of the monitoring objectives as well as the analysis of the resources needed to obtain the desired assurance. • Monitoring tools – aviation security policy DG MOVE should ensure that Member States provide all information necessary to conclude on the effectiveness of the implementation of the national quality control programmes. This should include, among others, swiftly following-up with the Member States cases of incomplete reporting and revising the template, if structural weaknesses are noted. DG MOVE should document the methodology to be followed by its inspectors when analysing the annual reports in order to ensure that they draw 51 conclusions, for each Member State, on the effective implementation of national quality control programmes. These conclusions should be shared with the other Member States in the AVSEC committee meetings. • Monitoring strategy for maritime security policy DG MOVE should formalise a comprehensive overall strategy for the EC monitoring of the implementation of the EU maritime security standards by the Member States. The strategy should set out the degree of assurance to be obtained through the EC monitoring activities and from the different monitoring tools (individually and collectively), the ***indicators*** needed to measure ***performance*** and progress towards achievement of the objective and the analysis of the resources needed to achieve DG MOVE's objective. 3.11 Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG MOVE Audit objective and scope The overall objective of this limited review was to examine the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by DG MOVE in its (draft) 2015 Annual Activity Report (AAR), and in doing so, help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report. The review covered the following aspects: • The process and methodology for the calculation of the RER; • The calculated RER; • The presentation of the RER in the draft AAR; • Compliance with the Standing Instructions for the 2015 AAR. The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 01 March 2016. It also reviewed the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed. The limited review fieldwork was finalised on 15 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.12 Audit on H2020 grant management in the REA: part a) from the preparation of the calls for proposals to the signature of the grant agreements part b) administrative logistical services provided for H2020 Audit objectives and scope 52 The overall objective of the audit was to assess the adequate design and effective and efficient implementation of REA's internal control system for: • The grant management process from the preparation of the calls for proposals phase to the signature of the grant agreements in order to ensure that the calls for proposals effectively support the achievement of the H2020 objectives, and that the processes in place ensure that the best research projects are selected and translated into grant agreements, in compliance with the applicable rules; • Administrative logistical services provided for H2020 programme and its implementing entities. This audit follows the gap analysis review of the H2020 legislation performed by the IAS in 2015, which identified a number of risks faced by the Commission as a result of the co-legislative process. The current audit, as well as similar audits launched in other H2020 implementing bodies, also assessed whether the risks identified in the gap analysis audit are being addressed. The audit covered: • The first implementation phases of H2020 from the planning of the evaluation of proposals to the signature of the grant agreements by REA in 2014 and in 2015; • Certain administrative and logistic support services provided for H2020 (planning for the calls for proposals and support for publication of calls, general logistical support for the evaluation of proposals including the management of the evaluation facility, and contracting of experts). The following areas were out of the scope of the audit: • The services, provided for the other EU programmes, including the validation process (legal validation of beneficiaries, and the preparation of the applicants' financial viability assessment); • The payment process for experts due to the changes and integration of the payment workflow in the COMPASS IT system as of 2016; • The Research Enquiry Service (RES) through which REA provides replies to the broader public on EU research and innovation funding. There were no observations/reservations in REA’s 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 15 February 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue on the management of conflicts of interest (CoI). • Managing conflicts of interest The practices applied among the various operational units regarding the extent of checks for CoI varies, as the existing corporate guidance does not describe the minimum CoI-related checks to be performed and are not complemented by internal guidance. 53 Moreover, in some cases additional keyword checks for identifying direct CoI of evaluation experts were performed after the signature of the experts' contracts, and revealed some instances of CoI. However, as the experts were already carrying out the individual evaluations, their work needed to be re-performed and travel expenses reimbursed according to the contractual provisions. Furthermore, there are no clear procedures and guidance on the roles, responsibilities and the coordination between the operational and the contracting units regarding actions to be taken and procedure to be followed in case of breaches of confidentiality rules and unauthorised processing of personal data. Recommendation To address this issue, the IAS formulated the following recommendation: • The Agency should ensure that sufficient and coherent instructions regarding CoI checks are provided and their application is systematic and consistent; • The existing practices regarding implementation of the keywords matching controls should be harmonised and timely application of the controls – before experts being contracted – should be ensured by the Agency; The Agency should issue specific guidance for staff on managing CoI discovered during the evaluation and establish the procedure to be followed in case of misuse of personal data in the context of the evaluation process where the role of the operational units and the contracting unit should be described with the timeline and steps to be followed. 3.13 Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in the REA Audit objective and scope The overall objective of this limited review was to review the calculation and underlying methodology of the multi-annual Residual Error Rate (RER) reported by the REA in its (draft) 2015 Annual Activity Report (AAR), and in doing so, to help the REA mitigate the discharge risk by enabling it to take appropriate actions, if any, before their disclosure in the final AAR and in the Synthesis Report. The review covered the following aspects: • The process and methodology for the calculation of the RERs; • The calculated RERs; • The presentation of the RERs in the draft AAR; • Compliance with the Standing Instructions for the 2015 AAR. The IAS reviewed the draft 2015 AAR and the preliminary RER calculations available on 09/02/2016 as well as the draft 2015 AAR provided to the SG. It also looked at the final 2015 AAR to check whether the issues detected during the fieldwork were correctly addressed. 54 The limited review also considered the results of the work done in 2014 by the IAS on the audit on the 'Implementation of FP7 Control Systems in REA-The Assurance Process' and by the former REA's Internal Audit Capability on the audits on 'Ex-post Audit Process' and on 'Implementation of Ex-post audit Findings'. The audit fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 3.14 Audit on Human Resources management in the REA Audit objectives and scope The overall objective of the audit was to answer the following question: Has the REA designed and implemented an adequate HR management process to deploy a competent (knowledgeable) and engaged workforce in order to deliver its priorities and core business? The audit covered in particular: • The design and implementation of the HR strategy; • The HR planning process, including workload assessment and staff allocation; • Selection, recruitment and retention of staff; • Knowledge management (competency management, training, coaching); • Monitoring and reporting on HR activities. There is no reservation in the REA's 2015 Annual Activity Report regarding the scope of this audit. The fieldwork was finalised on 15 July 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue: • Management of the selection process for contractual agents The procedure for the selection of contractual agents (which represent 76 % of current staff) does not clearly indicate where the original selection files should be kept, which documents should be part of the selection file, which documents should be registered in ARES and which ones should be kept only as a paper copies due to their sensitive nature. Most of the selection files examined were stored in different places, and additionally had key documents missing. Moreover, some of the panel members and staff committee observers had not received sufficient guidance on the selection and recruitment procedures, despite not having sufficient experience and knowledge of the process. 55 The current procedure does not clearly outline the controls over the extraction of data from dedicated databases (EPSO, SADB) during the selection process, aimed at ensuring candidates' compliance with the selection criteria. The testing carried out during the audit revealed one case where the approach of the selection panel regarding application of the essential selection criteria for the candidates was not compliant with the internal rules. Recommendation To address the issue, the IAS formulated the following recommendation: • Management of the selection process for contractual agents The Agency should: • Update and revise its selection procedures by clearly defining tasks and responsibilities regarding the checks to be performed, and rules on the documentation of the process, filing and archiving; • Provide training sessions on the roles and obligations of the selection panels for all panel members, secretaries and chairs; • Ensure that controls over the selection process are systematically implemented. 3.15 Audit on procurement in DG RTD Audit objectives and scope The overall objective of the audit was to assess whether the internal control system in place in DG RTD is effective in ensuring the legality and regularity of the procurement management process. In particular, the audit assessed whether the internal control system provides reasonable assurance regarding: • Compliance with the Financial Regulation, its Rules of Application and the specific legal basis; • The effectiveness and efficiency of the processes, including management monitoring and reporting, and the need for simplifying internal administrative rules and procedures. The scope of the audit covered the procurement process, from the identification of the needs to the contract execution. There are no observations/reservations in the 2015 Annual Activity Report of DG RTD that relate to the area audited. The fieldwork was finalised on 5 July 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 56 3.16 Audit on H2020 project management in DG RTD Audit objective and scope The overall objective of the audit was to assess the effectiveness of the project management process with a focus on: • The design of the guidance and procedures by the Common Support Center (CSC); • The implementation of the project management process in DG RTD. The audit covered the design by the CSC and the implementation in DG RTD of: • The monitoring approach (desk or on the spot checks or reviews, using internal or external expertise, in terms of frequency of review) in line with the inherent risks of the projects; • Assessment of the activities of the projects based on deliverables and reports; • Selection of the appropriate course of action in the case of underperforming projects; • Amendments to the grant agreements. The audit assessed how DG RTD ensures that project activities were carried out as agreed and that the project deliverables are produced as envisaged. The monitoring and assessment of the scientific content of the funded projects during project management was not included in the audit scope. Existing automated controls were considered as part of the audited process. However, the IT tools as such were not in the scope of the engagement. On the Strategy for an effective dissemination and exploitation of Horizon 2020 research results, the audit fieldwork only covered the aspects of dissemination to be addressed during the assessment of the periodic reporting, i.e mainly the assessment of the publishable summary and the review of the progress reached in the implementation of the project's Dissemination plan. There are no observations/reservations in the 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 13 December 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue: • Determining the level of monitoring for projects H2020 implementing bodies have not reached a consensus on how project monitoring should be implemented. At the level of the CSC, the existing guidance that recommends to define the level of monitoring on the basis of a project's risk profile, is not mandatory and is only presented as a good practice. DG RTD does not systematically apply the good practice proposed by the CSC to ensure that the level of monitoring is based on a sound analysis of the risks or on the specificities of the projects. In principle, the project officers decide on the specific monitoring measures they want to apply, resulting in different practices observed 57 between Directorates and, sometimes, to the use of a sub-optimal mix of monitoring tools as this would require a derogation from the rules or practices established at DG or Directorate level. Recommendations • Determining the level of monitoring for projects The CSC should adopt rules on project monitoring to ensure that the implementing bodies adapt the level of their project monitoring based on a sound project risk assessment methodology. These rules should also aim at harmonising the practices amongst the implementing bodies. DG RTD should cooperate with the CSC for the establishment of these rules. It should implement these new rules by ensuring that the existing internal rules and procedures on missions and experts do not hamper their application. 3.17 Audit on the implementation of the FP7 ex-post audit strategy by the Common Audit Service in DG RTD Audit objectives and scope The objective of this audit report was to conclude whether the objectives of the FP7 ex-post audit strategy are achieved, by assessing the effectiveness of the key processes and internal controls designed and implemented by the Common Audit Service (CAS), with due consideration given to efficiency and economy principles. The audit focused on: • The control environment in the CAS; • The audit strategy and planning; • The execution of audit engagements; • The monitoring and reporting functions; • The supervision and quality assurance functions. The IAS finalised the fieldwork on 19 July 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Delivery of individual audit engagements There are significant delays in finalising an important number of audit engagements. The root causes for the delays in finalising the audit engagements relate to: a) a long decision-making process for sensitive cases; b) the lack of procedures to finalise the engagements under special circumstances or where systemic issues are identified; c) ineffective backup procedures in cases of long-term absences; d) ineffective prioritisation of long-outstanding engagements. • Audit planning, monitoring and reporting 58 The review of the internal processes of the CAS highlighted that some activities (i.e planning of audit engagements, staff planning, and ***performance*** monitoring and reporting) are not sufficiently developed to support the level of activity of the CAS. This is significant given that the implementation of the H2020 ex-post audit strategy will bring new challenges, thus requiring a more mature internal control system. Recommendations To address these issues the IAS formulated the following recommendations: • Delivery of individual audit engagements The CAS should significantly reduce the average time needed to close the audit files by addressing the root causes of the delays. • Audit planning, monitoring, and reporting For improved planning and monitoring of audit engagements, the CAS should develop a list with the audits planned for the year. It should also set target dates and completion dates for the key audit milestones. To better identify resource gaps and establish priorities, the CAS should reconcile the available resources with those necessary to complete the plan. It should also set budgets for audit and non-audit activities and make better use of the existing time-recording system. To enhance the monitoring and reporting activities, the CAS should make use of SMART objectives, ***indicators*** and targets. In addition, the H2020 annual targets should be reviewed on a regular basis against the pace that the beneficiaries are lodging cost statements. 4. EXTERNAL ACTIONS 4.1 Audit on payment deadlines in DG DEVCO Audit objectives and scope The overall objective of the audit was to assess the adequacy and effectiveness of the processes in place in DG DEVCO to comply with the rules and regulations, guidance and instructions related to the time limit to pay. The audit focused on the payment process put in place by DG DEVCO in direct and indirect management for the EU budget and the European Development Fund. The audit included an assessment of the following aspects: • Appropriateness of contractual conditions with external parties fixing the time limit to pay and for handling and transmitting invoices to DEVCO Headquarters/EU Delegations; • Effective processing of payment transactions, starting with the handling of the invoices; • Effective implementation of the encoding, registration and suspension procedures in DG DEVCO; • Adequacy of the support (procedures, guidance, training) provided on payment processes; 59 • Adequacy and effectiveness of accounting, quality control, monitoring and reporting activities in place concerning payment deadlines. The transaction testing covered payments processed by Headquarters and by seven Delegations during 2015. Throughout the audit, the IAS also addressed the risks related to the open recommendation from the previous audit on payment deadlines in DG DEVCO, which was not yet sufficiently mitigated. The scope of the current audit did not include IT systems supporting the audited process (CRIS and ABAC). There are no observations/reservations in the 2015 Annual Activity Report of DG DEVCO that relate to the area/process audited. The fieldwork was finalised on 27 June 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Encoding of payment requests in DG DEVCO) Despite DG DEVCO's awareness that registration of payment requests in the accounting system is one of the major causes contributing to its weak ***performance*** as regards respect of payment deadlines, it has not been able to find a workable solution to address the issue. For the period January-June 2016, the statistics from DG BUDG show an average time to register of 9 working days for DG DEVCO (compared to the corporate reference of 5 working days). This long registration delay is due to inefficiencies in the physical circulation and the clerical treatment of payment requests. • Monitoring of the payment process in DG DEVCO In 2015, DG DEVCO introduced the Portfolio Management Dashboard, which provides in real time the list of upcoming and already late payments, based on data coming from ABAC. However, despite continuous refinement and improvement of the dashboard, it does not provide for active monitoring by alerting the actors in the financial circuits of possible delays. Moreover, DG DEVCO is not using and analysing the available data on the time spent in the different phases of the payment. Consequently, it is unable to detect and address appropriately the underlying reasons for delays. Recommendations To address these issues, the IAS formulated the following recommendations: • Encoding of payment requests in DG DEVCO DG DEVCO should remind staff of the procedure in place to receive and register payment requests in the five working-days deadline. It has also to ensure that all directorates monitor and manage their correct application in order to comply with the time to register. 60 • Monitoring of the payment process in DG DEVCO DG DEVCO should internally set deadlines for each step in the financial circuit, monitor them and alert the responsible actors in the workflow of actual and potential delays. Furthermore, DG DEVCO should also monitor the use of suspensions and signal payments with long suspension periods. 4.2 Audit on ***performance*** management system in DG DEVCO Audit objectives and scope The overall audit objective was to assess the adequacy of DG DEVCO's ***performance*** management system to plan, monitor and report on the achievement of its objectives. The audit covered in particular: • The setting of objectives and the related ***indicators*** in the different ***performance*** management tools: ***Strategic*** Plan (SP) and Management Plans (MP), and Programming documents, including the Multi-Annual/National/Regional Indicative Plans (MIPs/NIPs/RIPs), the related Annual Action Programmes (AAPs), the Action Documents (ADs) and any other programme documents; • The monitoring of the objectives, ***performance*** ***indicators*** and related targets; • The annual reporting in the External Assistance Management Reports (EAMRs), Sub-Delegated Authoring Officer Reports (SDAOs) and Annual Activity Report (AAR); • The set-up of the Result Framework (RF) and the first year of reporting; • Setting project-level ***indicators***, monitoring and reporting, including project closure. The scope of the audit included planning and reporting documents prepared in the period 2014-2015, as well as the setting of objectives and ***indicators*** in the 2016-2020 SP and 2016 MP (which were finalised during the fieldwork and the finding validation phase). The scope of the audit did not include the evaluation activities and the (traditional) results-oriented monitoring (ROM), since they were included in the scope of a recent audit performed by the European Court of Auditors (Special report 18/2014 'EuropeAid's Evaluation and Results-Oriented Management Systems'). The fieldwork was finalised on 30 June 2016 with the assessment of the final versions of the 2016-2020 SP and 2016MP. The observations and recommendations relate to the situation as of that date. Major audit findings The IAS has identified one very important issue: • Monitoring of and reporting on DG DEVCO's ***performance*** towards achieving its objectives There is no systematic monitoring of progress towards the achievement of objectives and targets set in the MP, as the majority of the result and output ***indicators*** in DG DEVCO's 2015 MP and Directorates' MPs were not regularly monitored during the 61 year and were calculated at year-end only for reporting in the AAR. For MP DEL, most of the EUDs sampled do not monitor the achievement of their objectives at all (not even at year-end). In addition, there is no central guidance on monitoring and reporting on the objectives and targets set in the ADs. Although DG DEVCO monitors the ***performance*** of individual projects, the results of the projects belonging to the same AD are not consolidated to provide information on the achievement of the overall objectives. In terms of reporting, the type of information on DG DEVCO's ***performance*** provided by the different ***Strategic*** Planning and Programming-related reports (AAR, SDAO reports, EAMRs) is limited and does not give an actual assessment of whether objectives have been achieved or not. At the level of programmes, there is no annual reporting on the progress made toward the achievement of the objectives set in the programming documents, which consolidate the results measured at the level of the projects. Recommendations To address this issue, the IAS formulated the following recommendation: • Monitoring of and reporting on DG DEVCO's ***performance*** towards achieving its objectives DG DEVCO should significantly improve its monitoring and reporting arrangements to ensure that key ***indicators*** established in the different ***performance*** systems are systematically and regularly monitored and appropriate information is provided to senior management and stakeholders on a timely basis. The frequency of the monitoring and reporting should be defined taking into account the nature of the objectives to monitor, the type of ***indicator*** and the collection methods as well as the monitoring and reporting needs and expectations expressed by management and stakeholders. 4.3 Audit on direct management of grants in DG DEVCO (DCI and EDF) Audit objectives and scope The overall audit objective was to assess the control systems put in place by DG DEVCO to manage grants under direct management in order to achieve the programme objectives and to ensure the legality and regularity of the expenditure. The audit covered in particular DG DEVCO's processes for managing grants under direct management assessed to have the highest risks, namely: • Alignment of the grant's funded activities with DG DEVCO's ***strategic*** and operational objectives set in the programming documents (Annual Action Programme and the related Action Documents); • Assessment if the grant agreements provide an effective framework for the implementation of the projects involved (e.g indication of the expected results and time limits, grant amendments not changing significantly the budget, the time for implementation or the core of the action); 62 • Operational monitoring and reporting of the implementation of the projects, including the assessment of their final results; • Review of the process to check that the payments are in accordance with the contractual provisions (reports submitted by the grant beneficiaries, expenditure verification reports prepared by external auditors and the related checks performed by DG DEVCO). The scope of the audit did not include: a) the selection and award of grants and b) the evaluation activities (included in the scope of the European Court of Auditors' Special Report 18/2014 on 'EuropeAid's Evaluation and Results-Oriented Management Systems'). The fieldwork was finalised on 1 December 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 4.4 Audit on the instrument contributing to stability and peace in FPI Audit objectives and scope The overall objective of the audit was to assess the effective and efficient management of the Instrument contributing to Stability and Peace (IcSP) by the FPI. The processes in the scope of the audit were: • Identification/formulation of crisis response actions; • Contracting; • Operational and financial monitoring; • Reporting from EU Delegations to FPI Headquarters. The audit scope included Art. 3 and Art. 4 of the IcSP, while Art. 5 of the IcSP, managed by DG DEVCO, was outside the audit scope. In addition, the audit did not cover the IcSP legal basis, programming (Art. 4), ex-post controls of projects, and evaluations. There are no observations/reservations in FPI's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 22 November 2016. The observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 63 4.5 Limited review of DG NEAR's residual error rate methodology and calculation for the 2015 reporting year Audit objectives and scope The objective of this limited review was to review the calculation and underlying methodology of the Residual Error Rates (RER) reported by DG NEAR in its (draft) 2015 Annual Activity Report (AAR), and in doing so, to help the DG mitigate the discharge risk by enabling it to take appropriate actions, if any, before the disclosure of the error rates in the final AAR and in the Synthesis Report. The review covered the following aspects: • The process and the methodology for the calculation of the RERs for the different programmes and management modes of DG NEAR; • The calculated RERs; • The presentation of the RERs in the draft AAR; • Compliance with the Standing Instructions for the 2015 AAR. The IAS reviewed the draft 2015 AAR and the RER calculations available on 11 March 2016. It also analysed the final AAR dated 5 April 2016 to verify to what extent the recommendations and comments of the Draft Audit Report were taken into account in the final AAR. The main part of the fieldwork was finalised on 18 March 2016. All observations and recommendations relate to the situation as of that date except for the points arising from changes introduced in the methodology for the calculation of the amount at risk from the draft to the final AAR that were analysed by the IAS after the issuance of the final AAR on 5 April 2016. The results of that additional analysis have been incorporated into this report where applicable together with DG NEAR's comments as appropriate. As the result of the fieldwork, the IAS issued two sets of recommendations in order to a) address immediately the issues detected in the 2015 draft AAR, and b) identify a long term solution for future AARs. The sub-recommendations related to the 2015 AAR have been either immediately implemented by DG NEAR or rejected. They have been followed up in the course of the engagement, when analysing the 2015 final AAR. Therefore, no action plan was requested to the DG in response to them. Major audit findings The IAS has identified two very important issues: • IPA - Indirect management with beneficiary countries The 2015 RER for indirect management with beneficiary countries (IPA), representing approx. 13% of the payments executed in 2015, is based solely on the error rates reported by the Audit Authorities of the three beneficiary countries (Turkey, the former Yugoslav Republic of Macedonia (fYRoM) and Croatia). As stated in the individual country reports, the audit work is based, for different reasons, on non-statistical samples and in some cases the sample selection is not purely random. In 64 addition, no specific checks are performed by DG NEAR to obtain assurance on the reliability and representativeness of these results as a basis for the RER and no other sources are used by DG NEAR to corroborate them. For those reasons, the residual error rate of 0.02% included in the 2015 AAR for the enlargement programmes implemented through IMBC is neither representative nor reliable. Concerning the calculation of the amount at risk, for 2015 DG NEAR used a range which is based on figures which are not reliable. In particular, DG NEAR used a predicted error rate based on certain assumptions rather than the actual RER which was already known at the time of the calculation. • Enlargement – Direct management A number of detected errors included in the ex-post audit reports on Enlargement – direct management addressed to the EU Delegations in 2015 are reported as non-quantifiable. However, the approach used by DG NEAR for the assessment of procurement errors is not in line with the Standing Instructions and some of these errors may be quantified if the methodology prescribed by the Standing Instructions was applied. This would lead to a higher RER for this category of expenditure that represents approx. 16% of the payments executed in 2015. In addition, the calculation of the RER for Enlargement– direct management does not take into account the correct sampling interval for the establishment of the projected errors for the period 2013 – 2015. A recalculation leads to an increase of the RER from 1.48% to 1.62%. Recommendations To address these issues, the IAS formulated the following recommendations: • IPA - Indirect Management with Beneficiary Countries For the 2015 AAR, the IAS recommended DG NEAR to assess the reliability of the error rate information reported by the national Audit Authorities of the beneficiary countries, taking into account their annual reports and other available assessments, in order to reach a conclusion whether the reported error rate for each country is reliable and based on an appropriate and robust methodology. In the 2015 final AAR, DG NEAR maintained the 2015 RER of 0.02% despite the criticisms raised by the IAS. However, it disclosed the fact that 'in 2016, DG NEAR intends to further fine-tune its approach to calculating the RER in this control environment, as well as offer continued support to the audit authorities.' For the future AARs, DG NEAR should define a sound methodology for the calculation of the RER and the amount at risk which follow a multi-annual approach and should develop guidance on the assessment of the reliability of the error rates reported by the Audit Authorities and the calculation method for the RER for IPA- IMBC. • Enlargement – Direct Management The IAS recommended to DG NEAR to recalculate the RER for the 2015 AAR by applying a sampling interval based on the entire 2013-2015 population and to assess if the non-quantifiable errors reported during 2015 can be quantified based on the 65 methodology prescribed by the Standing Instructions. Both points were taken into account in the 2015 final AAR. Regarding the 2016 AAR, DG NEAR should update the methodology for the treatment of errors (quantifiable versus non-quantifiable) based on the Standing instructions for the AAR. 4.6 Audit on risk management in DG NEAR Audit objectives and scope The overall objective of the audit was to assess the effectiveness of DG NEAR's risk management process to identify, assess and manage critical and significant risks in line with the accepted risk level. The audit covered DG NEAR's risk management process, from the identification of objectives until the monitoring of and reporting on the implementation of the risk responses. The audit looked at the design of the risk management process and its implementation at DG NEAR Directorate-General and Directorate level. The following processes were out of the scope of the present engagement: • The objective-setting exercise: the audit looked at the choice of the objectives for which the risks had been identified and assessed, but not at the process to set the objectives; • DG NEAR's specific risk assessment exercises (e.g in the context of IT project management, external audit plan, Business Continuity Plan or IT security plans): the IAS looked at whether these exercises had been integrated in order to have a complete picture of the risk management process in DG NEAR, but did not audit them in detail. The fieldwork was finalised on 1 April 2016. All observations and recommendations relate to the situation as of that date. There are no observations/reservations in DG NEAR's 2015 Annual Activity Report related to the audited area/process. Major audit findings The IAS identified four very important issues: • Risk management framework DG NEAR has not clearly established and allocated the roles and responsibilities of the various actors involved in the coordination of the risk management at central and Directorate level (Internal Control Coordinator and supporting staff and risk management coordinators in the Directorates). In addition, there is no risk steering committee ensuring a high level coordination of the risk management. Furthermore, there is no integrated management of risks, encompassing all the risk assessment exercises performed in DG NEAR (e.g coherent guidelines, unique methodology), to ensure cost-effectiveness and harmonisation. 66 • Risk identification and assessment DG NEAR performs its risk identification and assessment mainly through desk reviews, without complementing them with other techniques such as workshops, questionnaires, interviews or brainstorming sessions. In addition, the risk management exercise focuses solely on critical risks. Consequently, any risk not assessed as critical at DG level is not formally identified, assessed and addressed, and no action plan is prepared, monitored and reported upon. Furthermore, no instructions have been developed at DG level to ensure a consistent implementation of risk management across the Directorates. Finally, DG NEAR has not established a risk register to document risks and mitigating actions. • Risk acceptance, risk response and implementation DG NEAR has neither identified its risk appetite nor issued guidance to support the identification of the most appropriate risk response. The description of the risk response is often vague and the action plans are frequently too generic, without stating the process owners, milestones, and deadlines. • Monitoring and reporting DG NEAR has not established the modalities, scope, timing and allocation of responsibilities for reporting progresses on the implementation of the action plans. In addition, there is no central monitoring of and reporting on the risk identified in the context of the annual risk management exercise and the related action plan. In addition, there is no evidence of a regular reporting to the Cabinet of DG NEAR's critical risks and mitigating actions. Furthermore, sensitive information was found in documents related to the DG NEAR's risk management without an adequate protection against inappropriate disclosure. Recommendations To address these issues, the IAS formulated the following recommendations: • Risk management framework DG NEAR should clearly describe and formally attribute the roles, responsibilities and tasks in the risk management process, and should establish a steering committee to ensure that the risk management process is coordinated and consistent across the DG. It should also improve the coordination and synergy of its various existing risk assessment exercises. • Risk identification and assessment DG NEAR should improve the methodology used for identifying and assessing risks, and enlarge the scope of the risk management exercise to significant risks at Directorate level. It should also provide internal guidelines to clarify key aspects for risk management, and establish a risk register at both DG and Directorate level. • Risk acceptance, risk response and implementation DG NEAR should define its acceptable risk level, ensure that each identified risk has a clear risk response, and the mitigating actions are clearly formulated with formally assigned process owners, milestones and deadlines. 67 • Monitoring and reporting DG NEAR should establish proper monitoring and reporting arrangements, with clearly established responsibilities. It should provide guidelines on data protection for the sensitive information included in the relevant risk management documents. 4.7 Review of the tender procedure EuropeAid/133797/DHL/SUP/XK, following the article 99(4) complaint received on 20 March 2016 (DG NEAR) Audit objectives and scope On 20 March 2016 the IAS received a complaint by e-mail under Article 99.4 of the Financial Regulation. The complaint contains allegations regarding the high price that was due to be paid by the EU Office in Pristina for the supply of 12 vehicles and therefore the non-compliance of the award of the contract with the principles of economy, efficiency and effectiveness. The complainer asked the IAS to check the information provided and, if there was a case to answer, to stop the procurement. While the IAS has no management responsibility and cannot take decisions concerning a tender procedure, it decided, in the context of its mandate, to perform a desk review of the tender procedure concerned. Major audit findings The review resulted in a few issues for consideration. However, the IAS did not require DG NEAR to prepare an action plan and will not follow-up the issues for consideration. 4.8 Audit on procurement under the Instrument for Pre-Accession (direct management and indirect management with beneficiary countries) – phase I Audit objectives and scope The objective of the audit was to assess whether procurement under the Instrument for Pre-Accession - direct management and indirect management with beneficiary countries is implemented effectively and in compliance with the applicable rules to ensure the legality and regularity of operations. The specific objectives included an assessment of: • NEAR Headquarters (HQ) guidance/procedures on the procurement process; • DG NEAR monitoring arrangements on the procurement process; • Coordination, planning and monitoring of the procurement process by EU Delegations (EUDs); • Implementation of procurement under direct management; • Ex ante controls performed by DG NEAR staff in EUDs on procurement procedures managed by beneficiary countries under indirect management with beneficiary countries, except Turkey. For both management modes, the audit covered: 68 • NEAR HQ guidance, training and procedures on the procurement process; • NEAR HQ monitoring arrangements on the procurement process; • Coordination, planning and monitoring of the procurement process by EUDs; • The different phases of the procurement process from drafting the terms of reference / technical specifications to the signature of the contract and its early amendments. There are no observations/reservations in DG NEAR's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 30 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 5. EDUCATION AND CITIZENSHIP 5.1 Audit on ***performance*** management systems in DG EAC, including the contributions of executive agencies and national agencies to the achievement of policy objectives Audit objectives and scope The overall objective of the audit was to assess the extent to which DG EAC has an adequate ***performance*** management framework/system in place both for its day-to-day operational and administrative activities (internal) and for the delivery of programme and policy objectives (external). The audit reviewed the internal processes for defining the DG's ***performance*** systems and establishing its objectives and ***indicators***, as well as the related reporting, evaluation, monitoring, and supervision systems. The scope also included the processes within DG EAC to ensure appropriate contributions of EACEA, REA, and of the National Agencies (NAs) to the monitoring and measurement of the external ***performance***. The audit covered the period 2014-2016. The supervision of EIT, the financial instruments delegated to EIF and the parts of the programmes whose implementation is delegated to other DGs, the ***performance*** of the NAs and DG EAC IT systems supporting the ***performance*** management systems were not included in the audit scope. There are no observations/reservations in DG EAC's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 13 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings 69 The IAS did not identify any material risks that would give rise to critical or very important recommendations. 5.2 Audit on DG HOME's management of emergency assistance in the context of the migration crisis Audit objectives and scope The overall objective of the audit was to assess if DG HOME is managing the emergency assistance (EMAS) in the context of the migration crisis effectively, while still ensuring the legality and regularity of the underlying transactions. The audit covered both the direct management of EMAS by DG HOME and the indirect management through the delegation agreement with the UNHCR. For the direct management part of EMAS (representing 83% (384.5 million EUR) of the EMAS funds), we focused on: 1) the needs assessment 2) the application process 3) the evaluation process 4) the award and contracting process 5) monitoring and reporting and 6) control systems for making payments (including ex-post controls). For the indirect management part (representing the 17% (80 million EUR of the EMAS funds), we focused on assessing the processes and procedures for delegating and supervising the management of the EMAS actions by UNHCR. There are no reservations in the 2015 Annual Activity Report of the DG that relate to the area/process audited. The fieldwork was finalised on 21 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified four very important issues: • Direct grant management - Planning, evaluation and contracting Although there is no legal obligation for DG HOME to perform a needs assessment and the situation on the ground is rapidly and constantly changing, the IAS has noted that various documents exist, which assess the different Member States (MS) underlying funding needs. However, currently these are not brought together in an overall analysis to clearly contribute to and support the EMAS Annual Work Programme (AWP) and its various updates. In addition, these are not systematically taken into account for the evaluation process of applications for EMAS funding. Furthermore, the guidance to applicants lacks clear instructions on the information to be provided about the emergency situation concerned, the proposed actions and their impact. Consequently, the quality of a number of the applications reviewed by the IAS was insufficient, particularly regarding Key ***Performance*** ***Indicators*** and targets. Also, certain applications reviewed by the IAS lacked sufficient information on similar actions that may have been funded under previous programmes or from other sources. Internal guidance on evaluation does not clearly explain the timing and objectives of the first assessment of applications. As a result, there were different approaches on the timing, depth and scope of this assessment. In addition, the respective roles and 70 responsibilities of the country desk officer and the project officer were unclear and the audit trail not always complete. As regards the evaluation process, DG HOME's requirement that applications are evaluated beforehand by three individual internal evaluators should be seen as good practice. However, the guidance and training provided to evaluators is lacking with respect to assessing applications against the award criteria, the budget forecast and the complementarity with other actions funded. As a result, there are inconsistencies and gaps in the way the individual assessments were performed and documented. In a limited number of applications, individual evaluations were not made as the process had to be conducted at very short notice in response to very urgent, high level political decisions. The IAS acknowledges that in such situations it is not always realistic to follow the normal procedures. In addition, the minutes (reports) of the Evaluation Committee, which are the basis for the award decision by the authorising officer, lacked sufficient justification or explanation for the decisions taken or did not include information beyond what is already in the individual evaluation forms. However, the IAS notes that the minutes of recent Joint AMIF-ISF committee meetings are more detailed in this regard. For a number of award decisions taken before the reorganisation of Directorate E at the end of 2015, the actual grant recipient was not clearly identified. In addition, certain issues which required clarification prior to the contracting phase were not properly documented and therefore it was not clear to the IAS that these had in fact been fully addressed in the grant agreement. Where grants have been amended, these sometimes lacked a documented justification. Furthermore, the approach taken was not always consistent, for example as regards granting or refusing an extension of the period for providing the final reporting package or when properly justifying the amendment. Internal procedures were not always respected, for example on consulting policy units on amendments involving significant budget transfers or changes of the content of the actions. • Direct grant management – Monitoring, payment and controls As part of its monitoring arrangements DG HOME carries out a range of different missions to MS, but it has not yet defined the precise nature, purpose and timing for the different types of mission. Consequently, they are not always fully effective in helping to assess the actual progress made towards achieving the objectives of the actions funded. Furthermore, the grant agreements with beneficiaries did not always include provisions for reporting progress made to DG HOME. There was no evidence that the reports submitted by beneficiaries have actually been systematically reviewed and followed up by DG HOME. Concerning payments, the pre-financing for EMAS grants is typically set at 80%, although some grants involve a higher risk (e.g resulting from the urgent nature of actions or the retroactive funding of actions already started). It is usually good practice to use lower pre-financing rates or pay out in tranches in order to mitigate situations where specific grants present higher risks. This was done only for two of the EMAS grants reviewed by the IAS. Furthermore, although it is still early in the implementation phase and few final payments have been made, the IAS nevertheless found that the final payment procedure needs to be improved in certain areas. Also, due to the heavy reliance 71 placed by DG HOME on audit certificates, it will need to monitor very carefully the associated risks as regards their quality. Audit work performed by the IAS on the use of audit certificates in other policy areas highlights certain issues in this respect. Finally, despite the fact that EMAS grants are higher risk because of their urgent nature and the significant increase in budgetary terms, the DG has not yet developed a fully-fledged control strategy comprising all control layers and procedures (i.e ex-ante and ex-post; financial and operational). Also, there is not yet an audit strategy/plan in place for EMAS grants. In addition, the DG's overall Anti-fraud strategy does not yet fully take account of EMAS related risks. • Indirect grant management - Delegation Agreement with UNHCR The basis for the Delegation Agreement (DA) with UNHCR lacks a solid documented analysis of needs and consultation of other relevant services. Furthermore, there are gaps in the design of the monitoring and supervisory arrangements. In particular, objectives are not clear or specific enough, most actions lack specific targets, key ***performance*** ***indicators*** and milestones. Although the Financial and Administrative Framework Agreement (FAFA) between the EU and the UN provides the overall framework for Commission controls on UN-led projects financed by the EU, DG HOME has not yet defined its own specific control strategy for EMAS projects implemented by UNHCR. Finally, the DG has not assessed the cost-efficiency of the actions included in the DA. • Complementarity of EMAS with other DG HOME funding Whilst the funding of actions to address the migration crisis through EMAS is on the increase, the absorption rate under the shared management 2014-20 National Programmes is very low for most MS. This is due to a combination of factors, such as the late adoption of the legal base and delays in the designation of Responsible Authorities. Consequently, MS have found it difficult to mobilise the necessary funding from the National Programmes to address migration issues as quickly as has been possible under the EMAS mechanism. Although it is too early to assess definitively at this stage, there is a risk that the flexibility offered by the EMAS tool, coupled with the fact that this funding comes on top of the allocation to the MS under the National Programmes, may further contribute to the low take-up of the National Programmes. In certain cases, it would appear that more use could have been made of funding under the National Programmes to provide more sustainable and longer-term results. This is very clear in the case of Greece, where the lack of budgetary and administrative capacity of the Greek government has led to EMAS being used to cover almost all funding and financial support needs for the management of the migration crisis. Recommendations • Direct grant management - Planning, evaluation and contracting DG HOME should strengthen the needs assessment process, including the underlying analysis. It should also improve its guidance on the key steps of the EMAS management process. • Direct grant management – Monitoring, payment and controls 72 The DG should finalise and establish its procedures for monitoring EMAS grants, clarifying how the different monitoring tools complement each other in order to provide sufficient assurance on EMAS grants implementation. DG HOME should continue to apply a more risk-based approach to pre-financing on an exception basis and plan to monitor the quality of audit certificates. The control strategy for the direct management of EMAS should be defined, comprising all control layers and procedures (i.e ex-ante and ex-post; financial and operational), as well as the audit strategy and audit plan. • Indirect grant management - Delegation Agreement with UNHCR DG HOME should ensure that the decision process, including needs analysis, for any future modifications/amendments or extension of the DA is sufficiently justified, consulted with relevant parties and adequately documented. The DG should ensure that well-defined objectives and specific monitoring provisions for the funded actions in line with FAFA are established. • Complementarity of EMAS to other DG HOME funding DG HOME should perform, in the context of its preparations for the post 2020 programming period and the mid-term evaluation of the AMIF and ISF, an analysis of the 'lessons learned' from the first years of implementation of the National Programmes and EMAS and of the complementarity between the National Programmes and the EMAS. This should be used to feed into the re-programming (amendments of National Programmes) or re-orientation of the different funding tools/resources available to help in addressing the migration crisis. 5.3 Consulting engagement in DG HOME on the methodology for determining the 'materiality level' and measuring the 'residual amount at risk' for the Annual Activity Report Audit objectives and scope The overall objective of the engagement was to review the processes put in place by DG HOME for determining the 'materiality level' and for measuring the 'residual amount at risk' in the context of its reporting obligations in the Annual Activity Report (AAR) and to provide advice on potential improvements. The scope of the consulting engagement covered two areas, namely: • The process of determining the 'materiality level' (Part 1 of the engagement); • The process of measuring the 'residual amount at risk' (Part 2 of the engagement). According to DG BUDG Guidance, in order to come to a sound conclusion on whether to qualify the Authorising Officer by Delegation's (AOD) declaration with a reservation and, if so, to estimate its impact in monetary terms the following approach (the '3+1 steps' approach) should be followed: • Step 1: calculating the representative detected error rate in a sample of transactions and taking account of any corrections made for the calculation of the residual error rate in the entire population; 73 • Step 2: estimating the financial exposure as (net) 'amount at risk' to the value of the relevant payments authorised during the reporting year, based on those error rates calculated for a population of transactions mostly authorised in previous years; • Step 3: relating the 'amount at risk' for the activity considered to the relevant aggregation level for determining whether a reservation would be due; • Step 4: 'if' a reservation is entered, then assessing its relative impact on the AOD's overall assurance and Declaration. The scope of our consulting engagement as regards the 'materiality level' concerns 'Step 3' above, in particular the identification of the most appropriate 'relevant aggregation level' for determining whether a reservation would be due. The scope of our consulting engagement as regards the 'residual amount at risk' concerns 'Step 1' and 'Step 2' above, in particular the assessment of the method used by DG HOME to calculate the 'residual error rate' (step 1) and the 'residual amount at risk' (step 2) for shared management. In the context of this consulting engagement, the IAS did not: • decide on the 'materiality' level to be used in the AAR or on the method used for measuring the residual amount at risk. These are management (AOD) decisions; • perform substantive testing of the existing processes; • develop concrete templates to support the processes; • assess the clarity and completeness of the information provided in the AAR on 'materiality level' and 'residual amount at risk' and drafting any input for the AAR. Major audit findings The consulting engagement resulted in a number of issues for consideration. As this is a consulting engagement and not an audit, the IAS does not follow-up these issues for consideration. 5.4 Audit on the management of grants under 2014-2020 Justice and Rights, Equality and Citizenship programmes in DG JUST Audit objectives and scope The overall objective of this compliance audit was to assess the design and effective application of the internal controls for managing grants under the 2014-2020 programming period by DG JUST. In particular, the audit assessed whether the controls in place provide reasonable assurance regarding compliance with the relevant legislation and whether they ensure sound operational management of the grant management process. The audit took place at an early stage of the implementation of the Justice and Rights, Equality and Citizenship programmes. The grant management process could therefore only be audited up to the pre-financing stage of the 2014 grant procedures and the preparation of the 2015 calls/invitations for proposals. The audit also covered aspects of the implementation phase, to the extent possible in view of the early stages of the process overall. 74 The audit focused on: • Annual Work Programmes (AWPs) – preparation and publication; • Calls for proposals (CfP) – preparation, approval and publication; • Evaluation – selection of experts, evaluation of proposals, adjustment of proposals, award decision, and ex post publication of the list of awarded grants; • Contracting – formalisation of the proposal into a grant agreement, respect of deadlines; • Payment – budgetary commitments, pre-financing; • Communication – provision of information to applicants; • Implementation phase – concerning mainly audit and control arrangements. There is a reservation in the 2015 Annual Activity Report of DG JUST concerning the high residual error rate (2,86%) in direct management grants. The fieldwork was finalised on 10 May 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Evaluation process There is scope for considerable improvement in the overall evaluation process. Currently, there is lack of guidance to support evaluators when they score project proposals and inconsistencies and gaps in the way in which the results are documented, including the justification for third evaluations. Also, the process is less efficient because the irrelevant proposals could be eliminated at an early stage as part of a two-stage procedure. Currently, this is not done and all the proposals are evaluated in depth as part of a single review. Moreover, only two evaluators evaluate all the proposals and an additional evaluator could help eliminate the need for reconciliations and lead to fewer third evaluations being needed. Finally, there is no overall panel review involving all the evaluators aimed at ensuring overall consistency and equal treatment of applicants. • Contracting phase At the contracting phase, a lack of guidelines has resulted in inconsistencies in the way in which proposed grant budgets are reviewed. Furthermore, this review process generally only starts after the award decision has been made, which is too late to be able to detect potential budgetary problems. Also, whereas adjustments should be flagged in the evaluation reports, in practice these are made only at the later, budget review stage. Recommendations To address these issues, the IAS formulated the following recommendations: • Evaluation process DG JUST should develop guidance on scoring, clearly justify in the evaluation reports the reasons for each third evaluation and perform a panel review with all the external 75 experts in order to compare and assess proposals. In order to increase the efficiency of the process, it should also exclude in a first step irrelevant projects from further evaluation. • Contracting phase DG JUST should ensure that the budget review starts as soon as there is a provisional merit list so that recommendations for any adjustments that might be needed can be included in the evaluation report. The DG should also ensure a consistent approach between project officers for the budget review. 5.5 IAS review on mapping of EC refugee crisis ***interventions*** The mapping exercise was included in the 2016 audit plan with the aim to gather sufficient, useful and relevant information to support and better focus the future IAS audit engagements on the key risks in the area. 6. ECONOMIC AND FINANCIAL AFFAIRS 6.1 Audit on effectiveness of the management of the COSME Programme by EASME Audit objective and scope The overall objective of the audit was to assess the effectiveness of EASME's management and control systems in managing the delegated parts of the COSME programme. In particular, the audit assessed the effectiveness of the division of roles and responsibilities between EASME and DG GROW and of the processes in place in EASME to set the operational objectives and ***performance*** ***indicators*** in the context of the implementation of the COSME actions and to report to the parent DG. The scope also included the adequacy of the internal control system to manage the delegated COSME actions. The audit covered the period 2014-2016. There are no observations/reservations in the Agency's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 15 October 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified one very important issue: • Cooperation between EASME and its parent DG for implementing COSME) The Agency has had most of the time no robust basis for preparing the COSME related part of its Annual Work Programme (AWP) and planning its work due to the late contribution by the parent DG and the significant changes in the COSME Work 76 Programme (WP) during the mid-term review. This had resulted in certain COSME related parts of the AWP already implemented during the first half of the year having become obsolete after the mid-year update of the COSME WP. Therefore, the related work performed until this modification was finally wasted. EASME has not sufficiently assessed the impact of this on the efficient implementation of the delegated actions and has not established an up-to-date planning document that takes into account all the changes to the delegated actions during the year. Recommendations To address this issue, the IAS formulated the following recommendation: • Co-operation between EASME and its parent DG for the implementation of COSME EASME should formally assess the impact of DG GROW's delays and of the changes to the WP, and identify possible measures to improve the cooperation with its parent DG, including a revision of the Memorandum of Understanding. For future COSME WPs, EASME should formally agree with DG GROW that the list of the delegated actions and support measures is provided sufficiently early to allow for preparing a robust AWP. The Agency should also revise its Department A WP to take into account any significant changes to the COSME WP. 6.2 Audit on financial management, procurement and grant processes in DG ECFIN Audit objectives and scope The audit assessed the adequacy of DG ECFIN's management of grants, procurement and the related financial transactions. In particular, it reviewed the design and the implementation of the controls in place to assess whether they ensure the legality and regularity of the financial procedures and the financial transactions and whether they are effective and efficient. This audit covered the key controls carried out on procurement and grant procedures completed in 2015 and on financial transactions executed in 2015. The engagement covered the controls carried out on the financial transactions directly and entirely executed by DG ECFIN as Authorising Officer by Sub-Delegation (AOSD), i.e excluding cross-delegations and sub-delegations. There are no observations or reservations in DG ECFIN's 2015 Annual Activity Report related to the audited processes. The fieldwork was finalised on 31 May 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 77 6.3 Audit on setting of objectives and measurement of ***performance*** in DG GROW Audit objectives and scope The overall objective of the audit engagement was to assess whether the DG has an adequate ***performance*** measurement framework in place for its day-to-day operational and administrative activities (internal) and for the delivery of its policy objectives (external). The audit assessed the internal processes for setting objectives and key ***performance*** ***indicators*** as well as the related reporting and monitoring. The audit focused in particular on the following areas: • The process of setting high quality objectives and ***performance*** ***indicators*** (design and implementation of the process) in line with the policy; • The ***performance*** measurement framework for monitoring, evaluating and reporting the (internal and external) ***performance*** of activities. The audit covered the processes related to the preparation of the ***Strategic*** Plan (2016-2020), the Management Plans (2014, 2015 and 2016), DG ENTR Annual Activity Report (2014), DG GROW Annual Activity Report (2015) and Programme Statements (Draft Budget 2016 and 2017). There are no observations/reservations in the 2015 Annual Activity Report (AAR) of DG GROW that relate to the area/process audited. The fieldwork was finalised on 13 April 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • DG GROW ***performance*** framework The different tools DG GROW currently uses to plan and monitor its activities, actions and initiatives are not complemented by an overarching ***strategic*** vision describing how the DG organises its ***interventions*** and how short-term outputs will lead to medium and long-term results and impacts and contribute to the achievement of its ***strategic*** objectives. Consequently, there is no overview which demonstrates how the different DG's activities contribute to the achievement of its ***strategic*** and operational objectives without gaps or overlaps. Furthermore, the different ***performance*** management tools in place in DG GROW are insufficiently coordinated at the planning and reporting phase and their respective contents are not aligned, coherent and consistent. • Monitoring of and reporting on ***performance*** in the context of the SPP cycle The DG's 2016-2020 ***Strategic*** Plan does not always provide sufficient information to understand which unit is in charge of monitoring the different ***indicators*** and which data sources will be used for this purpose. In addition, there is neither a formalised procedure nor internal instruction/guidance available on the monitoring of the result ***indicators*** included in the ***Strategic*** Plan and for reporting on progress made towards the achievement of the established targets. As regards reporting, IAS noted some cases 78 where different ***Strategic*** Planning and Programming documents provided inconsistent information about ***indicators***. Recommendations To address these issues, the IAS formulated the following recommendations: • DG GROW ***performance*** framework DG GROW should clearly set out its ***strategic*** view by establishing a logical link (***intervention*** logic) between high level priorities, ***strategic*** and operational objectives and short term actions as established in its different strategy documents and ***performance*** tools (***Strategic*** Plan, Management Plan, Annual Activity Report, Programme Statements, Agenda planning, different tools at unit level). The ***strategic*** view should allow it to assess whether or not the actions planned for a given year will contribute to the achievement of its specific objectives and of the Commission’s priorities. • Monitoring of and reporting on ***performance*** in the context of the SPP cycle DG GROW should adopt a procedure for the measurement and monitoring of all result ***indicators*** included in the ***Strategic*** Plan and Programme Statements. In addition, the DG should document, for each result ***indicator***, key information such as the data source, calculation method, person responsible for the calculation and the monitoring of the ***indicator*** and the periodicity for the reporting. Furthermore, the DG should perform and document consistency checks among the ***indicators*** included in the Management Plan, Annual Activity Report and Programme Statement. 6.4 Audit on financial management and IT procurement in DG TAXUD Audit objectives and scope The overall objective of this audit was to assess the adequacy of the design and the effective implementation of DG TAXUD's internal control systems as regards its IT procurement, contract and financial management processes as well as the effectiveness and efficiency of the related financial circuits. The scope included the 2015 and 2016 IT procurement procedures, framework contracts, specific contracts and requests for actions as well as the related financial transactions performed. There are no observations or reservations in DG TAXUD's 2015 Annual Activity Report related to the audited processes. The fieldwork was finalised on 28 October 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 79 6.5 Audit on ethics in DG TRADE Audit objectives and scope The overall objective of the audit engagement was to address the following key question: Has DG TRADE adequately designed and effectively implemented an ethics framework in compliance with the applicable values and rules to ensure that it serves the EU interest, complies with ethics standards and ensures that its staff behave ethically? The audit covered in particular: • The overall control environment for ethics in DG TRADE (risk management, roles and responsibilities, compliance with Commission's rules and guidance, provision of specific guidance, support, training and awareness raising actions, reporting); • The compliance of DG TRADE's activities and its staff behaviour with ethics rules and standards. The audit did not cover the handling of sensitive information as it was included in the 2013 audit of the former IAC on document management and in the IAS 2015 audit on the efficiency of the Trade Defence Instruments. In addition, the security and confidentiality of information related to trade negotiations is part of the scope of the ongoing IAS audit on the administrative processes supporting trade policy negotiations and implementation. There are no observations or reservations in DG TRADE's 2015 Annual Activity Report related to the audited process. The fieldwork was finalised on 15 September 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 7. GENERAL SERVICES 7.1 Audit on management of procurement under DG ESTAT's operational budget Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effective implementation of DG ESTAT's internal control systems for the management of the procurement process and the effectiveness and efficiency of the related financial circuits. In particular, it reviewed whether the internal control system provides reasonable assurance regarding the: 80 • Compliance with the Financial Regulation, Rules of Application and specific legislation; • Prevention, detection and correction of errors, irregularities and fraud; • Effectiveness and efficiency of the procurement process and the need to simplify the internal administrative rules and procedures; • Reliability of reporting and monitoring; • Safeguarding of assets. This audit covered the key controls concerning: • The procurement process, from the determination of the needs and planning to the effective implementation of the contract, and; • The financial circuits for procurement, including commitments, payments, de-commitments and recovery orders. The audit covered procurement procedures launched and financial transactions performed during 2015 and up to 31 July 2016. There are no observations or reservations in DG ESTAT's 2015 Annual Activity Report related to the audited processes. The fieldwork was finalised on 14 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS did not identify any material risks that would give rise to critical or very important recommendations. 7.2 Audit on procurement and grants in OLAF Audit objectives and scope The audit assessed the adequacy of OLAF's management of grants, procurement and the related financial transactions. In particular, it reviewed the design and implementation of the controls in place to assess whether they ensure the legality and regularity of the financial procedures and transactions and whether they are effective and efficient. The audit covered the controls carried out on procurement and grants procedures completed in 2015 and on the financial transactions executed in 2015. The audit did not cover procurement procedures under the budget line of the Supervisory Committee of OLAF, which is subject to a separate audit in 2016. There are no observations or reservations in OLAF’s 2015 Annual Activity Report that relate to the audited process. The fieldwork was finalised on 23 May 2016. All observations and recommendations relate to the situation as of that date. Major audit findings 81 The IAS did not identify any material risks that would give rise to critical or very important recommendations. 7.3 Audit on the governance, planning, monitoring and implementation of the budget line of the OLAF Supervisory Committee This audit has been classified as EU restricted and as such was disseminated to the interested parties in paper form only. 7.4 Audit on the charge-back process in PMO Audit objectives and scope The overall objective of the audit was to assess the effectiveness and efficiency of the design and implementation of the charge-back process in place in PMO for the services provided to the Commission's internal and external clients (e.g other EU Institutions, Agencies and Bodies) and its compliance with the fundamental principles laid down in the corporate guidance. The audit scope covered the roles and responsibilities of PMO related to the charge-back process for the services provided to the Commission's internal and external clients. It included all types of services provided by the Office that are subject to the charge-back of costs and the mechanisms used for charging-back costs to clients (i.e recovery orders and delegations for specific budget lines). There are no observations/reservations in PMO's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 29 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Service Level Agreements PMO has not yet updated all the Service Level Agreements (SLA) with its clients signed before 2014, even though some of these date back some ten years and no longer reflect the actual workload and costs incurred by PMO. Consequently, some clients pay more and others less than the actual cost incurred by PMO. Moreover, the cost of certain services provided to EU Institutions and other EU Bodies is not calculated by using the new cost methodology, resulting in clients being charged different prices for similar services. Furthermore, PMO does not have a dedicated section on its website, or other readily available information that would allow (potential new) clients to understand precisely what services can be provided (its catalogue of services) and at what price. In addition, other elements which make up the charge-back mechanism, such as the grouping of 82 services into categories, the methodology and criteria used to calculate and to revise prices are not communicated to its clients. Finally, although certain SLAs include provisions on the evaluation of the PMO services, so far PMO has not monitored all and not reported on any of the Key ***Performance*** ***Indicators*** as stipulated in the SLAs to its clients. In other cases, no such provisions are included in the SLAs. • Cost methodology The IAS found that PMO's current cost methodology is likely to have overestimated the cost of the services provided, as its overhead cost was accounted for twice in the calculation for the basic services offered for one year. In addition, the SLAs with the Agencies, as revised in 2015, include a clause granting a discount and this progressively decreases over a period of ten years. However, this discount is not related to any analysis of the associated workload of PMO. Finally, at present, PMO's cost methodology for charging back the cost of its services is not documented in a comprehensive manner. Moreover, the knowledge regarding the actual application of the cost methodology is currently limited to a few members of staff following the departure of some key staff involved in the cost calculation. Recommendations To address these issues, the IAS formulated the following recommendations: • Service Level Agreements PMO should initiate a revision of the SLAs signed with internal and external clients, which do not comply with the corporate guidelines on charge-back due to be finalised soon and, in particular, with the new cost methodology. Particular attention should be paid to those SLAs that no longer reflect the real costs incurred by the Office for the provision of the respective services; • Cost methodology PMO should make available to (potential) clients its catalogue of services, together with information on how the charged-back mechanism is applied and the details of the costing methodology used; it should incorporate in its SLAs harmonised provisions on monitoring and reporting to clients on the quantity and quality of the services provided (e.g by means of relevant Key ***Performance*** ***Indicators*** with targets). 8. IT audits 8.1 Audit on effectiveness of measures to handle manual ***interventions*** in ABAC Audit objectives and scope The overall objective of the audit was to provide re-assurance on the controls over Manual ***Interventions*** (MIs), specifically by reviewing and assessing the effectiveness of DG Budget's processes and procedures in the management of MIs in ABAC Accounting (ABAC-ACC) and ABAC Workflow (ABAC-WF). This audit aimed to 83 complement the previous work of the European Court of Auditors by testing the implementation of the new procedure for MIs and performing a more detailed substantive transaction testing. The audit focused on the following aspects: • The ABAC-ACC and ABAC-WF systems. These are the two main central financial information systems dealing with and consolidating information on payments, commitments, recovery orders, invoices, etc. and therefore carry a higher risk related to MIs; • The process for requesting and approving privileged user accounts with the necessary authorisations to perform MIs; • The process for requesting, performing and documenting MIs in production systems; • The process for reviewing the actual usage of privileged user accounts; • The process for detecting and analysing recurrent MIs and for the identification of measures aimed at reducing their frequency. The analysis of MIs was limited to DG Budget even though other DGs, such as DG ECFIN, also have user accounts that perform MIs in ABAC-ACC. This audit scope was limited because the main control mechanisms within the scope of this audit (privileged user creation, monitoring of MIs modifying DG Budget data) are applicable to all users. There are no observations/reservations in the 2014 Annual Activity Report of DG Budget that relate to the area/process audited. The fieldwork was finalised on 3 February 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • Extensive use of the Manual ***Intervention*** procedures MIs are extensively used to perform activities which could be performed according to more appropriate and safe arrangements, such as standard change management procedures. In some cases, the need for MIs could be avoided completely as the associated activities can be performed by users with much lower privilege rights such as a normal business user and not a privileged IT user. Furthermore, DG BUDG has produced 4 bi-annual reports on the use of MIs since 2014, and while there were recommendations formulated in the reports, no formal action plans have been drawn up to address any issues identified. • Too few controls over privileged user accounts User accounts used to perform MIs have extensive privileges, in some cases beyond the best practices recommended by the vendor of the software. Moreover, certain high privileged user accounts are not linked to a single individual, which reduces traceability and accountability. In addition, there is no systematic and regular review of privileged user accounts, together with their access rights and insufficient resources are available for reviewing and controlling the MIs performed. 84 Recommendations To address these issues, the IAS formulated the following recommendations: DG Budget should reduce the use of MIs to perform changes in the production environment of the central financial IT systems by identifying activities that only require limited privileges for their execution and by performing them with less privileged users as well as by implementing specific IT developments to avoid the need for MIs. In addition, the number of privileged accounts should be reduced to a strict minimum and their accountability and traceability enhanced. Moreover, the DG should identify activities to be performed by business users and implement the functionalities which would allow them to be performed directly, rather than having IT teams executing tasks on their behalf. This would improve the inherent security of the operations, facilitate the execution of detective controls and, ultimately would result in a more cost effective use of IT and user support resources. 8.2 Audit on management of EESSI project in DG EMPL Audit objectives and scope The overall objective of the audit was to review and assess the adequacy of the design and the effectiveness of the implementation of the internal controls put in place by DG EMPL for managing the Electronic Exchange of Social Security Information (EESSI) project, with a specific focus on its execution phase. The audit aimed to identify weaknesses in DG EMPL's processes and procedures and recommend any improvements, where appropriate. The audit focussed on the following aspects: • The Project Plan, including past ***performance*** for the achieved phases and future estimates for the remaining phases; • The adequacy of the project management artefacts, developed according to the PM2 methodology; • The definition of the functional and technical specifications; • The process to implement, test and validate the implementation of the specifications; • The process for involving and receiving the validation of artefacts by DG EMPL and Member States stakeholders; • The accuracy of project reporting. There are no observations/reservations in the Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 31 March 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: 85 • Incomplete and unstructured procedures for final acceptance testing and preparation for production release readiness Currently, there is not yet a detailed and comprehensive agreed list of acceptance criteria for each feature or functionality. The test procedures (objectives, test specifications, ownership, definitions as to what is acceptable/not acceptable by all stakeholders etc.) and the reporting of the results needed for the final project sign-off are still very much at the preliminary stage. The project is now in its final phase and the specifications tasks, roles and responsibilities need to be defined urgently. Furthermore, Member States need to be well-prepared for the transition period, but this is currently not sufficiently monitored by DG EMPL. Similar weaknesses in intermediary testing phases, among other reasons, have already resulted in a delay of 6 months in the project timeline, postponing the final release to June 2017 instead of December 2016. • Insufficient integration of security requirements The necessary security requirements and specifications (such as approved EESSI security policies, standards and guidelines and appropriate business impact assessments), have not been fully built into the project architecture. Similarly, the IT Security Plan, that has to be finalised before production, is still in its very early stage of development. Although this is already part of on-going discussion in the EESSI Security Expert Forum, its finalisation has been planned for the last phase of the development and it may prove difficult and very expensive (in terms of time and/or skilled resources) to achieve in practice. Additionally, the security tests – needed to validate the actual implementation against the relevant requirements – as well as the IT security acceptance criteria and the strategy for what to do in the event of a failure to meet these criteria have not yet been defined and agreed internally (within the Commission) and/or externally (with Member States). • Gaps in the Project Plan update and limited reporting The Project Plan is currently incomplete as it does not define or integrate the transition tasks and ownership required to test and validate the final release by the relevant stakeholders. Neither are there any provisions for monitoring the preparedness of the Member States. In addition, there is no process in place for reporting progress against agreed baselines. This is essential as the project is entering the critical finalisation and validation phases. Given the limited time available to undertake final testing, corrections and validation, this will be particularly challenging in view of the large number of stakeholders involved. In addition, the Total Cost of Ownership (TCO) of the project has not yet been fully estimated. In particular, there is no estimate of all IT investments and costs, internal or external to be incurred by DG EMPL, foreseen for the design, construction and operation phases for the first five years (including development, deployment, maintenance, support, training and infrastructure, hosting and licences). Recommendations To address these issues, the IAS formulated the following recommendations: • Procedures for final acceptance testing and preparation for production release readiness 86 DG EMPL should complete and finalise quickly the necessary elements for the acceptance tasks such as the Deliverables Acceptance Management Plan, the traceability matrix and the transition plan. This should include the testing procedures and acceptance criteria for each solution specification, as well as all requirements and milestones needed by Member States to start the transition period. It is of paramount importance to properly identify ownership, assign responsibilities and set due dates for both internal and external stakeholders responsible for testing and acceptance. • Integration of security requirements DG EMPL should ensure that the architectural specifications are finalised as soon as possible, together with the IT Security Plan. In parallel, DG EMPL should define a timeline with tasks and ownership for security related tests to be performed in the last development and testing phase. It should allocate sufficient time for these tests, including any incremental changes planned for the final production release. Finally, it should agree with all stakeholders the strategy and approach to take in the event that the security tests are unsuccessful. • Project Plan update DG EMPL should identify missing tasks in the Project Plan for all key stakeholders, together with any related inter-dependencies, and update and complete the existing Project Plan accordingly. Specifically, the transition plan should be integrated into the overall Project Plan, including tasks, owners and due dates for activities within the transition workstream. DG EMPL should update the baseline project plan and report updates and deviations for the remaining phases. Finally, it should make a first estimate of the TCO for DG EMPL for the transition period and the first years of solution in full production mode, as recommended by the IT Board instructions for the calculation of the TCO. 8.3 Audit on business continuity management at OP Audit objectives and scope The objective of the audit was to assess the adequacy of the design and the efficiency and effectiveness of the management and control systems put in place by the Publications Office (OP) for its Business Continuity (BC) management. The aim of the audit was to help identify any possible weaknesses in OP's business continuity processes and to recommend improvements where needed. The audit focussed on the following aspects: • Completeness, relevance and consistency of OP's BC management documentation; • Effectiveness and consistency of contracts and service level agreements with non-OP service providers (including DG DIGIT); • Adequacy and effectiveness of OP's defined response plan to a major disruption; • Maturity of OP's BC awareness culture; • Adequacy and effectiveness of OP's technical arrangements including the testing of correct functioning. 87 The scope of the audit was limited to BC management at the DG/Service level in OP. BC arrangements at corporate level were not in the scope of this audit as they are SG's responsibility. There are no observations/reservations in the 2015 Annual Activity Repot of OP that relate to the area/process audited. The fieldwork was finalised on 20 May 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified three very important issues: • Shortcomings of physical security in the alternate data centre The two data centres mirroring data for critical applications in real-time are a corner stone of OP's BC strategy. However, the actual power density in the alternate data centre has significantly exceeded the levels assumed during the planning phase for a number of years, a problem which is well known to OP. In addition, the audit identified shortcomings in the physical security of the alternate data centre which increases the risk of a fire. The IAS notes that OP has already initiated an action plan to address the weaknesses concerning the physical security of the alternate data centre, but stresses the need to ensure that the actions are implemented as soon as possible. • Recovery Time Objectives for urgent applications not met by DG DIGIT Key OP business processes depend very much on services provided by DG DIGIT, which are subject to a formal Service Level Agreement (SLA) and which states the recovery requirements in the event of a disruption. Even though DG DIGIT classifies key systems in OP as critical, the recovery times stated in the current SLA with DG DIGIT are significantly higher than the Recovery Time Objectives (RTO) which OP itself has defined for these very urgent key business processes. Consequently, there are no formal assurances from DG DIGIT that it would be able to meet OP’s recovery requirements in the event of a disruption. • Business Impact Assessment delivering an incomplete picture and misleading results OP's assessment of the relative urgency of a situation may be distorted in so far as its Business Impact Assessment (BIA) wrongly confuses IT security and BC criteria. In addition, the BIA does not provide a central (big picture) overview of the various interdependencies between the various functions and the corresponding impact on services of a disruption to one or more of those functions. Furthermore, the BIA does not sufficiently document the nature and extent to which OP is dependent on external service providers. Recommendations To address these issues, the IAS formulated the following recommendations: • Physical security in the alternate data centre 88 OP should reduce the power density by enhancing the space or increasing the power of the air conditioning system in the alternate data centre. In addition, OP should introduce regular checks by staff to ensure that the fire load is kept to the minimum possible. • Recovery Time Objectives for urgent applications OP should re-assess its BC requirements, taking into account the constraints of its service providers. If a solution cannot be readily found, it should formally include this risk in its risk register and explore the possibility of alternative service providers more in line with its requirements. • BIA delivery OP should revise its BIA by introducing a process-oriented approach and using availability as the sole criterion for the assessment of the urgency of the process concerned. In addition, OP should clearly document all dependencies and the resources needed to recover critical processes. 8.4 IT governance and portfolio management in DG GROW Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effective implementation of the management and control systems put in place by DG GROW for its IT governance, portfolio management and related domains. The aim of the audit was to help identify any weaknesses in DG GROW's processes and procedures to deliver effective and efficient results. The scope of the audit included the review of the following aspects in DG GROW: • IT governance and portfolio management related principles, policies, processes and procedures; • IT service management related principles, policies, processes and procedures; • Resources and capabilities in the domains of business process management, data/information management, enterprise architecture and programme management; • IT sourcing related principles, policies, processes and procedures; • IT-related skills and competences principles, policies, processes and procedures. There are no observations/reservations in the DG’s 2015 Annual Activity Report that relate to the area/process audited. The fieldwork was finalised on 30 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified two very important issues: • IT strategy, IT-related risk management and functioning of the IT Steering Committee 89 Currently, the DG's IT strategy goals and related specific objectives are not linked to appropriate key ***performance*** ***indicators*** (KPIs) in a way that makes it possible to monitor progress towards their achievement and measure the achieved benefits. In addition, the IT strategy lacks a clear vision as to how the DG's IT environment/landscape is expected to change in response to meeting business needs, going forward. The possible centralisation option, which was discussed in a recent meeting of the IT Steering Committee (ITSC), was not supported by a sound cost-benefits and risk analysis. Furthermore, there is no overall IT risk management framework to ensure that IT-related business risks at all levels (***strategic***, project or programme and operational) are properly identified and assessed, together with the establishment and implementation of appropriate action plans. Finally, although the results of the ITSC meetings are made available, there have been no concerted efforts aimed at informing the Directors who are currently not members of the ITSC of the wider aspects and implications of the issues discussed. • IT portfolio and programme management For new projects at the inception phase, the DG's standard assessment methodology does not cover costs and benefits. In addition, although DG GROW is currently in the process of undertaking numerous IT-related or IT-enabled business initiatives, it has not put in place a formalised IT programme management approach. Moreover, there is no multi-annual roadmap, which links the initiatives/actions mentioned in its IT strategy to the expected deliverables, the resource effort and costs involved, milestones and any inter-related dependencies. Recommendations To address these issues, the IAS formulated the following recommendations: • IT strategy, IT-related risk management and functioning of the ITSC DG GROW should improve its IT strategy, more specifically by linking its objectives to appropriate KPIs and strengthening its cost-benefits-risk analysis to support the choice of the preferred option for 'The future IT Delivery Model of DG GROW'. In addition, it should approve an action plan to deliver the preferred option of the future IT Delivery model, taking due account of the need to align business and IT. Moreover, DG GROW should adopt a comprehensive IT risk management framework that includes managing risks at the ***strategic***, programme or project and operational level and develop an IT risk register. In addition, it should strengthen the way in which it involves and communicates key IT developments to the Directors who are not members of the ITSC. • IT portfolio and programme management DG GROW should ensure that a formalised approach is in place to support IT-related or IT-enabled business initiatives by a comprehensive (covering cost, benefits and risks) assessment of their value, both at an early stage, at the project inception, and monitored throughout their lifecycle. Moreover, DG GROW should adopt a programme management approach for IT-related and IT-enabled initiatives and devise a multiannual roadmap linking the actions with deliverables, corresponding allocated 90 resources, costs and milestones, and ongoing business initiatives and dependencies on other ***strategic*** actions. 8.5 Audit on IT security in JRC ICT systems Audit objectives and scope The overall objective of the audit was to assess the adequacy of the design and the effectiveness of the implementation of the internal controls put in place by DG JRC for protecting electronic information and assets, and regarding connectivity between JRC premises and the wider European Commission information network and systems. The audit focused on the following aspects: • IT Security governance procedures to evaluate, design and monitor the IT security framework in the JRC. This included assessing the effectiveness of the decision making process among the different stakeholders and the regular execution of awareness campaigns; • Security operations as regards applications, operating systems and network security devices. This included reviewing the controls currently executed by the Local Information Security Officer (LISO) and the connectivity to the Commission networks; • Process to request, grant and provide privileged user accounts; • Process to request, perform and document changes in the security parameters; • Detection, communication and analysis of IT security incidents and identification of improvements in systems and processes to reduce the frequency. Specific nuclear IT systems were not included in the scope of the current audit. These are subject to specific German and Italian regulations and under strict supervision by the authorities. There are no observations/reservations in DG JRC's 2015 Annual Activity Report that relate to the area/process audited. The fieldwork took place at the JRC sites of Ispra, Seville and Karlsruhe and it was finalised on 28 November 2016. All observations and recommendations relate to the situation as of that date. Major audit findings The IAS identified four very important issues: • Management oversight of IT security Currently, a number of key activities are not assigned to defined owners and are performed on an ad-hoc only basis and/or in an uncoordinated way. These include the evaluation of security needs and requirements, prioritisation of tasks and monitoring of according actions. In addition, there is no proven mechanism for ensuring that IT security related needs are properly heard and discussed at the appropriate level and by the right stakeholders. Furthermore, there are no clear corporate objectives for the JRC in terms of IT security or related Key ***Performance*** ***Indicators*** (KPIs) to measure the 91 ***performance*** of IT security actions and controls at management level. Finally, mission statements for the different IT security stakeholders including the split of responsibility for operational tasks, monitoring and risk management are not formally defined and communicated. • IT security considerations built into the design of new IT systems and into the maintenance of existing systems Although the definition of security requirements is recommended at early stages of every IT project, both by Commission Decision C(2006)3602 concerning the security of information systems used by the European Commission and the PM2 methodology, this is currently not done in JRC. Security requirements are not systematically included in the project definitions or system change lifecycle. The existing procedures do not provide for security requirements to be defined upfront in a new project or for maintenance changes to include an impact analysis for IT security. What happens in practice currently depends very much on the developer or administrator of the system and is done on an ad-hoc basis, rather than as a result of a planned approach. • Deployment of security reference configurations and monitoring of new vulnerabilities Reviews of actual vulnerabilities (scans) are useful as they can detect and prioritise weaknesses. However, currently IT security reviews of existing systems are only performed on a regular basis for some of the systems in DG JRC. As of today, among the audited JRC sites only the site in Seville is performing regular vulnerability assessments, while for the remaining sites, only the detection of vendor published corrections (patches) is made on a regular basis and even then, only for a subset of corporate systems. In addition, there are no regular reviews performed of current security settings and privilege access to systems, etc. to detect possible unauthorised changes. • Inventory of JRC IT systems and their security dependencies The inventories of systems and software connected to the JRC networks are fragmented and maintained by different groups, depending on the area of responsibility. The JRC lacks a complete overview of all the systems in terms of security risks. In addition, because many scientists stay for periods of only three to five years, system owners are not always timely updated in the registries, with the result that certain systems do not have a valid system owner. Recommendations • Management oversight of IT security DG JRC should set up an IT security steering committee with members representing all relevant stakeholders (JRC management, Scientific Units, Support Units, LISO and ICT Architecture). The DG should also establish a set of objectives and measuring criteria (KPIs) for the IT security domain, based on a clear definition of the mission statements for the different teams involved in IT Security, with a clear split of scope and responsibilities. • IT security considerations built into the design of new IT systems and into the maintenance of existing systems 92 DG JRC should define a JRC-wide standard by enforcing new developments and relevant system changes to undergo a security analysis in the early phases of their development. In particular, management should enforce mechanisms that facilitate integrating security practices while coding. Once in production, DG JRC needs to include a set of criteria to identify the most relevant systems and establish a policy to perform regular security reviews on them. Lastly, the JRC should leverage its central IT teams and IT security experts in the organisation when creating, deploying or changing new IT systems for scientific projects, to re-use existing security good practices and align with known secure configurations and software development guidelines. • Deployment of security reference configurations and monitoring of new vulnerabilities DG JRC should establish an automated procedure to identify current versions and patches in the whole organisation and, depending on the constraints of each machine for their operational use, enforce automated updates or isolation of appropriate areas of the network. DG JRC should generalise the use of automated vulnerability discovery tools to report on current known vulnerabilities and possible course of action, depending on the scientific activity and constraints. Ideally, the JRC should seek to leverage internal existing expertise in virtualised environments for scientific use or in reference configurations for the different types of needs in the scientific domains. As a minimum, it should instigate an awareness campaign on the recommended settings (to be selected by the scientific team as necessary). Finally, according to the residual risk identified, DG JRC should put in place the necessary compensating controls, for example network segregation, dedicated monitoring, etc., as needed. • Inventory of JRC IT systems and their security dependencies DG JRC should assess the feasibility of integrating all IT systems and devices connected to the JRC networks in an inventory capable of identifying installed software and versions. Once in place, a process should be set up to maintain an up-to-date list of running systems and their owners, adapted to the nature of the work in the JRC and which takes into account the high rotation levels for researchers. To facilitate this, the JRC should leverage and coordinate the existing work observed separately at the audited sites of Ispra, Seville and Karlsruhe as regards the network segregation projects that allow for a better control on vulnerable devices. 93 PART 2: FOLLOW-UP ENGAGEMENTS (SUMMARISED) 1. Follow-up audit on the design of DG AGRI's management and control system for greening Based on the results of our follow-up audits of the accepted recommendations, we assess that: • Recommendation N° 2 on Assessment of the notifications of equivalent practices (rated very important), Sub-recommendations N° 1.1 on Correcting of the ISAMM template for EFA notification (rated important), N° 1.4 on Cross checks between ISAMM forms (rated important), N° 5.2 on Providing Member States with records of Expert Group meetings (rated important) and recommendation N° 6 on Improving and clarifying the greening requirements (rated very important) have been appropriately implemented and can be closed; • The following (sub-)recommendations have not yet been fully implemented and cannot be closed: o Sub-recommendation N° 1.2 on Compatibility of the Good ***agricultural*** and environmental condition (GAEC) notifications with the notifications of greening choices for Ecological Focus Areas (EFAs) and equivalent practices (rated important): the IAS considers that the current set of procedure does not ensure the check of the compatibility of GAEC notifications with EFA notifications. This check should either be performed as part of the GAEC assessment or as part of a second check of the EFAs once GAEC notifications are available, and the relevant procedure should be updated accordingly; o Sub-recommendations N° 1.3 and 1.5 on Enhancing reporting functionalities in ISAMM and exploring possibilities of cross-validation in ISAMM and automated interface with GAEC database (rated important): work on the enhancement of the reporting functionalities in ISAMM is still ongoing; o Recommendation N° 3 on the Assessment of greening notifications that are not related to equivalent practices (rated important) is assessed as partially implemented as the procedures for the assessment of forest exemption notifications (sub-recommendation 3.1), as well for the monitoring of permanent grassland ratios (sub-recommendation 3.2), still remain to be drafted; o Recommendation N°4 on Risk of double-funding between greening measures and ***rural*** development programmes with regard to agroforestry and afforested areas (rated very important): the sub-measure fiches for 'afforested areas and woodlands' and 'establishment of agro-forestry systems' as well as the explanatory document on how to avoid double funding have been modified and uploaded on CircaBC for information to the Member States. However, the IAS considers that these updated guidelines are confusing and do not provide practical details and/or examples on how to exclude double-funding in the specific cases of agro-forestry and afforested 94 areas selected as EFAs under the greening payment. The IAS, nevertheless, acknowledges that given the low take-up of agroforestry and afforested areas as EFAs, observed after the first year of implementation of the greening payment, the risk of double funding appears to be limited. The rating of the recommendation is therefore downgraded from very important to important; o Sub-recommendation N° 5.1 on Establishing a written procedure for replies to Member States, bilateral meetings with and missions to Member States (rated important): the procedure remains to be drafted. 2. Follow-up audit on payments suspensions and interruptions in the 2014-2020 CAP framework Based on the results of our follow-up audit, we assess that: • Recommendations N° 1 on the Legal basis (rated very important) and N° 4 on the Suspension Board (rated important) have been adequately implemented and will be closed; • Recommendation N° 2 on the Internal guidance and procedures (rated very important) has been partially implemented. However, in the light of the overall progress made, the level of risk is assessed as lower and the recommendation has been downgraded to important. The following sub-recommendations remain only partially implemented: o Sub-recommendation N° 2.a on The application of Articles 41(1) and 41(2) of Regulation 1306/2013 as further clarifications are still necessary, notably on the triggering conditions for applying Article 41(2)(b) for the second Pillar of the CAP (hereafter Pillar 2). However, the IAS acknowledges that the envisaged implementation date for this sub-recommendation is 30 June 2017; o Sub-recommendation N° 2.c on the Criteria for proposing interruptions and suspensions/reductions including a de-minimis approach as regards applying the de-minimis approach also for the first Pillar of the CAP. • Recommendation N° 3 on the Application of guidance and procedures (rated very important) has been partially implemented. The following sub-recommendations have been only partially implemented: o Sub-recommendation N° 3.a on Applying the 'stop-the-clock' instructions in practice and compliance with the 45 days payment deadline, for which the IAS acknowledges that the instructions have been adapted but nonetheless needs a reasonable number of cases to have occurred to be able to judge whether the instructions have been effectively applied or not; o Sub-recommendation N° 3.b on Clarifying the criteria for requesting action plans in the context of Article 41(2) as regards Pillar 2 and the link to corrective action plans following the reservations in the Annual Activity Report, where further clarifications are still necessary; o Sub-recommendation N° 3.c on Ensuring a more consistent approach to letters requesting action plans since the drafting of the letters is still under discussion; 95 o Sub-recommendation N° 3.d on Minimising the time for the overall process from requesting an action plan to the Member States to taking the final suspension decision, on which work has been done but requires additional clarifications/consistency checks; o Sub-recommendation N° 3.e on Putting more emphasis on ensuring the timeliness of the interruptions, suspensions and reductions procedures as some decisions have been taken and work is in progress, but the IAS will need to check how DG AGRI is applying this concretely during a second follow-up audit; o Sub-recommendation N° 3.f on Evaluating whether or not the approach has been effective in achieving the objectives set in the discharge procedure remains open as the deadline for implementation is at the end of 2018. 3. Follow-up audit on the management of the approval process of the 2014-2020 ***Rural*** Development Programmes (RDPs) Based on the results of our follow-up audits of the accepted recommendations, we assess that: • Sub-recommendations N° 1.1 on Adjusting the process on the basis of the experience gained (rated very important), N° 1.2 on Planning and monitoring of the approval process in RDIS2 (rated very important), N° 1.3 on Workload analysis and task allocation optimisation (rated very important), N° 2.1 on Updating the master checklist with checks related to financial aspects (rated 'Important'), N° 2.2 on Completeness of information on transitional arrangements for RDPs to be approved (rated important), N° 2.3 on Documenting the RDP approval process (rated important), N° 2.4 on Identifying and following up outstanding points on adopted RDPs (rated important), N° 3.2 on Coordinating the follow-up of Ex-Ante conditionalities action plans with other ESIF DGs (rated very important), N° 3.3 on Providing support to the Member States on ***performance*** framework and ***indicators*** (rated very important), N° 3.4 on Back-up for experts on ***indicators*** (rated very important), N° 4.1 on Improving the structure of SharePoint collaborative platform (rated important), N° 4.2 on Sharing technical clarifications with Member States (rated important), N° 4.3 on Mapping the expertise gained during the approval phase (rated important) and N° 4.4 on Expanding the role of the Consistency Board to amendment process (rated important) have been appropriately implemented and will be closed; • Sub-recommendation N° 2.5 on Correcting inconsistencies between RDPs and Partnership Agreements (rated important) has been partially implemented. However, the residual risk has been assessed as low; • Sub-recommendation N° 3.1 on Appropriate assessment of ExAnte Conditionalities (ExACs) (rated very important) is considered obsolete and the remaining residual risk lies with the monitoring of the implementation of the programmes, including ExACs. In addition, an IAS audit on the monitoring of RDPs is included in the IAS draft Plan for 2017; • Recommendation N° 5 remains open for the following reasons: Sub-recommendation N° 5.1 on Providing clear guidance to Member States and 96 identifying legal inconsistencies (rated very important) has been partially implemented. However, the residual risk has been assessed as low. For sub- recommendation N° 5.2 on Monitoring the implementation of RDPs to prevent double funding (rated very important) three of the four planned actions have been completed. The outstanding action concerns double funding in relation to the carry-over of agro-environmental commitments signed before 2012. For sub-recommendation N° 5.3 on Reviewing overlap in coverage of the two pillars of the CAP in the long term (rated very important), the actions are on-going as part of the work paving the way for the adoption of a Communication on the modernisation and simplification of the CAP in the second part of 2017, as indicated in the Commission work Programme for 2017. While sub-recommendation N° 5.1 is considered partially implemented but the related residual risk is now assessed as low, sub-recommendations N° 5.2 and 5.3 remain open. However, as significant progress has been made in mitigating the related risks, the IAS downgrades the rating of recommendation N° 5 from very important to important. 4. Follow-up audit on gap analysis of new legislation/design of 2014-2020 programming period of European Structural and Investment Funds Phase 2 in DG MARE Based on the results of our follow-up audit, we assess that recommendations N° 2: OP negotiation and adoption process (rated very important) and N° 3 Results orientation and ***performance*** framework have been adequately and effectively implemented and will be closed. 5. Follow-up audit of IAC recommendations in DG SANTE Follow-up of IAC audit on the management of funds in DG SANTE veterinary programmes Based on the results of our follow-up audit, we assess that recommendation N° 1 on the Financial forecast for program's adoption (rated very important) and recommendation N°2 on the Reallocation exercise (rated very important) have been partially implemented. In the light of the overall progress made, the level of risk is assessed as lower and the recommendations have been downgraded to important. The remaining open actions concern sub-recommendations 2.2 and 3.2 on the availability of an audit trail by using the IT system Qlikview. The IAS considers that the IT system needs to be stable and fully used for the allocation and re-allocation exercises to ensure the existence of an audit trail. 6. Follow-up audit of management and supervision of contracts for the outsourced IT services in DG SANTE Based on the results of our follow-up audit, the IAS assessed that recommendations N° 1 on Quality of tender documentation for DG SANCO's own framework contracts (rated very important) and N°4 on Follow-up of memoranda of understanding between 97 DG SANCO and DG DIGIT (rated important) have been adequately and effectively implemented and will be closed. One remaining recommendation N° 2 on DG SANCO's outsourcing strategy (rated important) cannot be considered as implemented. The recommendation required the DG to carry out a cost benefit analysis of the various outsourcing options for IT projects (time and means, quoted time and means, etc.). While DG SANTE provided evidence of a comparative analysis of the insourcing and outsourcing options for the main IT project it is currently managing, the various possibilities for outsourcing have not been assessed yet as this would be too early at this stage of the project. As a consequence, the recommendation will not be closed. 7. Follow-up audit on preparations for use of financial instruments under 2014-2020 in DG EMPL Based on the results of our follow-up audit, we assess that recommendation N° 1 Building financial instruments related capacity (rated very important), has been adequately and effectively implemented. 8. Follow-up audit on preparations for use of financial instruments under 2014-2020 in DG REGIO Based on the results of our follow-up audit, we assess that recommendation N° 2 Building financial instruments related capacity (rated very important) has been adequately and effectively implemented. 9. Follow-up audit on gap analysis of new legislation/design of 2014-2020 programming period of European Structural and Investment Funds' (ESI Funds) Phase II Based on the results of our follow-up audit, we assess that recommendation N° 2 OP negotiation and adoption process (rated very important), and N° 4 IT systems supporting the management of the 2014-2020 programming period processes (rated very important) addressed to DG REGIO and DG EMPL have been adequately and effectively implemented, and will be closed. Recommendation No 3 (rated very important) concerns the ***performance*** framework and the checks performed by the DGs on the information provided by Member States (MS) in order to ensure consistency and plausibility of milestones and targets. The IAS recommendation aimed at addressing the 'inherent risk of unambitious target setting by the MS' not being sufficiently mitigated by the DGs' checks. As a result of this follow-up, the IAS notes that the first part of the recommendation, relating to the timely request of art.4 information from MS, has been adequately implemented by both DG REGIO and EMPL. The second part of the recommendation which again concerns both DGs and relates to plausibility checks performed on milestones/targets by Desk Officers (DO) of geographical units has not been adequately implemented. The IAS acknowledges that the DGs have developed internal guidance for the DO to assess the plausibility of milestones and targets at the time of 98 operational programme negotiation and adoption. Furthermore, the observations on the draft operational programme sent to MS included comments on targets/milestones raised by the DO and the evaluation unit. Nevertheless, the IAS has found that the actual assessment by the DO of the plausibility of targets/milestones at the time of operational programme negotiation/adoption was generally not documented by either DG. The specific part of the recommendation addressed to DG REGIO on ensuring that 'reviews of operational programmes performed by the evaluation unit are supported by a clear audit trail', has not been fully implemented. The IAS found that the documentation in WAVE of the evaluation unit's comments on the draft operational programmes was not complete as a number of comments were made outside of the system and not documented in WAVE. The last part of the recommendation concerns the need for consistency checks on ***indicators*** to be further developed by DG EMPL. The IAS notes that this part of the recommendation was adequately implemented after the operational programme adoption and negotiation process was completed. DG EMPL has put in place the 'EMPL strategy for a ***performance***-based culture for the ESF' which sets out clear objectives for data reliability, and assessment of the consistency and plausibility of reported ***indicators***. Consistent with the action plan, the evaluation unit has developed a template which allows the comparison of targets through a common dimension (e.g cost per participant), and it is used for checking the consistency and plausibility of targets. From the IAS analysis it can be concluded that recommendation N° 3 was overall only partially implemented at the time of operational programme adoption and negotiation. However, given that all operational programmes have been adopted, the parts of the recommendation that have been assessed as not implemented are no longer pertinent in the context of operational programme adoption and the recommendation will be closed. Nevertheless, the IAS will be reviewing whether the related risks have been mitigated for the adoption of operational programme amendments and the review of annual implementation reports in the context of the following audits: • Audit on amendment of 2014-2020 operational programmes in DGs REGIO, EMPL, and MARE; • Audit on monitoring the implementation and ***performance*** of 2014-2020 operational programmes by DGs REGIO, EMPL and MARE (scheduled for 2018). 10. Follow-up audit on the governance and supervision of the nuclear decommissioning assistance programmes in DG ENER Based on the results of our follow-up audit, we assess that recommendations N° 1 on Assessment of ex-ante conditionalities (rated critical) and N° 2 on Control strategy of DG ENER (rated very important) have been adequately and effectively implemented and will be closed. 99 11. Follow-up audit on the supervision of the implementation of CEF in DG ENER Based on the results of our follow-up audit, we assess that sub-recommendation N° 1.3 has been fully implemented while the other sub-recommendations (rated very important) still require further actions to address satisfactorily the issues detected during the audit. In particular: • Sub-recommendation N° 1.1: DG ENER adopted in September 2016 a 'Supervision strategy on PCIs development' which describes the need to develop such a strategy. It states that 'The Fora in which supervision has to take place are the Regional Groups'. However, the strategy does not indicate how and if an agreement on this common supervision strategy has been or will be reached in the Regional Groups. In addition, the document lists five objectives for the supervision strategy and it describes the tools that shall be used for that purpose. However it does not identify key ***performance*** ***indicators*** for measuring the ***performance*** of the supervision activity or the resources necessary to allow DG ENER to reach the objective; • Sub-recommendation N° 1.2: The document describes the differences in the various reports on PCIs implementation which have to be prepared but it does not explain how DG ENER will ensure i) that Regional Groups exploit them efficiently and ii) that issues and recommendations made in the various reports will be systematically followed-up and in a timely manner; • Sub-recommendation N° 1.4: DG ENER has not completed the development of a reliable comprehensive tool to monitor the implementation of the PCIs development. Consequently, the recommendation will not be closed. 12. Follow-up audit on the management and functioning of Euratom safeguards in DG ENER Based on the results of our follow-up audit, we assess that recommendation N° 4 on Operational objectives and ***performance*** ***indicators*** (rated important) has been adequately and effectively implemented and will be closed. Recommendation N° 1 on Assessment of the Euratom safeguards approach (rated important): DG ENER performed an assessment of the need to update the current Euratom safeguards approach document. However, the IAS found that this assessment did not contain information on the human and financial resources needed by DG ENER to effectively implement the Euratom safeguards tasks, and a time frame for subsequent re-assessments. These two elements will be included in the Commission Communication and Staff Working Document (SWD) on the principles and modalities of the implementation of Euratom safeguard tasks under article 77 of the Euratom treaty. Consequently, the IAS considers that, until the adoption of the proposal for this Communication and SWD, the recommendation is not fully implemented and will not be closed. 100 13. Follow-up audit on procurement management in JRC Based on the results of our follow-up audit, we assess that recommendations N° 1 on the Management of low value procurement (rated very important) and N° 4 on the Ex-post controls (rated important) have been adequately and effectively implemented and will be closed. 14. Follow-up audit on ***strategic*** planning and programming / activity based management in JRC Based on the results of our follow-up audit, we assess that: • Recommendation N° 2 on Work programme, project management and management plan (rated important): The IAS recommended JRC a) to introduce results ***indicators*** in the management plan to measure and then report on the ***performance*** in implementing the work programme, and b) to adopt and implement for the JRC work programme a framework for planning, monitoring and reporting. In this respect, the JRC has introduced in its 2016-2020 ***strategic*** plan an ***indicator*** to measure the delivery rate of the policy deliverables but no ***indicators*** have been set to measure the implementation of the planned projects and the achievement of the objectives. In addition, the work programme planning process has been reviewed, but no procedures for monitoring and reporting at the level of project or work package have been implemented yet. Consequently, the recommendation is assessed as 'partially implemented and will not be closed; • Recommendation N° 3 on Governance of the ***strategic*** planning and programming cycle (rated important): The IAS invited JRC to ensure a wider involvement of senior and middle management in the preparation of the management plan and the annual activity report and to reinforce its internal communication plan. JRC adopted in December 2016 an 'internal Communication strategy on key aspects of SPP cycle' which has not yet been implemented. In addition, the updated strategy does not include actions to improve the involvement of or the dialogue with staff and management as input for the preparation of the ***strategic*** plan/management plan/annual activity report. Consequently, the recommendation is not considered implemented and will not be closed; • Recommendation N° 5 on Reporting of the activity based management (rated important): At the time of the audit, the IAS found that the information on the allocation of human resources in the management plan and in the annual activity report needed to be improved. However the new ***strategic*** plan/management plan introduced in 2016 does not require disclosing the human resources needed to implement each activity based budgeting activity. Consequently, this recommendation has become obsolete and will be closed. 15. Follow-up audit of IAC recommendations in JRC Follow-up of the IAC audit on security and safety in the JRC Based on the results of our follow-up audit, we assess that recommendations N° 4 on Language of the safety management systems documents (rated important) and N° 12 101 on Infrastructure-related IT tools impacting health and safety (rated important) were adequately and effectively implemented. Concerning the remaining two recommendations, the IAS found that further progress is required to fully mitigate the underlying risks. In particular: • Recommendation N° 14 on Scientific activities out of the JRC sites (rated important): JRC should establish an overall procedure on security and safety needs for scientific activities conducted outside the JRC sites. According to JRC management, 'the full implementation of the action is expected to be finalised by the end of 2016'. • Recommendation N° 19 on Evaluation of radiation risks (rated important): JRC has not yet completed the evaluation of the non-ionising radiation risks at the Ispra Site, under the terms of the Italian law. According to JRC management, 'the full implementation of the action is expected to be finalised by September 2016'. Follow-up of the IAC audit on nuclear decommissioning and waste management programme – financial aspects - recommendations N° 1, 2, 3 and 5 Based on the results of our follow-up audit, we confirm the JRC's assessment that, at this moment in time, the four recommendations (rated very important) have not yet been fully implemented. We also consider that the actions implemented so far do not substantially mitigate the risks identified in the original audit report, which, consequently, remain at a high level. This needs to be adequately reflected in the 2015 AAR. Finally, the IAS observed that, on the basis of the information gathered during the follow- up engagement, the JRC is unlikely to respect the due date of 2 June 2016 fixed in the action plan for the completion of the mitigating measures. 2nd Follow-up of the IAC audit on nuclear decommissioning and waste management programme – financial aspects Based on the results of our follow-up audit, we assess that recommendations N° 2 on An urgent improvement plan addressing internal causes of procurement delays (rated very important) and N° 4 on Any new plans proposing investments in nuclear infrastructure, installations or buildings (rated important) have been adequately and effectively implemented while recommendation N° 6 on The future regulatory standard 11510 (rated important) has become obsolete in the meantime. These three recommendations will be closed. For recommendation N° 5 on A mid-term staffing strategy for the Decommissioning Programme (rated very important), the former IAC highlighted the urgent need to define a mid-term staffing strategy for the Decommissioning Programme for the Ispra site, to be then extended (as soon as possible) to other nuclear sites. The IAS observed that the staffing strategy has been defined for Ispra, but not yet for the other sites. Therefore, the IAS considers the recommendation as only partially implemented and will reopen it. However, since the most urgent staffing strategy has been defined, the IAS will downgrade the recommendation to important. Follow-up of the IAC audit on management of expert groups by the JRC Based on the results of our follow-up audit, we assess that the four recommendations (all rated important) N° 1 on Framework rules, N° 6 on Reimbursement of experts travel and subsistence expenses, N° 7 on Reimbursement of experts travel and 102 subsistence expenses and N° 8 on Document management have been adequately and effectively implemented and will be closed. Follow-up of the IAC audit on document management in JRC Based on the results of our follow-up audit, we assess that the six recommendations (all rated important) N° 2 on IT tools for document management, N° 3 on The unfiled documents, N° 5 on Filing plan structure for scientific project, N° 7 on Storing conditions in sites other than Ispra, N° 9 on DMO function and N° 11 on Guidance and training have been adequately and effectively implemented and will be closed. Follow-up of the IAC audit on decommissioning: risk and project management at the Ispra site Based on the results of our follow-up audit, we assess that recommendations N° 1 on The full adaptation of intermediate and low-level documents in line with the Nuclear Decommissioning and Waste Management Programme (rated important); N° 2 on The compatibility between the operation of the nuclear installations and the development of decommissioning projects (rated important); N° 3 on The minimisation of technological waste (rated important); N° 4 on The identification of the needed legal advice resources and internal legal advice specialised in nuclear law (rated important); N° 5 on The systematic collection and evaluation of ‘lessons learned’ (rated important) and N° 6 on An increased upstream involvement of the JRC Licensing function in all strategy and operational decisions regarding the nuclear decommissioning and waste management programme (rated very important) have been adequately and effectively implemented and will be closed. However, further progress is required to fully mitigate the underlying risks of the two remaining recommendations: • Recommendation N° 7 (rated very important) on A full strategy for guaranteeing a pool of qualified Project Leaders: this recommendation is assessed as 'partially implemented'. Although the JRC defined the competence profile of the project leaders for decommissioning it has not yet developed a training scheme for them. In addition, the IAS has not found evidence of any formal back-up arrangements for the Project Leaders. This may lead to weaknesses in operational activities and in the monitoring of contractor activities. Therefore, the JRC should define a full strategy for guaranteeing a pool of qualified project leaders on decommissioning, which includes a plan for their training and back-up; • Recommendation N° 8 (rated important) on Document management requirements: this recommendation is assessed as 'not implemented'. According to the original IAC recommendation, 'the JRC should define and present a proposal for the Italian Safety Authority regarding what essential documents with legal implications should be kept on paper format'. This recommendation was aimed at addressing the finding according to which 'the document management requirements for decommissioning are extremely sophisticated, in term of quantity and quality of the documentation and legal implications; therefore, an electronic document management is necessary'. The IAS has not found any formal opinion of the Italian public administration on this issue that was either requested or received by the JRC. The auditors, observed however, that the relevant public counterpart for this issue may not be the national Safety Authority, as requested by the IAC recommendation. Recently, the JRC has issued a procedure stating that 'the original of documents with legal effect are kept for 5 years at least', but this period has no legal reference to the national law. 103 Moreover, the JRC Unit on decommissioning has only partially followed this procedure. The misalignment between the national law, the JRC procedure and current practices may lead to issues of irregularity and/or to inefficient use of resources for document management. On the basis of the work done, the auditors assess that the finding is still relevant although the original recommendation is not applicable or is obsolete as it stands. For these reasons, the IAS has reformulated the recommendation as follows: 'JRC should obtain legal advice concerning the dematerialisation of the paper form documents on decommissioning, in line with the EU and national requirements on decommissioning. The internal procedure on document management (dematerialisation after 5 years) should be updated to match the legal requirements, and applied'. These two recommendations will not be closed. Follow-up of the IAC audit on intellectual property rights management Based on the results of our follow-up audit, we assess that recommendations N° 3 on Incentives for scientific staff to engage in technology transfer activities (rated very important), No. 4 on The rules governing the innovative project competitions (rated important), N° 5 on Corporate procedure for access to external scientific information resources service (rated very important), N° 6 and 7 on The reporting on activities under administrative arrangements within the EU Commission (rated very important), N° 8 on The term of reference of the license agreement provisions (rated important) and N° 9 on Exclusive licenses under the EU Treaties on European Union and Atomic Energy Community (rated very important) were adequately and effectively implemented. Concerning the remaining very important recommendation N° 2 on The controls to prevent infringement of intellectual property rights, the original audit report recommended to the JRC to include in the publications process a “check on the non-infringement of prior existing copyrights or other intellectual property rights from third parties before final approval for publication is given'. To implement this recommendation, the JRC proposed two actions, notably a) to include in the publications process a self-declaration by the author of the articles concerning the non-infringement of prior existing copyrights, b) to provide a link to the guidelines for copyright for EC staff. The IAS found that, while a link to the guidelines for copyright was provided, the first action was not implemented. According to JRC, this was mainly due to the fact that the self-declaration by the author was considered to have little value. As a result, the high risk identified at the time of the IAC audit has not been mitigated. The IAS invites the JRC to take the appropriate measures to enhance the procedure for the management of the intellectual property rights to avoid possible infringements, by, for instance, replacing the planned self-declaration of the author of the articles with a more robust check performed by independent officials and/or with an anti-plagiarism-software. Recommendation N° 2 will not be closed. 104 16. Follow-up audit on the supervision of the implementation of CEF in DG MOVE Based on the results of our follow-up audit, we assess that recommendation N° 1 on DG MOVE's Supervision Strategy on Corridors Development (rated very important) has not been fully implemented. In July 2016, DG MOVE adopted the 'Supervision Strategy on Core Network Corridors Development' which i) puts the supervision of the development of the individual Core Network Corridors (CNC) in the wider context of the 'achievement of the Commission's policy goals set out in the 2011 White Paper on Transport Policy'; and ii) covers also the monitoring of the TEN-T legislation's ***performance*** in meeting the EU policy objectives. The strategy for the supervision of the individual CNCs' development is mainly set out in chapter '4: Internal processes to assess progress and ***performance*** in a coherent manner', which describes the objectives of the supervision as well as the tools/support that DG MOVE will provide. However, the objectives are not timed, specific or quantifiable and there are no key ***performance*** ***indicators*** that would allow DG MOVE to measure the ***performance*** of its supervision activity. There is also no clear indication as to how detected issues will be addressed. Consequently, the recommendation will not be closed. However, in view of the mitigating actions implemented so far, the IAS has decided to downgrade the rating of the recommendation from very important to important. 17. Follow-up audit on the implementation of FP7 control systems (including supervision of external bodies) in DG RTD Based on the results of our follow-up audit, we assess that recommendation N°1 Supervision of the Joint Undertakings (rated very important) has been adequately and effectively implemented and will be closed. 18. Follow-up audit of the set-up of the common support centre for H2020 Based on the results of our follow-up audit, we assess that recommendations N° 1.1 on The decision making process at governance level (rated very important), N° 1.3 on The audit strategy for H2020 (rated important) and N° 3 on Risk management (rated important) have been adequately and effectively implemented and will be closed. Concerning recommendation N° 1.2 on The decision making process at operational level (rated important), the IAS did not observe substantial progress made to mitigate the risk of non-harmonised implementation of audit results and follow up of fraud cases. Consequently the IAS considers the recommendation as not yet implemented and will reopen it. 19. Follow-up audit on EDF grants in DG DEVCO Based on the results of our follow-up audit, we assess that recommendation N° 7 on Ex-post project evaluation (rated important) has been adequately and effectively implemented and will be closed. 105 20. Follow-up audit on Budget Support in DG DEVCO Based on the results of our follow-up audit, we assess that recommendation N° 2 on Human resources for budget support (rated important) has been adequately and effectively implemented and will be closed. 21. Follow-up audit of IAC recommendations in DG ECHO Follow-up of the IAC audit on contribution agreements with UN Bodies and other international organisations Based on the results of our follow-up audit, we assess that recommendations N° 1 on Project monitoring (rated very important), N° 2 on Reporting (rated very important) and N° 5 on Project design and selection (rated important) have been adequately and effectively implemented. The IAS, however, considers recommendation N° 3 on Verifications of UN Agencies and international organisations (rated very important) as partially implemented. Some measures have been implemented so far (corresponding to sub-points 3.1, 3.2, 3.3 and 3.6 of the recommendation). However, DG ECHO has not yet updated the audit manual to take into account the new ECHO audit strategy 2016-2020 and has not yet approved the annual audit plan for 2016. Consequently, points 3.4 and 3.5 of the recommendation are still open. They will not be closed. Based on the measures implemented so far, the IAS considers that the original risks have been partially mitigated and will downgrade this recommendation to important. 22. Follow-up audit of IAC recommendations in DG NEAR Follow-up of the IAC audit on special approvals and derogations The IAS followed up all 17 recommendations issued by the IAC. As a result: • Recommendations N° 1 (rated very important), N° 2b (rated important), N° 3a (rated important), N° 3b (rated important), N° 3c (rated important), N° 3d (rated important), N° 4 (rated important), N° 5a (rated important), N° 5b (rated important), N° 5c (rated important), N° 5d (rated important), N° 6 (rated very important), N° 7a (rated very important), N° 7b (rated very important), N° 7d (rated very important) have been assessed as implemented; • Recommendation N° 2a on Processing of prior approvals and deviations (rated important) has been assessed as not fully implemented. However, the IAS assessed the underlying risk as low and the recommendation as desirable; consequently, the recommendation will be closed; • Recommendation N° 7c (rated very important) on Exception reporting has been assessed as not implemented. The original audit recommended that Director E (predecessor of the current Director R) should regularly review and analyse the information on exceptions and non-compliances, and if similar cases across the Directorate General are identified, undertake the necessary follow-up measures. While currently an analysis of exceptions and non-compliance events is required to be carried out by each directorate, no analysis at DG level is envisaged. Consequently, 106 recommendation N° 7c will not be closed. Its criticality level remains at very important, as originally rated by the IAC. 23. Follow-up audit on ***performance*** audit of National Agencies (DG EAC) Based on the results of our follow-up audit, we assess that recommendation N° 1 on Internal ***performance*** (rated very important) has been adequately and effectively implemented and will be closed. Concerning recommendation N° 3 on ***Performance*** measure (rated very important), the IAS found that some actions have been implemented. In particular, DG EAC has revised the template for the National Agency Work programme and updated its assessment procedure of the National Agencies' annual report and annual management declaration to cover the National Agencies' ***performance*** against the operational objectives set in their respective work programmes. Pending the implementation of the remaining action on the conduct of the mid-term evaluation of Erasmus+ as required by the legal base (due 30/06/2018), the IAS considers that the underlying original risk has been partially mitigated and will downgrade the recommendation from very important to important. 24. Follow-up audit on preparedness of DG HOME for 2014-2020 legislation in shared management (ISF and AMIF) Based on the results of our follow-up audit, we assess that recommendations N° 1 Overall planning of activities (i.e roadmap) (rated important) and recommendation N° 3 Designation of responsible authorities (rated very important) have been implemented. 25. Follow-up audit on knowledge management in DG COMP Based on the results of our follow-up audit, we assess that recommendations N° 1 on Contribution from users to COMPWiki (rated important), N° 3 on The search function of COMPWIKI (rated important) and N° 4 on Handover file (rated important) have been adequately and effectively implemented and will be closed. 26. Follow-up audit on the preparedness of the management and control systems for the SME instrument in EASME Based on the results of our follow-up audit, we assess that recommendation N° 2 on Guidance to evaluators and quality of evaluations (rated very important) has been adequately and effectively implemented and will be closed. 107 27. 2nd Follow-up audit on HR management in response to the financial crisis in DG ECFIN Based on the results of our follow-up audit, we assess that recommendation N° 2 on HR annual planning (rated very important) has been adequately and effectively implemented and will be closed. 28. Follow-up audit on risk management and planning processes in the new economic governance context in DG ECFIN Based on the results of our follow-up audit, we assess that recommendation N° 1 on Risk management (rated important) has been adequately and effectively implemented and can be closed. Concerning recommendations N° 2 on Management plan objectives and their alignment with operational planning and management (rated important) and N° 3 on ***Performance*** monitoring and reporting in the AAR (rated important), improvements have been observed in terms of setting objectives and ***indicators*** in the Management Plan and their reporting in the Annual Activity Report. However, the elements related to the planning and monitoring at the operational level have not yet been fully implemented. As a result, the IAS considers that further actions are deemed necessary to adequately mitigate the underlying risks identified in the original audit. In particular: • Recommendation N° 2: DG ECFIN carried out a pilot exercise by mapping the 2015 Management Plan with the work plans of two directorates. This exercise provides a starting point for ensuring a coherent structure and linkage to the operational tasks. However, the mapping between the Management Plan and the operational plans has still to be carried out for all the directorates. Additionally, DG ECFIN has to define a standard structure and minimum requirements for the operational plans; • Recommendation N° 3: the reporting on ***performance*** against the key objectives in the Management Plan has been improved in the final 2015 Annual Activity Report. However, there is still no consistent, systematic monitoring of ***performance*** at the operational level and no minimum requirements for monitoring beyond the mid-year review of the Management Plan and the Annual Activity Report, e.g through regular, documented status updates on the directorate plans in management meetings. 29. Follow-up audit of IAC recommendations in DG ECFIN Follow-up of the IAC audit on DG ECFIN's document management Based on the results of our follow-up audit, we assess that recommendations N° 1 on Strengthen the archiving process and increase awareness (rated important), N° 3 on Improving quality review of document management and defining document management objectives for staff (rated important) and N° 4 on Encouraging the use of E-signatory within DG ECFIN (rated important), have been adequately and effectively implemented and can be closed. 108 Recommendation N° 2 on Public requests to access documents (rated important) is assessed as not implemented. This recommendation required DG ECFIN to: • Establish statistics to assess the ***performance*** and compliance with the applicable legislation. However, no ***indicators*** have been developed yet; • Ensure a consistent approach and raise awareness to directorates and operational units on handling public requests. The IAS found that a note on the state of play was issued by Unit R4 on 23/06/2015, but since then no other action has been implemented. A training course was recently promoted by R3 (former R4) on how to manage access to document requests. However, out of the entire target population of 725 staff, only two staff members attended this event. No other evidence of raising awareness to directorates and operational units on handling public requests was provided. The IAS will reopen the recommendation. 30. Follow-up audit of IAC recommendations in DG FISMA 2nd Follow-up of IAC audit on effectiveness of HR management to support the financial crisis Based on the results of our follow-up audit, we assess that for recommendation N° 3 on Monitoring and reporting on HRM (rated very important) further improvements are needed to effectively implement the recommendation. The IAS will reopen the recommendation. The IAS recognises the progress made by DG FISMA in measuring several ***indicators*** on HR management and reporting them to DG FISMA's senior management. They provide a picture of the staff structure (gender, nationality and category), recruitment (turnover rate and staff profile) and working conditions (sick leave rate, parental leaves, work patterns and use of recuperation). They represent a positive first step towards the implementation of an effective monitoring and reporting system. However, the current ***indicators*** mainly focus on outputs and are not complemented with others focusing on results. For example, gender balance in middle management is measured via the percentage of middle management posts held by women but this is not complemented with other ***indicators*** to demonstrate the DG's ***performance*** in addressing it (which could be measured, for instance, via the participation rate of women in coaching for team leaders). In addition, these ***indicators*** are not accompanied by complementary information explaining whether or not ***indicators*** highlight possible problems or identifying possible correlation between factors. Finally, the comparison of DG FISMA ***performance*** with the Commission's averages is not complemented by a comparison with DG FISMA targets and their evolution over time. These additional analyses would allow DG FISMA senior management to identify potential problems and their causes and to adequately address them. In addition, the IAS considers that DG FISMA should better align the HR monitoring reports with the objectives expressed in its ***Strategic*** Plan 2016-2020 and Management Plan 2016 in order to demonstrate the progress made towards their achievement. 109 31. Follow-up audit on the ***performance*** of DG GROW's supervision of ESA's implementation of Galileo Based on the results of our follow-up audit, we assess that recommendation N° 3 on DG GROW's Supervision Strategy (rated very important) has been adequately and effectively implemented and will be closed. Concerning recommendation N° 5 on Key ***Performance*** ***Indicators*** (rated important) to establish reporting by ESA that enables the DG to effectively monitor key elements of ESA's operational activities, the revised delegation agreement contains clearly defined Key ***Performance*** ***Indicators***, on which ESA will report quarterly. As the revised delegation agreement has not yet been signed, the recommendation has not been fully implemented. Therefore, the IAS will re-open recommendation N° 5. In view of the actions implemented so far regarding the two open recommendations N° 1 on Implementation of the procurement activities (rated very important) and N° 2 on Cooperation between DG GROW and ESA (rated very important) the IAS considers the related risks to be partially mitigated. Therefore, both recommendations can be downgraded from very important to important. 32. Follow-up audit of IAC recommendations in DG GROW Follow-up of IAC audit on the internal control strategy of GSA over the budget delegated by DG ENTR, focusing on procurement Based on the results of our follow-up audit, we assess that recommendations N° 1 on Manual of procedures (rated very important), N° 2 on Checklists (rated very important), N° 4 on Conflict of interest policy (rated important) and N° 6 on Document management policy (rated important) have been adequately and effectively implemented and will be closed. 33. Follow-up audit on the customs ***performance*** measurement system in DG TAXUD Based on the results of our follow-up audit, we assess that recommendation N° 1 on ***Performance*** measurement of committees and groups (rated very important) and N° 3 on Customs programmes evaluations and monitoring (rated important) have been adequately and effectively implemented. According to recommendation N° 2 ***Performance*** measurement of DG TAXUD customs activities (rated very important), DG TAXUD should develop its planning, measurement and monitoring processes so that these become an effective tool to manage, supervise and improve operational activities at all levels. In line with the recommendation, DG TAXUD implemented more controllable objectives and results reflecting its most important ***interventions*** and activities and introduced Unit Management Plans. In this context, the DG also strengthened the risk management assessment process by linking it to the priorities defined at unit's level and by organising several specific workshops. Internal communication reporting, monitoring and supervision were also improved. However, one of the sub-actions for this recommendation envisages that the Board of Directors is informed at least twice a 110 year about the results of a defined set of key ***performance*** ***indicators*** (scoreboard). This has not yet taken place and is planned to be implemented in autumn 2016. For this reason, the IAS considers that the recommendation is not yet fully implemented. As a consequence, the recommendation will not be closed. However, taking into account the improvements already made, we consider that the risk has been partially mitigated and therefore the recommendation is downgraded from very important to important. 34. Follow-up audit of IAC recommendations in DG TAXUD Follow-up of IAC audit on DG TAXUD's external communication strategy Based on the results of our follow-up audit, we assess that recommendations N° 3 on Unclear definition of roles and responsibilities (rated very important), N° 4 on Internal networking and work coordinators (rated important), N° 5 on Capacity building and trainings on external communication (rated important), N° 6 on External communication strategy (rated important), N° 9 on Risk assessment in unit R3 (rated important), N° 10 on Contractors and contract management (rated important), N° 11 on Europa Website and Social Med (rated very important) and N° 12 on Use of communication tools (other than Europa) (rated important) have been adequately and effectively implemented and can be closed. Recommendations N° 1 on Communication as core business (rated very important) and N° 14 on Monitoring of implementation of the external communication strategy (rated very important) are partly implemented: • Recommendation N° 1 calls for an adequate recognition of the ***strategic*** importance of communication in the taxation and customs area. It is the subject of public presentations to newcomers. HoUs' responsibility in external communication is formalised in most but not all job descriptions. Communication activities are addressed in the Annual Communication Plan (ACP) for 2015 and the Unit Management Plans (UMP). However, neither the ACP nor the UMPs are aligned with the recently reviewed and approved Multiannual External Communication Strategy. Moreover, UMPs do not explicitly plan communication actions as required by the applicable guidelines but rather some specific outputs (e.g publications); • Recommendation N° 14 calls for ***performance*** measurement and management of external communication. Although DG TAXUD collects statistics on web site page views, the full implementation of this recommendation is pending the selection of the Key ***Performance*** ***Indicators***, the online availability of DG COMM’s tools and benchmarks and the on-going centralisation in DG COMM of some core horizontal communication activities. Considering the actions already taken and the residual risk that DG TAXUD is exposed to, we propose to downgrade the level of significance from very important to important for both recommendations. Recommendations N° 7 on Annual planning of external communication actions in units responsible for communications and policy units (rated very important) and N° 8 on Incomplete audit trail for budget estimation and allocation (rated important) are assessed as not implemented: • According to Recommendation N° 7, DG TAXUD should establish an ACP in line with the Multiannual External Communication Strategy. The IAS observed that for 2016 only the sectorial communication plan for the Union Customs Code is 111 available. In addition, as mentioned previously for recommendation N° 1, the 2015 ACP was not aligned with the recently reviewed and approved Multiannual External Communication Strategy and the communication expenditure, due to the substantial modifications to the original budget made throughout the year not preceded or followed by adequate and sufficient justifications; • Recommendation N° 8 recommends DG TAXUD to clearly establish the link between the ACP, the UMPs and the budget lines. However, the IAS did not find clear documented explanations for most of the budget revisions made in 2015. 35. Follow-up audit on financial and procurement management in DG TRADE Based on the results of our follow-up audit, we assess that recommendations N° 2 on Procurement process, needs assessment (rated important) and N° 3 on Reporting on financial data (rated important) have been adequately and effectively implemented and will be closed. Concerning recommendation N° 1 on Procurement procedure, compliance issues (rated very important), for which your service has requested to review the progress, the IAS notes that DG TRADE improved its internal guidance, training and support to streamline and enhance the procurement procedures, but has not yet re-assessed its control model in place to increase the effectiveness (revised deadline: 30 June 2016) and decrease the risk of compliance issues with the applicable legal and administrative provisions. In view of the progress observed, the IAS considers that the original risk has been partially mitigated and consequently has downgraded the criticality of the recommendation from very important to important. 36. Follow-up audit of IAC recommendations in OIB Follow-up of IAC audit on concept and reproduction at the OIB Based on the results of our follow-up audit, we assess that recommendations N° 4 on Volume and production cost – 1 (rated important), N° 5 on Volume and production cost – 2 (rated important), N° 9 on Concept and reproduction-Rationalisation (rated very important), N° 12 on Resources Evolution (rated very important) and N° 13 on Industrial strategy – 1 (rated important) have been adequately and effectively implemented and will be closed. 37. Follow-up audit of IAC recommendations in DG SCIC Follow-up of IAC audit on the technical support provided to meetings and conferences Based on the results of our follow-up audit, we assess that recommendation N° 1 on The definition of a corporate governance framework (rated 'very important') has been adequately and effectively implemented and can be closed. 112 The recent Communication on Synergies and Efficiencies explicitly clarified DG SCIC's mandate with respect to events and meeting room management, including the assignment of the ownership of the corporate process to DG SCIC. The IAS considers that in view of this, the main risks associated with the original IAC recommendation are mitigated. Furthermore, given that DG SCIC's mandate has been extended following the Synergies and Efficiencies review and following discussions with your services, the IAS considers that the four remaining recommendations, together with the related risks, remain valid even though the original audit report was drawn up at a time when DG SCIC's responsibilities were actually more limited. For example, the DG still needs to establish a list of meeting rooms that will be managed by DG SCIC (recommendation N° 2, rated important) and will need to define and validate a service management plan (recommendation N° 3, rated very important). Furthermore, the use of the IT tool for this process will need to be defined (recommendation N° 4, rated important) and a quality assurance and improvement programme for the provision of the technical services will need to be developed (recommendation N° 5, rated important). However, we acknowledge that the original action plan and target dates are now effectively superseded following the review. We therefore invite DG SCIC to draw up a new action plan addressing the four remaining recommendations and provide us with new target dates. 38. Follow-up audit of IAC recommendations in DG ESTAT Follow-up of IAC audits on statistical processes I – GNI data, sensitive information, statistical process III – ***Agriculture*** statistics and ESTAT's business continuity Based on the results of our follow-up audit, we assess that recommendation N° 1 on The set-up of sensitive information in ESTAT (rated very important) from the audit on sensitive information; recommendations N° 1 on Organisational structure (rated very important), N° 3 on Annual crop statistics production - collection, validation, processing and dissemination (rated very important) and N° 5 on the Compliance monitoring process in Unit E1 (rated important) from the audit on statistical process III – ***Agriculture*** statistics and recommendations N° 1 on Business continuity management governance and setup in ESTAT - Roles and responsibilities (rated important) and N° 2 on Business impact analysis and risk assessment (rated important) from the audit on ESTAT's business continuity have been adequately and effectively implemented. Follow-up of IAC audits on statistical processes I – GNI data, sensitive information, and ESTAT's business continuity Based on the results of our follow-up audit, we assess that recommendation N° 2 on Security of sensitive information in the dissemination chain (rated very important) from the audit on sensitive information and N° 5 on Business continuity management testing from the audit on ESAT's business continuity have been adequately and effectively implemented. Follow-up of IAC audits on statistical process III – ***Agriculture*** statistics and ESTAT's business continuity 113 Based on the results of our follow-up audit, we assess that recommendation N° 3 on Business continuity plan (rated very important) from the audit on ESAT's business continuity has been adequately and effectively implemented and will be closed. • Recommendations N° 2 on Farm Structure Survey (FSS) statistical production, collection, validation, processing and dissemination (rated very important) and N° 4 on Treatment of confidential data in the ***agricultural*** statistical processes (rated very important) from the audit on statistical process III – ***Agriculture*** statistics are not fully implemented. However, considering the actions already taken and the residual risk that DG ESTAT is exposed to, these recommendations are downgraded from very important to important. • Recommendation N° 2 requires DG ESTAT to improve the quality and the availability of data, and fix several weaknesses related to outdated and incomplete documentation about the production process, methodological aspects and data validation issues. It also recommends revising the structure of FSS data in the dissemination data base, better following up issues about administrative data sources presented in the Standing Committee for ***Agricultural*** Statistics and clarifying the respective roles and responsibilities between DG ESTAT and DG AGRI. Most actions have been implemented in line with the action plan. However, DG ESTAT still needs to improve the structure of FSS data in the dissemination data base. In particular, it should finalise the design of the dissemination tables, prepare them in the ESTAT dissemination database, programme the table structures into the Eurofarm database and produce the tables from the raw data; • Recommendation N° 4 calls for securing the hosting of confidential data outside ESTAT’s secure environment, updating the manual on the protection of confidential data, and strengthening the implementation of confidentiality requirements for the encrypted transmission to Member States, the access rights for staff and the filtering processes at the dissemination stage. All actions have been implemented in line with the action plan except for the part related to the hosting of confidential data and the update of the manual on the protection of confidential data. 39. Follow-up audit on management of local IT in DG AGRI Based on the results of our follow-up audit, we assess that recommendations N° 1 on IT governance (rated very important), N° 2 on IT strategy (rated very important), N° 3 on IT risk management (rated important), on N° 6 on Project management (rated important), N° 8 on Management of firewalls (rated important) and N° 9 on Change management (rated important) have been adequately and effectively implemented and can be closed. Concerning recommendation N° 4 on ***Performance*** management (rated important), no ***performance*** ***indicators*** have been defined yet to cover the aspects of IT service design (service level, capacity, availability), transition (change, release, testing, and configuration management) and operations (incident and problem management). Concerning recommendation N° 10 on Configuration management (rated important), the current configuration management database is limited to the main IT systems and does not include the complete inventory of configuration items, with their attributes, baseline configuration and relationships. 114 Therefore, the IAS concludes that recommendations N° 4 and 10 have not been fully implemented and will not be closed. 40. Follow-up audit on IT governance in DG Budget Based on the results of our follow-up audit, we assess that recommendations N° 1 on IT Governance structure and key roles (rated very important), N° 4 on ***Performance*** measurement, monitoring and reporting of IT Activities (rated important) and N° 6 on IT policy and strategy (rated important) have been adequately and effectively implemented and will be closed. Concerning recommendations N°2 on IT organisation (rated very important) and N°3 on Priority setting and planning of activities (rated very important) we have observed good progress in the implementation of the action plan, but consider that the related risks have not yet been fully mitigated and consequently the recommendations cannot be closed. Nevertheless, the rating for both recommendations is downgraded from very important to important due to the progress made. Concerning recommendation N° 5 on HR Management (rated important), the IAS has not found sufficient results of the actions implemented and therefore concludes that the recommendation cannot be closed. 41. Follow-up audit on management of European Commission Authentication Service - ECAS Based on the results of our follow-up audit, we assess that recommendations N° 1 on Vision and strategy for identity and access management (rated very important), N° 2 on Definition of ECAS security roles and responsibilities (rated important), N° on 5 on ECAS dependency on AD, CED and CUD (rated very important), N° 6 on Involvement of D HR DS in ECAS security management (rated important), N° 7 on Definition of IAM and ECAS services in the service catalogue (rated important) and N° 8 on Planning of the EXODUS project (rated very important) have been adequately and effectively implemented and will be closed. Concerning recommendation N° 4 on Security requirements for ECAS (rated very important), while observing good progress in the implementation of the action plan, the IAS considers that the related risks are not yet fully mitigated and consequently the recommendation cannot be closed. In addition, as identifying and implementing the missing security measures has not been finalised yet, ECAS is still vulnerable to the high risks identified at the time of the audit. 42. Follow-up audit of IAC IT recommendations in DG DIGIT Follow-up of IAC audit on external staff management Based on our follow-up results, we have assessed that recommendations N° 1 on Harmonise procedure for access request (rated important), N° 2 on Establish a central 115 local point in Brussels (rated very important), N° 7 on Clean and update data in ORIANA (rated very important), N° 8 on Further development of ORIANA (rated important) and N° 11 on Return of access cards (rated important) have been adequately and effectively implemented and can be closed. Concerning the four other recommendations, the IAS considers that not all the planned actions have been implemented and the related recommendations can therefore not be closed: • Regarding recommendation N° 3 on Harmonised validity of access cards (rated important), the main issue is that DG DIGIT encodes the end date of the framework contracts instead of the specific contracts for external service providers (ESP) in the tool ORIANA. This end date of the framework contract is then reported on the access card and checked by guards to allow entrance to the EC buildings. However, specific contracts are concluded for the acquisition of services for a particular profile, corresponding to one specific individual, for a period (from a few days to a full year) generally shorter than the duration of the framework contracts. The current practice does not respect the instructions provided by the Security Directorate of DG HR and exposes the Commission to the risk that individuals may be allowed to enter the EC buildings despite they are no longer covered by a specific contract; • Regarding recommendations N° 6 on Develop guidelines to address ethical aspects (rated important) and N° 9 on Security awareness kit for external service providers (rated important), the issue is that there is no evidence that units hiring ESPs other than DIGIT.R.1 use the template document called 'Procedure interne à remettre au prestataire', which contains practical information on entry into service, and hand it to ESPs. Furthermore, there is no formal acknowledgment of the document being received by the ESP. • Regarding recommendation N° 10 on Departure forms (rated very important), the main issue is that, in the absence of an automated process, which might not be cost-effective to put in place due to the inherent complexity, DG DIGIT operational units are responsible for ensuring that access and parking cards are returned by the ESPs upon their departure of the ESPs and taking the appropriate measures to collect their access and parking cards. However, figures provided by the Security Directorate of DG HR indicate that about 10% of the access and parking cards are not returned by the ESPs at the time their contract comes to an end. Therefore, the IAS considers that this recommendation is not effectively implemented and will not be closed. Nevertheless, as the operational units deactivate the ESP profile in Oriana and inform the Security Directorate of DG HR via the 'Formulaire de départ d'un prestataire de services' that the access card should be deactivated, we consider the recommendation is partially implemented and thus can be downgraded from very important to important. As a consequence, the IAS will not close recommendations N° 3, 6, 9 and 10. 43. 2nd Follow-up audit on management of local IT in DG ESTAT Based on the results of our follow-up, we assess that recommendations N° 3 on Project ***performance*** measurement, reporting and monitoring (rated important) and N° 6 on User accounts management (rated important) have been adequately and effectively implemented and will be closed. 116 The IAS considers that the planned actions for recommendations N° 4 on Information systems security and N° 5 on Security requirements for managing confidential data (both rated very important), have not been fully implemented. As the other activities mentioned in the action plan for these two recommendations have been implemented, we consider the risks have been partially mitigated and, thus, both issues can be downgraded from very important to important. • For recommendation N° 4, the main outstanding issue is linked to the IT security plans not being in line with Implementing Rules of Commission Decision C(2006)3602: o DG ESTAT classified its STANDARD information systems in three categories (Information Transmission, Statistical Applications and Data Management) and proposed to develop one IT security plan for each category. However, existing security plans cover only one single system in each category (resp. EBUS, EDIT and IS4STAT). We invite DG ESTAT to revise the scope of each IT security plan, to include all the information systems under each category; An IT security plan is still missing for the SPECIFIC system EGR. As this system is planned to be migrated to a new secure environment currently under construction by DG ESTAT and DG DIGIT, we understand that this security plan will be developed and implemented in parallel with the new environment. • The main outstanding issue for recommendation N° 5 is the following: to replace the process of mounting its secure environment on user workstations, which does not provide an adequate level of security for confidential statistical data, DG ESTAT launched a project to deploy a local IT infrastructure containing DMZ and more secure rules for access to data. When, in 2015, DG ESTAT decided to move its secure environment to the corporate data centre of DG DIGIT, a new infrastructure with 3 DMZs was designed for the storage of sensitive statistical data. Access to data and the application will be through a Windows Terminal Server, which will add a layer of security by preventing data transfer in clear through the corporate network and data storage on user workstation. The pilot for this project is planned to be finalised in February 2017, before a phased deployment in production for the different applications. 44. 2nd Follow-up audit on management of local IT in DG MARE Based on the results of our follow-up audit, we assess that recommendations N° 1 on IT strategy and IT priorities (rated very important), N° 4 on Change management (rated very important) and 7 on Project management, quality assurance and service management (rated very important) have been adequately and effectively implemented and will be closed. The IAS considers that not all the planned actions have been implemented for recommendation N° 5 on IT security management (rated important) for the following reasons: 117 • Not all IT systems under DG MARE's responsibility are covered by an IT security plan duly approved by the Director-General under in accordance with the Implementing Rules of Commission Decision C(2006)3602; • A number of controls defined in the IT security plans have not yet been implemented; • There is no evidence that compliance of DG MARE's IT with Commission standards is regularly reviewed and reported by the LISO; • Absence of a procedure establishing (as a minimum) a yearly report on IT security incidents to the ITSC or immediate escalation to the senior management; • The document on security in IT project management specifying IT security-oriented deliverables in each project phase has not been approved by the ITSC and there is no evidence that it has been implemented. As a consequence, the IAS will not close recommendation this recommendation. 45. 2nd Follow-up audit on management of local IT in DG TRADE Based on the results of our follow-up audit, we assess that recommendations N° 1 on Role of the IT Steering Committee (rated very important) and N° 2 on Management of IT related risks in DG TRADE (rated very important) have been adequately and effectively implemented and will be closed. 46. Second follow-up to the ***performance*** audit on the Anti-fraud Information System (AFIS) by the former Internal Audit Capability at OLAF. Based on the results of our follow-up audit, we assess that recommendations N °5 on System improvements - reporting and ergonomy (rated important), N° 8 on Data integration with other applications (rated important) and N° 12 on AFIS Steering Committee (rated important) have been adequately and effectively implemented and will be closed. Regarding recommendation N° 9 on User account management (rated important), despite the deployment of the recommended tool already in February 2016, its first results, in particular the annual user validation report, will be available in February 2017 only. Therefore, the IAS cannot yet assess if the implemented functionality duly mitigates the identified risks. As a consequence, the IAS will not close this recommendation. List of follow-up audits performed in 2016 for which all recommendations have been closed after the follow-up Based on the results of the follow-up audits performed in 2016, the IAS assessed that all the recommendations that resulted from the audits listed below and that remained open before the follow-up could be closed. Audit Title 118 47. Follow-up audit on Anti-Fraud strategy– Multi DG 48. Follow-up audit on the objectives setting process in the context of the preparation of the management plans – Multi DG 49. 3rd Follow-up audit on the management and monitoring of staff allocation in DG AGRI 50. Follow-up audit of IAC and IAS recommendations in DG AGRI (IAS audit on control strategy implementation and IAC audits on DG AGRI readiness for the implementation of the enhanced role of certification bodies in the new assurance model and the international dimension of the GI and organic policies) 51. Follow-up audit of IAC recommendations in DG SANTE (IAC audits on external stakeholder consultations in DG SANTE, on costing practices on procurement in selected funding areas in DG SANTE, on the operations of Directorate F and the Food and Veterinary Office, on business continuity and on internal controls standards 5, 6, 7 and 8) 52. Follow-up audit on DGs ENV and CLIMA's externalisation to EASME of the LIFE programmes 2014-2020 53. Follow –up audit of IAC recommendations in DG ENV/DG CLIMA (DG ENV-CLIMA SIAC audits on IT governance and management in DG ENV and DG CLIMA and on Anti-Fraud strategy in DG ENV and DG CLIMA) 54. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rates for the 2014 reporting year in DG EMPL 55. 2nd Follow-up audit on DG EMPL's ***performance*** measurement systems 56. Follow-up audit of IAC recommendations in DG EMPL (IAC audit on ***performance*** measurement) 57. 2nd Follow-up audit on DG REGIO's ***performance*** measurement systems 58. Follow-up audit of IAC recommendations in DG REGIO (IAC audits on major projects and on readiness assessment - ERDF 2000-2006 closure process) 59. Follow-up audit of IAC recommendations in DG JRC (IAC audits on business continuity, third party liability, portfolio of buildings, asset management and management and sharing of scientific and technical knowledge) 60. Follow-up audit of IAC recommendations in DG RTD (IAC audits on objectives, ***indicators*** and monitoring, fusion expenditure, communication, implementation of ex-post audit results, management of the risk sharing finance facility, Desk review on SEP evaluation, contribution to Joint Undertakings, management of project reports and dissemination of research Results (FP7) and the processes related to the closure of FP7 grants. 61. Follow-up audit on the implementation of FP7 control systems in ERCEA 62. Follow-up audit of IAC recommendations in REA (IAC audit on the implementation of ex-post audit findings) 63. Follow-up audit on Implementation of the Anti-Fraud Strategy in REA 64. Follow-up audit on H2020 grant management in DG CONNECT 65. Follow-up audit on the implementation of FP7 control systems in DG CONNECT 66. Follow-up audit of IAS and IAC recommendations in DG CONNECT (IAS audits on the implementation of FP7 control systems and on H2020 119 grant management, IAC audits on impact assessment and on delegated (externalised) research) 67. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG MOVE 68. Follow-up audit on the Limited review of the calculation and the underlying methodology of the residual error rate for the 2015 reporting year in DG ENER 69. Follow-up audit of IAC recommendations in INEA (IAC audit on procurement) 70. Follow-up audit on the adequacy and effective implementation of DG ECHO's Anti-Fraud strategy 71. Follow-up audit on the assurance building process in EU Delegations (DG DEVCO) 72. Follow-up audit on programme estimates financed by EU and EDF budget in DG DEVCO 73. 2nd Follow-up audit on DG ECHO: financial management of humanitarian aid 74. Follow-up audit of IAC recommendations in DG ECHO (IAC audits on the legality and regularity of payments for the year 2012 in DG ECHO and financial management of humanitarian aid) 75. Follow-up audit of IAC recommendations in DG DEVCO (IAC audits on management of DEVCO's resources in EU Delegations, on communication flows between DEVCO's HQ and EU Delegations, on identification and management of recoveries) 76. Follow-up audit of IAC recommendations in FPI (IAC audit on the management of the industrialised countries instrument by FPI HQ and the Tokyo and Washington EU Delegations) 77. Follow-up audit of IAC recommendations in DG NEAR (IAC audits on year-end accounting closure and on cross-border-cooperation) 78. Follow-up audit of IAC recommendations in DG EAC (IAC audit on organisation, processes and procedures of the HR function) 79. Follow-up audit on Limited review of the calculation and the underlying methodology of the residual error rate for 2014 in DG EAC 80. 3rd Follow-up audit of the lifelong learning programme in EACEA/DG EAC 81. Follow-up audit of IAC recommendations in EACEA (IAC audit on the ERASMUS MUNDUS II programme and the intra-ACP academic mobility scheme) 120 82. Follow-up audit of IAC recommendations in DG TRADE (IAC audits on document management, planning and risk management and on enforcement of trade agreements) 83. Follow-up audit of the IAC recommendations in DG COMP (IAC audit n the monitoring of state aid granted) 84. Follow-up audit of IAC recommendations in DG GROW (ex DG MARKT IAC audit of the stakeholders consultation process) 85. 2nd Follow-up audit on DG MARKT's (DG FISMA's) cooperation with the three supervisory bodies on financial services 86. Follow-up audit of IAC recommendations in DG FISMA (IAC audits on the process of managing complaints / infringements in DG MARKT and on DG FISMA's staff learning and development). 87. Follow-up audit of IAC recommendations in DG TAXUD (IAC audit on DG TAXUD's procurement and management of studies and databases) 88. Follow-up audit of IAC recommendations in DG BUDG (IAC audit on the validation of local systems by unit C3) 89. Follow-up audit of IAC recommendations in LS (IAC audit on the management of court cases in the Legal Service) 90. 2nd Follow-up audit on the administrative processes supporting the European semester 91. Follow-up audit of IAC recommendations in DG SCIC (IAC audits on 2013 year-end, financial management and internal control system in DG Interpretation and on the professional support provided to the interpreters) 92. Follow-up audit of IAC recommendations in DG ESTAT (IAC audit on the statistical process I – GNI data) 93. Follow-up audit on outstanding IT recommendations in DG DEVCO 94. Follow-up audit on management and supervision of contracts for the outsourced IT services in the Publications Office 95. Follow-up audit of IAC IT recommendations (IAC audits on the reimbursement of expert's expenses managed by the PMO, information security in DGT, IT project management in ECFIN and business continuity in DG EMPL) 121 PART 3: SUMMARY OF LONG OUTSTANDING RECOMMENDATIONS AS AT 31 JANUARY 2017 No. DG Audit title Recommendation Comments Final report date Original due date Revised due date I DEVCO IAS Audit on management of the African Peace Facility (APF) Design and effectiveness of the remedial/mitigating measures at contract level The IAS carried out a follow up audit in January 2017 which concluded that the recommendation is only partially implemented and will be re-opened. In order to fully implement this recommendation, DG DEVCO has to redesign the TA expert pool contract, which is still ongoing. Expected delay compared to the original target date of 6 months. 21/01/2016 30/06/2016 15/12/2016 (new updated target date to be confirmed by DG DEVCO) II ENER IAS Audit of the supervision of the implementation of Connecting Europe Facility (CEF) in DG ENER and MOVE DG ENER's supervision strategy on Projects of Common Interest (PCIs) development DG ENER adopted in September 2016 a 'Supervision strategy on PCIs development' and declared the recommendation as implemented. In January 2017 the IAS assessed the implemented mitigating measures as insufficient and re-opened the issue. The IAS follow-up will take place as soon as the recommendation is reported as ready for review by DG ENER. Expected delay compared to the original due date of 11 months. 29/01/2016 30/06/2016 31/05/2017 III ESTAT IAC Audit on ESTAT’s Business Continuity Management Disaster Recovery Planning and IT Business Continuity According to DG ESTAT all but one action points of this recommendation have been addressed. The last remaining action shall be implemented within a few weeks. The IAS follow-up will take place in the course of 2017 as soon as the recommendation is reported as ready for review by DG ESTAT. Expected delay compared to the original due date of 1 year. 16/02/2015 30/06/2016 30/06/2017 IV JRC IAC Audit on Nuclear Decommissioning and Waste Management at the JRC- Financial Aspects Delays in the Nuclear decommissioning and waste management programme and external uncertainties According to the JRC, 60% of actions stemming from this recommendation have already been implemented. The review of the Strategy for decommissioning and waste management is ongoing and the budget is currently being reviewed for all four nuclear sites. The IAS follow-up will take place as soon as the recommendation is reported as ready for review by the JRC. Expected delay compared to the original due date of 1 year and 1 month. 02/06/2015 02/06/2016 30/06/2017 122 No. DG Audit title Recommendation Comments Final report date Original due date Revised due date V JRC IAC Audit on Nuclear Decommissioning and Waste Management at the JRC- Financial Aspects Relationship with authorities, licensing and insurance The communication strategy for improving the JRC's relationship with Italian authorities and other stakeholders has not been finalised yet although it has been under preparation since October 2015. The IAS also noted that despite efforts made by the JRC to improve the relations with the Italian Authorities and stakeholders, this part of the recommendation is outside the JRC's direct control. The IAS follow-up will take place as soon as the recommendation is reported as ready for review by the JRC. Expected delay compared to the original due date of 1 year and 1 month. 02/06/2015 02/06/2016 30/06/2017 VI NEAR IAC Audit on Special approvals and derogations Exception reporting In order to address this recommendation, all AOSDs were instructed to carry out an analysis of exceptions and non-compliance events per directorate. However, no analysis has been envisaged at the central level. Therefore, the IAS follow-up in December 2016 assessed this recommendation as not implemented. The IAS will follow up this recommendation in the course of 2017, once reported as ready for review by DG NEAR. Expected delay compared to the original due date of 1 year and 4 months. 29/09/2014 31/12/2015 30/04/2017 VII DEVCO IAS Audit on Budget Support in DG DEVCO Policy dialogue framework In order to fully implement this recommendation DG DEVCO has to finalise the revised Budget Support guidelines. This has been postponed until the adoption of the new Consensus for Development (expected in May 2017). The IAS will perform a follow-up audit on this recommendation at the end of 2017. Expected delay compared to the original due date of 1 year and 10 months 11/12/2014 31/12/2015 31/10/2017 VIII DIGIT IAS Audit on Management of logical access to systems (ECAS/LDAP/Windows) Security requirements for ECAS A first IAS follow-up performed in 2016 acknowledged the progress made in identifying the risks, drafting the security plan, prioritising the missing security controls and in the implementation of the action plan. However, the implementation of the missing security measures still has not been finalised. It is planned to be done by the end of June 2017. The IAS is planning a second follow-up of this recommendation in the second half of 2017. Expected delay compared to the original due date of 1 year and 9 months. 24/07/2014 30/09/2015 30/06/2017 123 No. DG Audit title Recommendation Comments Final report date Original due date Revised due date (a further delay of 6 months compared to the situation in the previous IAS report to the APC - October 2016) IX FISMA IAS Audit on Effectiveness of HR management to support the financial crisis in DG ECFIN, DG COMP, DG MARKT Monitoring and reporting on HR management The IAS second follow-up audit carried out in September 2016 concluded that some improvements were made to enhance the monitoring and reporting process on the HR management related activities. However, these improvements were not sufficient to close or downgrade the rating of the recommendation. A third IAS follow-up audit is planned for the second quarter of 2017. Expected delay compared to the original due date of 2 years and 2 months. 20/12/2013 31/12/2014 28/02/2017 X GROW IAC Audit on the Internal Control Strategy of the GSA2 over the budget delegated by DG ENTR Risk management GSA established a list of corporate risks and communicated it to the IAS in January 2017. Based on this risk register, GSA will now develop a risk management action plan and plans to follow it up by 31 December 2017. The IAS will follow up this recommendation once reported as ready for review by the DG. Expected delay compared to the original due date of 2 years. (a further delay of 12 months compared to the situation in the previous IAS report to the APC - October 2016) 05/01/2015 31/12/2015 31/12/2017 XI JRC IAC Audit on intellectual property rights management Prior existing intellectual propriety rights in the JRC publications The IAS follow-up carried out in July 2016 concluded that the actions taken by the JRC were not in line with the original action plan or with the current practices applied by the scientific community. Therefore the JRC still faces the risk that its scientific publications may contain unauthorised intellectual propriety rights by third parties. The JRC made a self-declaration of non-infringement of intellectual propriety rights as an interim measure. An action plan established after the IAS follow-up still remains to be implemented. The IAS will follow up this recommendation once reported as ready for review by the DG. Expected delay compared to the original due date of 3 years and 11 30/01/2013 30/07/2013 30/06/2017 2 European Global Navigation Satellite System (GNSS) Agency. 124 No. DG Audit title Recommendation Comments Final report date Original due date Revised due date months. (a further delay of 7 months compared to the situation in the previous IAS report to the APC - October 2016) XII JRC IAC Audit on decommissioning: risk and project management at the ISPRA site Full strategy for guaranteeing a pool of qualified Project Leaders According to the IAS follow-up carried out in September 2016, the original action plan was not fully implemented. Weaknesses still exist in the operational activities and in the monitoring of contractors related to the radioactive materials and assets decommissioning. The JRC accepted the risk until the full implementation of the recommendation and established a back-up procedure for the project leaders on decommissioning as an interim measure. The IAS will follow up this recommendation once reported as ready for review by the DG. Expected delay compared to the original due date of 4 years. 13/06/2012 13/03/2013 31/03/2017 XIII NEAR IAS Audit on Preparedness for IPA II in DG ELARG HR planning for EU Delegations implementing IPA II According to DG NEAR, the recommendation has been partially implemented. The outstanding actions – preparing a detailed workload assessment methodology and implementation for EU Delegations – will take place until mid-2017. The IAS will review the progress of this recommendation in the course of the current audit on preparedness for the mid-term review of ENI and IPA regulations in DG NEAR. A formal follow-up will take place in 2017 as soon as the recommendation is reported as ready for review by DG NEAR. Expected delay compared to the original due date of 1 year and 6 months. 07/05/2015 31/12/2015 30/06/2017 XIV OIB IAC Audit on Concept and reproduction Local information systems - 1 - Improve the Information Systems In order to fully implement this recommendation OIB needs to resolve certain difficulties in the implementation and complete installation of the new IT system to manage the printing requests. The new IT tool will be deployed in two phase by June 2017. According to OIB, mitigating actions have been taken in the meantime – e.g while the old IT tool is still partially being used, its reliability was improved. Furthermore, the new tool is already used for establishing the offers. The IAS will perform a follow-up in the course of 2017. 11/11/2013 31/12/2015 30/06/2017 XV Local information systems - 2 - Cost information for the client 31/12/2015 30/06/2017 125 No. DG Audit title Recommendation Comments Final report date Original due date Revised due date Expected delay compared to the original due date of 1 year and 6 months (a further delay of 7 months compared to the situation in the previous IAS report to the APC - October 2016) XVI PMO IAC Audit on PMO management of accidents' insurance Reimbursement of accident costs The implementation of the recommendation is dependent on several IT modules (including ASMAL 2 being under development by DIGIT since Dec. 2016), which shall be in place by mid-2017. Some ad hoc measures have been taken in the meantime. The IAS follow-up will be performed once the recommendation has been assessed as implemented by PMO. Expected delay compared to the original due date of 4 years and 6 months. 21/02/2012 31/12/2012 30/06/2017 XVII PMO IAC Audit on PMO contracts related to the management of missions CAF implementation A first follow-up revealed that some actions have been implemented. However, the implementation of the remaining actions relates to an on-going Commission-wide IT development and for which PMO is dependent on DG DIGIT. The IAS will perform a follow up in the course of 2017. Expected delay compared to the original due date of 2 years and 9 months. (a further delay of 6 months compared to the situation in the previous IAS report to the APC - October 2016) 25/10/2012 30/09/2014 30/06/2017 XVIII SCIC IAC Audit on technical support provided to meetings and conferences Management tools A follow-up carried out by the IAS in the summer of 2016 confirmed the validity of the original risks and the recommendation. However, the IAS also acknowledged the significant changes brought about by the Synergies and Efficiency Review and their impact on the original action plan and the target dates, which had been superseded. Subsequently, DG SCIC prepared a new Action Plan and the new deadline was set at 31 December 2017. The IAS will follow up this recommendation once reported as ready for review by the DG. Expected delay compared to the original due date of 3 years. 25/06/2013 31/12/2014 31/12/2017

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Single Support Framework for EU support to Jordan

(2017-2020)

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Introduction

Jordan is a resource-poor country, with no oil or gas resources, limited ***agricultural*** land and scarce water resources, with its economy primarily dominated by services (70% of GDP, 75% of jobs) and remittances (14.5% of GDP). Between 2004 and 2015[1], its population has leaped from 5.3 to 9.5 million, of which 31% are not Jordanians and 42% are under 15 years of age. With a total of 2.8 million refugees, Jordan has the 2nd largest number of refugees per capita in the world[2]. Still with these challenges, progress in human development has been outstanding, thanks to consistent levels of spending on education, health, pensions and social safety nets. In nominal terms, GDP per capita increased from USD 1,163 in 2000 to USD 5,422 in 2014. Income inequalities have been attenuated: its GINI[3] coefficient is similar to that of OECD members in average. The regional crisis in Iraq and Syria broke this virtuous circle and compounded Jordan's structural challenges. Since 2011 unemployment is increasing; trade balance deficit was multiplied six-fold, the net public debt has grown from USD 24.86 (80% GDP) in 2012 to USD 34.78 billion (94% of GDP) in 2015; education outcomes are regressing. If its Human Development Index (HDI) value in 2015 was above the average of Arab countries, it has been stagnating since 2012.

The official unemployment rate was 13% in 2015; for people aged 15-24 it reached 26.7% for men and 53.3% for women. Total workforce participation (40%) and women participation in the labour force (12.6%) are among the lowest in the world. Whereas the higher education system has made significant progress in enrolments rates in the past ten years, the highest unemployment rate is among university and college graduates. There is indeed an oversupply of university graduates and a chronic undersupply of skilled craftsmen and technicians, compounded by the negative perception of society towards vocational work. The labour market accommodates a relatively high number of foreign workers crowding out Jordanians from some unskilled and low-skilled jobs. 40 to 45% of employment is estimated to be in the informal sector. To absorb the new entrants into the labour force, Jordan would need to increase employment by an estimated 400,000 jobs by 2020, which would require an average annual GDP growth of 6%.

In recent years, significant improvements were made in the area of justice. The constitutional amendments of 2011 included provisions to reinforce the separation of powers and the independence of a part of the judiciary, creating the Constitutional Court, and establishing the Judicial Council as an independent institution. The Law on the Independence of the Judiciary adopted in 2014 further enhanced the separation of powers between authorities. A law on juvenile justice was adopted the same year, calling for the establishment of specialised juvenile justice system, separate from the adult penal system. In some areas, however, progress remains inadequate, i.e governance of the Judicial Council, access to justice, time of litigation, gender discrimination in cases of domestic violence. Jordan ranks among the less corrupt countries in the Arab world on the Transparency International Index, ranking 57th out of 176 countries in 2016. Yet nepotism and favouritism (wasta) continue to be widespread social practices, especially in the public sector. In the area of human rights a number of setbacks have been reported recently, both on the legislative side and in the implementation. Those include anti-terrorism legislation which in practice has led to a constrained space for media/freedom of speech and reduced space for civil society. Another breaking of the moratorium on the death penalty which was in place from 2006 to 2014 with executions in March 2017, illegal detentions and reported cases of torture have also been witnessed.

While heavily impacted by the Syria crisis and situated in a region in turmoil, Jordan has upheld a remarkable level of stability. Still, it is to be noted that Jordan is the 5th country in the world with the largest number of citizens fighting in Syria and has the 3rd highest ratio of fighters per capita.  On the one hand, and thanks to its preventive security policy, no major incidents took place in Jordan since the 2005 bombing of three hotel lobbies. On the other hand, the several terrorist attacks that occurred in 2016 indicate that threats to security exist and addressing them should remain a priority.

1.       EU Response   1.1       ***Strategic*** objectives of the EU's relationship with the partner country

The stabilisation and resilience building of neighbouring countries, particularly by boosting economic development, are the EU's main political priorities outlined in the European Neighbourhood Policy (ENP) review of 2015 and in the Global Strategy for the European Union's Foreign and Security Policy (Global Strategy)[4]. These are reflected in this programming document for the period 2017-2020 through increased focus on economic governance, rule of law and social sectors, and on a stronger cooperation on security with Jordan. These are among the joint priorities for cooperation as set out in the ENP review. Jordan has long been a key partner for the EU in the region. This has been reconfirmed through the EU-Jordan Partnership Priorities and the Compact and at the Brussels Conference on the Future of Syria and the Region[5] where Jordan's crucial role is crucial in the context of the response to the Syrian crisis has been underlined including through mutual commitments. Jordan is engaged in countering violent extremism and is also part of the international coalition fighting Da'esh.

Jordan guarantees a safe environment to refugees, including some 658,000 registered Syrian refugees and has provided access to education as well job opportunities, with the support of the international community. Jordan will continue to face resilience challenges over the coming years, with the combination of domestic and regional factors presenting increased risks for stability and development. This Single Support Framework (SSF) is aimed at supporting Jordan in addressing these risks, enhancing resilience and moving forward with improved development perspectives. It is one instrument within the large EU toolbox that focuses on the bilateral relationship in the framework of the European Neighbourhood Policy and the agreed EU-Jordan Partnership Priorities and Compact. For instance, the actions proposed in the SSF are designed in complementarity with humanitarian ***interventions*** and other ***interventions*** as captured in the Joint Humanitarian Development Framework (JHDF).

Also, the External Investment Plan could be considered for upscaling or complementing Government-planned ***interventions*** (e.g water, transport, waste management).

In 2016, the EU and Jordan agreed on three interlinked priorities within the Partnership Priorities. The first focuses on strengthening cooperation on regional stability, security including counter-terrorism. The second aims at Jordan’s macro-economic stability and enhancing its social and economic development, in line with Jordan 2025: A National Vision and Strategy (hereafter: Jordan 2025), in addition to enhancing Jordan's resilience to deal with the impact of the Syrian crisis. Strongly linked to these two, the third proposed partnership priority focuses on supporting efforts to strengthen governance, the rule of law, democratic reform and human rights.

Beyond the national development objectives, the present cooperation strategy will also aim to help Jordan progressing towards mutually agreed commitments at regional level, which include the joint orientations devised in the framework of the Union for the Mediterranean, notably in the areas of Energy, Transport, Environment, Climate Change, Employment and Women Empowerment.

Joint Programming

The objectives of EU programming for the period 2017-2020 aims at maximising the impact of EU action by ensuring synergies between the EU and its Member States (including agencies and development banks). EU development partners in Jordan have responded positively to the drafting of a Joint Analysis which should lead to Joint Programming. Though Member States followed closely the drafting of the SSF, it is not yet the product of Joint Programming.

Defining avenues towards an effective division of labour and the synchronisation of programming cycles and indicative financial allocations will remain challenging given the volatile context and the multiplicity and overlap of planning tools, financial instruments and coordination structures. Nevertheless, the momentum generated might yield fruits in a near future and reinforce perspective for joint efforts with the Member States and, in line with the Council Conclusions of May 2016 on stepping up Joint Programming, sector analyses will be carried out jointly with Member States to inform programme design and possibly foster delegated cooperation or joint implementation.

  1.2       Choice of sectors of ***intervention***

The current SSF provides overall continuity from the previous SSF 2014-2017 and builds on the achievements of and lessons learned from its implementation, in particular the important advances made through EU-funded programmes in the justice sector, democratic governance, private sector development and the management of energy and natural resources. As far as the latter is concerned, given the strong pick up in renewable energy generation from the private sector it has been decided to discontinue support under ENI bilateral financing. The other SSF's areas of ***intervention*** remain valid and feature within the new sectors of ***intervention***. Moreover, in view of the situation on the ground and of regional and global developments, regional security and the fight against terrorism and violent extremism now feature among the priority sectors in the SSF 2017-2020.

Each of the proposed priority sectors under the SSF stems directly from the EU's revised Neighbourhood Policy and the Partnership Priorities. Resilience and stabilisation are the overarching political priorities of the EU cooperation with Jordan. These are to be advanced through a continued focus on good governance and rule of law, enhancing economic development, stronger cooperation on security and cooperation to preventing radicalisation. In line with the new European consensus on development[6], a rights-based approach to development cooperation, encompassing all human rights, will be implemented in all ***interventions***. In the same context and linked to the approach fostering innovation under the SSF ***interventions*** will take advantage of the potential of digital technologies to leverage impact.  Focus on youth will be ensured across different areas of ***intervention*** as it is critical to achieving inclusive, equitable and sustainable development for present and future generations. The priority sectors under the SSF are fully in line with key objectives in the government's ***strategic*** planning documents, in particular Jordan 2025. Moreover, the EU Gender Action Plan[7], the EU Jordan Mobility Partnership signed in 2014[8] and the EU Country Roadmap for engaging with Civil Society will be duly taken into account in implementing the SSF.

The 'fewer and bigger approach', concentrating EU assistance on a few ***strategic*** sectors through a limited number of major programmes, was initiated under the previous SSF and will be pursued with a view to maximise impact and limit transaction costs.. Five budget support programmes were phased in between 2014 and 2017. They will be evaluated at mid-course to assess the opportunity to remain engaged in related sectors.

Sector 1:         Enhancing Jordan’s social and economic development (indicative 60% of total budget)

'For a country like Jordan that lacks mineral resources or other natural advantages, prosperity, stability, and well-being depend almost entirely on the talents of its enterprises and its people' says Jordan's Human Resources Development Strategy 2016-2025. Resting on four pillars (i) early childhood education and development (ii) basic and secondary education (3) technical and vocational education (4) higher education, the Strategy 'will ensure current and future generations develop the skills and capability they need to live happy and fulfil lives, and collectively realise the ambition of a prosperous and resilient Jordan.' Against the background of an influx of around 200,000 additional Syrian children in school age since 2012, with the vast majority enrolled in the public school system, continuing supporting basic and secondary education is critical as education outcomes are regressing and infrastructure is crumbling. Particular attention will be given to the quality of education and to a proper learning environment. A new phase to the on-going technical and vocational education programme could be envisaged as a result of the mid-term evaluation set for 2018. In the area of social protection, particular attention will be given to existing social protection and poverty reduction policies and instruments, with a focus on the ***performance*** of social safety nets. Assistance will be provided as well to improve the quality of social services provided to the vulnerable categories.

Although the government places private sector development at the core of its strategy to address current economic and social tensions, international indices show that overall the quality of the business environment has deteriorated significantly in recent years. Research and innovation figure prominently in Jordan 2025, confirming the vision of the Jordan National Innovation Strategy 2013-2017 to 'create an innovation-based economy in Jordan'. In this context, EU assistance may be extended to support innovation ecosystems and promote further cooperation between research and innovation centres and small and medium enterprises. Jordan 2025 identifies eight priority clusters to drive growth and job creation[9]. A particular focus should be put on initiatives contributing to enhancing the resilience of vulnerable economic sectors to the impacts of climate change – a potential multiplier of the current socio-economic pressures in the country in the near future.

Support could also be extended to enhance the quality and occupational value of higher education given the high unemployment rates amongst university graduates, the imperative to ensure linkages with the industrial and service sectors but also the critical contribution of universities in increasing national research and innovation capacities. In this respect, Jordan's participation to the Erasmus+ Programme and the Horizon 2020 could be instrumental. The EU will continue to support the development of the private sector with the view of creating the conditions to enhance its growth, attract investment, including from Jordanian diaspora, promote job creation and facilitate access to the European markets. In particular, the EU will accompany the Government and the private sector in the implementation of the recent EU-Jordan decision on the relaxation of the Rules of Origin regime[10]. Support to facilitate and monitor its implementation will be continued and lessons learned will be instrumental for the mid-term review of the new scheme, set for 2020.

Sector 2:         Strengthening the rule of law (indicative 20% of total budget)

Jordan's Justice Sector Reform Strategy 2017-2021 aims to strengthen judicial independence, support and institutionalise the policy dialogue that contributes to a more efficient judicial system by introducing structural changes, simplifying the procedures and improving the information technology infrastructure of the courts. With a strong focus on family law and individual rights, Jordan's Comprehensive National Plan for Human Rights 2016-2025 lays the ground for reform in order to live up to most international standards. It intends to develop a national policy for the protection and promotion of human rights and fundamental freedoms and to cement the national accomplishments achieved in that field.

Building on previous programmes, the EU will assist the Government of Jordan in enhancing the rule of law by upholding democratic principles, in particular the principles of separation of powers, right to a fair trial and access to justice, including for migrants and refugees in Jordan[11]. Fully acknowledging Jordan's security concerns and objectives[12], the EU has confirmed that security and human rights objectives are mutually reinforcing. Efforts will therefore be exerted to enhance dialogue between justice and security actors, associating civil society organisations as well. To that end, the recommendations of the Royal Committee on strengthening the rule of law in Jordan and the key goals of the Comprehensive National Plan on Human Rights provide an appropriate framework.

Sector 3:         Upgrading border management and preventing violent extremism (indicative 10% of total budget)

The terrorist attacks that occurred in 2016 indicate that threats to security exist and addressing them should remain priority. The regional spill over of violent extremism should be taken into account, but domestic factors contributing to violent radicalisation are also important. Security is a new area for EU-Jordan bilateral cooperation. Within the EU-Jordan Partnership Priorities, the Jordanian authorities agreed to include the strengthening of the cooperation on regional stability, security including counter-terrorism. To develop a coherent approach, increase the visibility of the EU in this field and to further implement the conclusions of the Counter-Terrorism workshop of March 2016, the EU should articulate its support mainly around one programme which could be integrated border management.  This would also allow the EU to work with all relevant security agencies at the same time, promote an integrated approach and avoid potential dispersion of actions.

The EU and Jordan also agreed on operational conclusions including counter-terrorism, fight against violent extremism and radicalism, border management and aviation security as priorities of cooperation for the years to come. To promote stability and development these topics will have to be channelled through a holistic approach, which addresses root causes and avoids inadvertently exacerbating drivers of violent extremism. This means entailing a rule of law perspective in security issues with a focus on respect of human rights and fundamental freedoms, as well as the inclusion of other ***strategic*** horizontal issues, such as the empowerment of women and youth. Moreover, a contribution to the implementation of the Government's strategy on countering violent extremism, once approved, will be considered. 2.   Financial overview

The indicative allocation for 2014-2020 is EUR 567.0 million - EUR 693.0 million.

The indicative allocation for 2017-2020 is EUR 335.5 million - EUR 410.1million

The indicative breakdown by sector is the following:

|  |  |  |
| --- | --- | --- |
| SSF 2017-2020 | Indicative amounts | % of total allocations |
| Sector 1: Enhancing Jordan?s social and economic development | EUR 201.3 million ? EUR 246.0 million | 60% |
| Sector 2: Strengthening the rule of law | EUR 67.1 million ? EUR 82.0 million | 20% |
| Sector 3: Upgrading border management and preventing violent extremism | EUR 33.6 million ? EUR 41.0 million | 10% |
| Complementary support for capacity development | EUR 16.8 million ? EUR 20.5 million | 5% |
| Complementary support for civil society | EUR 16.8 million ? EUR 20.5 million | 5% |

Jordan may benefit from supplementary allocations provided under the umbrella programmes. Such supplementary allocations will be granted on the basis of progress towards deep and sustainable democracy and implementation of agreed reform objectives contributing to the attainment of that goal. Jordan is also eligible for support under a number of other EU instruments, such as the Instrument Contributing to Stability and Peace[13], EU Humanitarian Aid[14], CFSP measures and CSDP missions and operations, the European Instrument for Democracy and Human Rights[15], the Partnership Instrument[16], the Instrument for Nuclear Safety Cooperation[17], Macro-Financial Assistance[18], Development Co-operation Instrument thematic programmes[19] and external actions under EU internal programmes e.g research and innovation (Horizon 2020)[20], energy, transport, education and youth (Erasmus+)[21] and culture (Creative Europe)[22].

  3.   EU support per sector (max. 3 pages) 3.1       Sector 1: Enhancing Jordan’s social and economic development (indicative 60% of total budget)

3.1.1    The following overall and specific objectives will be pursued:

The overall objective is to contribute to the development of an equitable and inclusive society in Jordan.

The specific objectives will be:

Specific Objective 1       To contribute to the reduction of unemployment amongst Jordanian youth through education and private sector development

Specific Objective 2       To contribute to the reduction of income and social inequalities.

3.1.2    For each of the specific objectives the main expected results are:

For Specific objective 1: Improved basic and secondary education; Improved technical and vocational education; Strengthened innovation ecosystems; climate change resilience and adaptation taken into account in policy development and planning.

For Specific objective 2: Enhanced policy framework and governance of the social protection system; Improved quality of social services through professionalising social workers; Strengthened role of civil society organisations in the development, monitoring and evaluation of social protection policies.

3.1.3    For each result, the main ***indicators*** are:

For Specific objective 1: Percentage of satisfaction amongst teachers, pupils and parents; Jordan's scores in TIMSS and PISA[23]; Proportion of teachers who are licensed (disaggregated by gender); Proportion of students following technical and vocational paths in post-secondary education; Percentage of firms offering formal training; Jordan ranking on the Venture Capital & Private Equity Country Attractiveness Index; Number of patents applications and registrations, spin-out companies, joint ventures and technology licenses (disaggregated by gender); Number of new companies established by young entrepreneurs

For Specific objective 2: Proportion of grievance and redress cases raised under the social cash transfer programme recorded in the Monitoring and Information System (MIS); Proportion of social protection programmes utilising the single registry; Proportion of social workers who have occupation licenses; Proportion of referred cases of gender and sexual based violence against women and children that are investigated and sentenced; Proportion of associations that exchange data and information with the Ministry of Social Affairs and among each other; Number of research and policy papers submitted by associations and their coalitions

3.1.4    Donor coordination and policy dialogue are:

For Specific objective 1:    The education donor consultation group has been established in 2012 during the second phase of the education reform programme led by the Wold Bank. Currently it is being co-chaired by the United Kingdom and Germany and meets every 3 months ad minima. The group focuses on the education system at large, the Syrian refugee situation and school construction. Coordination has culminated in the establishment of a Common Results Framework between donors and the Ministry; the EU is financing the independent monitoring missions reviewing progress in the sector. Coordination and policy dialogue in the area of technical and vocational education is nascent as donors showed interest in the sector only recently. It takes place within the framework of the on-going EU budget programme. The informal private sector development donor coordination group is meeting twice a year and is currently chaired and coordinated by the EU Delegation. The chair function is rotating among the donors. More involvement of the Government in the private sector development coordination will be sought. Close cooperation is taking place between the EU, several Member States, the World Bank and the United States of America to facilitate the implementation of the new agreement on the Rules of Origin and foster Jordanian exports to Europe.

For Specific objective 2:    Coordination and policy dialogue in the area of social protection is taking place within the framework of the response to the Syria crisis, more particularly through the joint sector task forces established in 2015 by the Government and gathering the line ministry, key donors, United Nations agencies and civil society organisations.

3.1.5    The partner country's authorities financial and policy commitments are:

For Specific objective 1:    Jordan's key asset is its human capital and its educated youth. The Human Resources Development Strategy 2016-2025 marks a renewed commitment of the country to reform the education system despite the pressure exerted by a massive influx of refugees from neighbouring countries. In terms of budget allocation, education is one of the top priority sectors within the Executive Development Plan 2016-2018 (6th out of 13 sectors) and the Jordan Response Plan for the Syria Crisis 2017-2020 (1st of 13 sectors). Donors have committed to cover the costs borne by the Ministry of Education to provide education to Syrian children until the school year 2018/2019. Early 2016, the Government approved the 'Jordan Holistic Approach to the Syrians Crisis', renewing its commitment made in the National Entrepreneurship and SME Growth Strategy 2014-2018 to foster private sector development, through improving the business environment and boosting domestic and foreign investments. To that end, it relies extensively on the technical and financial assistance of the international community.

For Specific objective 2:    Jordan social protection policy framework remains fragmented, with a myriad of programmes implemented by the public and non-profit sectors. If key legislations have been promulgated recently to address specific vulnerable groups (2014 Juvenile Law, 2017 Law on the rights of persons with disabilities), the founding law of the Ministry of Social Development dates back to 1956. Although the Ministry's expenditures are due to decrease by 11% between 2014 and 2018, Jordan's social assistance expenditures as a percentage of GDP appear significantly high compared to other countries in the region (2.4% in 2014 against 0.6% in Tunisia or 0.7% in Saudi Arabia). Social protection ranks 2nd out of 13 sectors in the Jordan Response Plan.

3.1.6    Environmental assessment

When needed, the appropriate type of environmental assessment will be carried out[24]. Objectives related to climate adaptation, resilience and mitigation will be taken into account throughout the ***intervention***.

3.1.7    The overall risk assessment of the sector ***intervention*** is:

For Specific objective 1:    For Education, the main risks are (i) fragmented reform system, multiplicity actors operating and insufficient government coordination; (ii) sufficient financial resources are not allocated; (iii) lack of public trust in the Strategy (iv) the Ministry is reluctant or unable to involve parents and teachers. For Innovation, the main risks are (i) fragmented innovation ecosystem, multiplicity of strategies and actors and insufficient government coordination; (ii) lack of legislative framework and low investment in research and development; (iii) limited capacity and participation of public and private stakeholders to support innovation initiatives; (iv) brain drain of innovative and creative people; (vi) weak access to finance and support for innovative start-ups; (vii) limited interaction between academia and business.

For Specific objective 2:    The main risks are (i) commitment and access to information; (ii) commitment to gender equality; (iii) reluctance of external stakeholders to create pressure for positive reforms; (iv) the Ministry is reluctant or unable to implement reform and to involve non-governmental organisations (NGOs). 3.2       Sector 2: Strengthening the rule of law (indicative 20% of total budget)

3.2.1    The following overall and specific objectives will be pursued:

The overall objective is the enhancement of the rule of law in Jordan by upholding democratic principles, in particular the principles of separation of powers, right to a fair trial and access to justice.

The specific objectives will be:

Specific Objective 1       To contribute to the development of a more independent, transparent, accountable, accessible and efficient justice system

Specific Objective 2       To contribute to ensure a human and fair treatment of citizens subject to judiciary proceedings

3.2.2    For each of the specific objectives the main expected results are:

For specific objective 1: Enhanced independence of the judicial power; A more efficient, transparent and integrated criminal justice sector gradually integrating the crimes against national security in line with Jordan's international human rights commitments; Improved service delivery through the support to the modernisation and management of the judiciary and security sectors

For specific objective 2: Improved conditions and reduced ill treatment in penitentiary institutions and police custody; A system of alternative sanctions is in place as well as an enhanced capacity of rehabilitation and reintegration mechanisms for inmates; A justice system that fully safeguards the universal human right to a fair and impartial trial, as established in international conventions is in place

3.2.3    For each result, the main ***indicators*** are:

For Specific objective 1: Public perception of judicial independence; Percentage of all detainees who have been held in detention for more than 12 months awaiting sentencing or a final disposition of their case; Availability of ***performance*** guidelines and of a ***performance*** monitoring system that holds judges accountable for unnecessary delays in proceedings, case backlog, or absenteeism; Availability of free legal assistance for indigent defendants including refugees (disaggregated by gender).

For Specific objective 2: Number of violent deaths per 1,000 prisoners (disaggregated by gender); Proportion of judicial implementation of alternative sanctions; Jordan ranking for the subfactor - Due process of law and rights of the accused.

3.2.4    Donor coordination and policy dialogue are:

In addition to the EU, the most important donor in the justice sector is USAID, which has been financing large-scale ***interventions*** for several years. Other donors are France, the United Kingdom, Germany, Denmark, the Netherlands, and Sweden. The EU chairs a donor coordination group and promotes policy dialogue. Broad involvement of the government, civil society organisations, the bar association, is essential. The EU Delegation also leads the human rights working group with EU Member States, which convenes twice a month.

3.2.5    The partner country's authorities financial and policy commitments are:

Recently, successive actions have been carried out to improve standards and legislation in the sector. In spite of the current regional crises the state has raised its commitment to enhance the level of governance and rule of law standards. Commitment to reform the justice sector is reflected in the current Justice Sector Reform Strategy which has recently been reprioritised and enhanced through the recommendations issued in 2017 by the Royal Committee on the rule of law. In recent years some steps have been taken to incorporate international standards on human rights inside national legislation. A Comprehensive National Plan for Human Rights 2016-2025 does lay the ground for reform in order to live up to these standards.

3.2.6    Environmental assessment

When needed, the appropriate type of environmental assessment will be carried out.

3.2.7    The overall risk assessment of the sector ***intervention*** is:

The main risks are (i) lack of commitment by the government to implement the national strategies on justice reforms and human rights; (ii) insufficient capacity from key stakeholders to implement and monitor the reforms. A close monitoring by donors and ongoing policy dialogue with the government will help mitigate these risks. 3.3       Sector 3: Upgrading border management and preventing violent extremism (indicative 10% of total budget)

3.3.1    The following overall and specific objectives will be pursued:

The overall objective is to contribute to counter the terrorist threat, the return or transit of foreign fighters and the associated transnational crime and to address in an inclusive way (governmental and non-governmental actors) the root causes leading to violent extremism. The specific objective will be:

Specific Objective 1:     To strengthen the overall integrated smart border management including counterterrorism capacity of national security agencies and organisations, in particular Law Enforcement Agencies and Border Guards

Specific Objective 2:     To enhance Government's efforts to prevent and counter violent extremism and support local actors' resilience and capacity for customised approaches and strategies

3.3.2    The main expected results are:

For Specific objective 1: National security agencies and organisations are able to counter the flow of foreign fighters and transnational crime in compliance with national legislation and international law; Agencies are able to quickly respond to security incidents, including at the border, in a coordinated and rapid way; Integrated border management approach as already partially practiced at sea-side and at the main international airport is expanded to all border crossing points.

For Specific objective 2: Enhanced institutional capacities to coordinate, implement and monitor the responses to violent extremism; Effective government response in priority areas of vulnerability deriving from the National Strategy; Strengthened local capacity to identify, design, and coordinate community responses to prevent violent extremism; Enhanced state-citizen relationship in priority areas through a right balance between centralised and decentralised approaches

3.3.3    For each result, the main ***indicators*** are:

For Specific objective 1: Number of integrated (intra-service and inter-agency) risk analyses conducted; number of detected cases related to the flow of foreign fighters and transnational crime; Effectiveness and number of joint communication and command structures established; Effective intra-service and inter agency law enforcement; Effective cooperation with the private sector (carriers, freight forwarders, customs brokers etc.) in the field of movements of persons and/or goods number of detected incidents on the one hand and facilitation (decreased required time) of the border crossing for unsuspicious passengers and goods

For Specific objective 2: ***Indicators*** will be extracted from the National Strategy for Preventing and Countering Violent Extremism due to be approved by the Government in 2017

3.3.4    Donor coordination and policy dialogue are:

In 2014, in the context of the EU-Jordan Association Council, Jordan and the EU concluded that security and the fight against terrorism are a priority in their partnership. In March 2016, at the EU-Jordan workshop on security and counter-terrorism, four areas of cooperation were identified, notably countering violent extremism (CVE), countering the financing of terrorism, aviation and border security and new challenges such as human trafficking, foreign terrorist fighters and firearms smuggling. Besides, in line with the EU Global Security Strategy, continuous dialogue between the EU and Member States is taking place at least monthly at the Security Operational Reference Group. Quite understandably, there are no forum between the Government and the international community on this topic. An informal technical donor coordination group on CVE has been recently established by the EU, the United Kingdom and the US.

3.3.5    The partner country's authorities financial and policy commitments are:

Jordan's financial commitment is significant. Military expenditures represented 4.3% of GDP in 2015, against an average of 2% for upper middle income countries. In 2016, military expenditures represented 31% of current expenditures. The estimated manpower is at least 110.000 in the military, 40.000 in the public security department and more than 20.000 in the Gendarmerie and Civil Defence Department – in addition to the General Intelligence Department. As an important part of the Jordanian efforts are a direct consequence of the regional security situation and its commitments within the international coalition countering terrorism, Jordan expects that the strategies and plans it draws for its security apparatus will continue to receive international community's support.

3.3.6    Environmental assessment

When needed, the appropriate type of environmental assessment will be carried out.

3.3.7    The overall risk assessment of the sector ***intervention*** is:

The main risks are (i) borders, most likely the eastern and northern ones, become military zones, where no civilian authorities have a clear and authoritative mandate and a military logic is predominant; (ii) no real preparedness to initiate a regular intra-service and interagency cooperation in the form of intra-service management of processes and regular interaction between Government's security agencies; (iii) absence of gender-based approach in the management of human resources. 4.   Complementary support for capacity development and institution building

Complementary support for capacity development and institution building will be included to address essential elements of good governance, other than those addressed through the sector ***interventions*** mentioned above and in line with the priorities expressed in the EU-Jordan Partnership Priorities and Compact. An important area which deserves further support is transparency in the use of public resources. EU's ***interventions*** may particularly aim at enhancing the integrity and the transparency of public procurement and fostering parliamentary oversight throughout the budget cycle. The Jordan Department of Statistics (DoS) will produce updated ***indicators*** on poverty, labour force and other related subjects, fostering accurate monitoring on the basis of reliable data. Thanks to international statistical cooperation Jordan is improving the quality of its data, which will foster transparency. With a view to build confidence in the integrity and fairness of the procurement system, the EU may assist in rationalising the current legislative and regulatory framework; establishing a central institution for policy-making functions in the area of public procurement; providing capacity building for the private and public sectors in public procurement and introducing effective complaint mechanisms for challenging procurement decisions. On parliamentary oversight, the EU may assist in increasing the scope of legislative scrutiny of budgets and in improving the timing of the scrutiny of audit reports[25].

Jordan has adopted a National Integrity Charter accompanied by an Executive Plan to enhance the National Integrity System in the Kingdom. Its ambition is to address public demand for fighting corruption, favouritism and nepotism, but a number of economic and political reforms related to strengthening public confidence in the state are also set to follow. Some of the critical components of successful programs have been those that placed emphasis on promoting access to information, civil service reform, civil society participation, and advocacy. 5.       Measures in favour of civil society

Working strategically with civil society including social partners will allow fine-tuning actions to local realities, achieving a more reliable risk analysis, and subsequently more sustainability and legitimacy of EU programmes. Civil society will therefore be systematically involved in policy dialogue and consulted in all sectors of ***intervention*** and support will be streamlined in the three aforementioned priorities. Given the importance of civil society in the provision of social and judiciary services, if human rights will be streamlined within the rule of law's ***intervention***, specific support will be provided through the European Instrument for Democracy and Human Rights and the European Endowment for Democracy to contribute to the implementation of the EU Jordan Human Rights and Democracy Strategy 2016-2020.

Through this Civil Society provision, a specific allocation of 5% will be earmarked for targeted support to the implementation of the EU Gender Action Plan and the EU Civil Society Roadmap for Jordan. This is envisaged through a two-pronged programme aiming at, on the one hand enhancing women economic empowerment and on the other hand, contributing to an active, vibrant and pluralistic civil society in ***rural*** areas by strengthening community-based organisations including access to culture. If relevant, additional support will continue to be provided through the Civil Society Organisations / Local Authorities in Development programme under the Development Cooperation Instrument (DCI). Attachments

* Sector of ***intervention*** framework

1. Indicative timetable for commitment of funds

 Attachment 1.           Sector of ***intervention*** framework [26]

|  |  |  |
| --- | --- | --- |
| Sector 1:         Enhancing Jordan?s social and economic development |  |  |
| Specific objective 1: To contribute to the reduction of unemployment amongst Jordanian youth through education and private sector development |  |  |
| Expected Results | ***Indicators***[27] | Means of verification |
| a) Improved basic and secondary education | a1) Percentage of Grade 1-10 aged children enrolled in schools Baseline (2015): Total 98%; Male: 97%; Female: 98%; Syrian refugees: 61.6% Target (2020): Total: 100%; Syrian refugees: 80% | Annual Report from the Human Resources Development (HRD) Results and Effectiveness Unit |
|  | a2) Jordan's scores in TIMSS and PISA Baseline: TIMSS (2011): Science 449, Math 406; PISA (2012): Science 409; Math 386, Reading 399 Target TIMSS (2019) Science 489, Math 446; PISA (2018) Science 439, Math 416, Reading 429 | a2) TIMSS: International Association for the Evaluation of Educational Achievement   PISA: OECD |
|  | a3) Proportion of teachers who are licensed (disaggregated by gender) Baseline (2016): 0% Target (2020): 20% of new teachers | a3) Annual Report from the HRD Results and Effectiveness Unit |
| b) Improved technical and vocational education | b1) Proportion of students following technical and vocational paths in post-secondary education Baseline (2010): &lt; 11% Target (2020): 16% | b1) Annual Report from the HRD Results and Effectiveness Unit |
|  | b2) Percentage of firms offering formal training Baseline (2013): 3.4% Target (2020) 19.7% | b2) World Bank Enterprise Survey |

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| --- | --- | --- |
| c) Strengthened innovation ecosystems | c1) Jordan ranking on the Venture Capital & Private Equity Country Attractiveness Index Baseline (2016): Rank 59, Score 54.8 Target to be determined | c1) Venture Capital & Private Equity Country Attractiveness Index Annual Report[28] |
|  | c2) Ranking on Global Competitiveness Index Baseline (2014): 64 Target (2017) 60; (2021) 55 | c2) World Economic Forum Global Competitiveness Report |
|  | c3) Number of patents applications Baseline (2015): 140 Target to be determined | c3) Annual statistical country profile issued by the World Intellectual Property Organisation[29] |
|  | c4) Number of new companies established by young entrepreneurs Baseline and target to be determined | c4) Ad hoc report issued by the EU technical assistance |
| Specific objective 2: To contribute to the reduction of income and social inequalities |  |  |
| Expected Results | ***Indicators***[30] | Means of verification |
| a) Enhanced policy framework and governance of the social protection system | a1) Proportion of grievance and redress cases raised under the social cash transfer programme recorded in the MIS Baseline and target to be determined | a1) Ad hoc report issued by the EU technical assistance |
|  | a2) GINI Index Baseline (2014): 37.6 Target (2021): 31.0 | a2) Department of Statistics |
| b) Improved quality of social services through professionalising social workers | b1) Number of social workers who have occupation licenses Baseline (2017): 600 Target (2021): 1200 | b1) Ad hoc report issued by the EU technical assistance |
|  | b2) Proportion of referred cases of gender and sexual based violence against women and children that are investigated and sentenced Baseline and target to be determined | b2) Ad hoc report issued by the EU technical assistance |

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| --- | --- | --- |
| c) Strengthened role of civil society organisations in the development, monitoring and evaluation social protection policies | c1) Number of associations that exchange data and information with the Ministry of Social Affairs and among each other Baseline (2017): 30. Target (2021): 60 | c1) Ministry of Social Affairs |
|  | c2) Number of research and policy papers submitted by associations and their coalitions Baseline and target to be determined | c2) Ad hoc report issued by the EU technical assistance |

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| --- | --- | --- |
| Sector 2:         Strengthening the rule of law |  |  |
| Specific objective 1: To contribute to the development of a more independent, transparent, accountable, accessible and efficient justice system |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Enhanced independence of the judicial power | a1) Public perception of judicial independence Baseline and target to be determined | a1) Ad hoc report issued by the EU technical assistance |
|  | a2) Jordan score on the Status Index, Rule of Law ? Independent judiciary Baseline (2016) Score 6 Target to be determined | a2) Bertelsmann Stiftung?s Transformation Index Report[31] |
| b) A more efficient, transparent and integrated criminal justice sector gradually integrating the crimes against national security in line with Jordan's international human rights commitments | b1) Percentage of all detainees who have been held in detention for more than 12 months awaiting sentencing of their case, as per Jordanian legislation and international human rights standards Baseline and target to be determined | b1) Ad hoc report issued by the EU technical assistance |
|  | b2) Availability of ***performance*** guidelines and of a ***performance*** monitoring system that holds judges accountable for unnecessary delays in proceedings, case backlog, or absenteeism Baseline and target to be determined | b2) Ad hoc report issued by the EU technical assistance |
| c) Improved service delivery through the support to the modernisation and management of the judiciary and security sectors | c1) Number of people directly benefitting from legal aid programmes supported by the EU (disaggregated by gender) Baseline and target to be determined | c1) Ad hoc report issued by the EU technical assistance |

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| --- | --- | --- |
| Specific objective 2: To contribute to ensure a human and fair treatment of citizens subject to judiciary proceedings |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Improved conditions and reduced ill treatment in penitentiary institutions and police custody | a1) Number of violent deaths per 1,000 prisoners (disaggregated by gender) Baseline and target to be determined | a1) Annual report of Amnesty International[32], Annual Human Rights Report of the US State Department[33], Statistics of World Prison Brief[34] |
| b) A system of alternative sanctions is in place as well as an enhanced capacity of rehabilitation and reintegration mechanisms for inmates | b1) Proportion of judicial implementation of alternative sanctions Baseline and target to be determined | b1) Ad hoc report issued by the EU technical assistance |
| c) A justice system that fully safeguards the universal human right to a fair and impartial trial, as established in international conventions is in place | c1) Jordan ranking for the sub-factor - Due process of law and rights of the accused Baseline (2016): Regional Rank 3/7; Global rank 82/113 Target to be determined | c1) World Justice Project - Rule of Law Index, Factor 4: Fundamental Rights[35] ( |

|  |  |  |
| --- | --- | --- |
| Sector 3:         Upgrading border management and preventing violent extremism |  |  |
| Specific objective 1: To strengthen the overall integrated smart border management including counterterrorism capacity of national security agencies and organisations, in particular Law Enforcement Agencies and Border Guards |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) National security agencies and organisations are able to counter the flow of foreign fighters and transnational crime in compliance with national legislation and international law | a1) Number of integrated (intra-service and inter-agency) risk analyses conducted in view of mitigating negative impact and structurally reducing specific cases; number of detected cases related to the flow of foreign fighters and transnational crime Baseline and target to be determined | a1) Ad hoc report issued by the EU technical assistance |
| b) Agencies are able to quickly respond to security incidents, including at the border, in a coordinated and rapid way | b1) Effective government response in priority areas of vulnerability deriving from the National Strategy Baseline and target to be determined | b1) Ad hoc report issued by the EU technical assistance |

|  |  |  |
| --- | --- | --- |
| c) Integrated border management approach as already partially practiced at sea-side and at the main international airport is expanded to all border crossing points | c1) Effective intra-service and inter agency law enforcement (number of reported cases, criminal and commercial records) Baseline and target to be determined | c1) Ad hoc report issued by the EU technical assistance |
|  | c2) Effective cooperation with the private sector (carriers, freight forwarders, customs brokers etc.) in the field of movements of persons and/or goods number of detected incidents on the one hand and facilitation (decreased required time) of the border crossing for unsuspicious passengers and goods Baseline and target to be determined | c2) Ad hoc report issued by the EU technical assistance |
| Specific objective 2: To enhance Government's efforts to prevent and counter violent extremism and support local actors' resilience and capacity for customised approaches and strategies |  |  |
| Expected Results | ***Indicators*** | Means of verification |
| a) Enhanced institutional capacities to coordinate, implement and monitor the responses to violent extremism | Number of individuals directly benefitting from EU supported programmes that specifically aim to support cve, peace building and/or crisis/conflict prevention | UNODC Homicide Statistics   Annual progress report issued by the competent authority |
| b) Effective government response in priority areas of vulnerability deriving from the National Strategy |  |  |
| c) Strengthened local capacity to identify, design, and coordinate community responses to prevent violent extremism |  |  |
| d) Enhanced state-citizen relationship in priority areas through a right balance between centralised and decentralised approaches |  |  |

Attachment 2.      Indicative timetable for commitments of funds

The indicative allocation for 2014-2020 is EUR 567.0 million - EUR 693.0 million.

The indicative allocation for 2017-2020 is EUR 335.5 million - EUR 410.1million

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Indicative allocation | 2017 (EUR M) | 2018 | 2019 | 2020 |
| Sector of ***intervention*** ? Enhancing Jordan?s social and economic development | 60% EUR 201.3 million ? EUR 246.0 million | 53 | X | X | X |
| Sector of ***intervention*** ? Strengthening the rule of law | 20% EUR 67.1 million ? EUR 82.0 million | 20 | X |  |  |
| Sector of ***intervention*** ? Upgrading border management and preventing violent extremism | 10% EUR 33.6 million ? EUR 41.0 million |  | X | X |  |
| Complementary support for capacity building and institution building | 5% EUR 16.8 million ? EUR 20.5 million | 8 |  |  | X |
| Complementary support in favour of civil society (if applicable) | 5% EUR 16.8 million ? EUR 20.5 million | 7 | X | X | X |
| Total Commitments | 100% | 88 |  |  |  |

[1]     Data from the last census. Non-Jordanians include migrants and registered refugees.

[2]     Of which 664,118 refugees (Syrian, Iraqi, Somali, Sudanese, Yemeni) registered with UNHCR (as of 2015, latest global data available) and 2,175,491 Palestine refugees registered with UNRWA.

[3]     The Gini Coefficient is a proxy for income or wealth distribution of a nation's residents, and the most commonly used measure of inequality.

[4] [*http://www.eeas.europa.eu/archives/docs/top\_stories/pdf/eugs\_review\_web.pdf*](http://www.eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf)

[5] Decision n° 1/2016 of 19 December 2016 of the EU - Jordan Association Council agreeing on the EU-Jordan Partnership Priorities, including the Compact; [*http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1501065843569&uri=CELEX:22016D2388*](http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1501065843569&uri=CELEX:22016D2388)

[6] The New European Consensus on Development – 'Our World, Our Dignity, Our Future, Joint Statement by the Council and Representatives of the Governments of the Member States meeting within the Council, the European Parliament and the European Commission: [*https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626\_en.pdf*](https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf)

[7] [*https://europa.eu/capacity4dev/public-gender/minisite/eu-gender-action-plan-2016-2020*](https://europa.eu/capacity4dev/public-gender/minisite/eu-gender-action-plan-2016-2020)

[8] [*http://europa.eu/rapid/press-release\_IP-14-1109\_en.htm;*](http://europa.eu/rapid/press-release_IP-14-1109_en.htm;)

[9]     Construction and Engineering, Transport and Logistics, Tourism and  Events, Healthcare, Life Sciences, Digital and Business Services, Educational Services, Financial Services.

[10] Decision N° [1]/2016 of the EU-Jordan Association Committee of 19/07/2016 amending the provisions of Protocol 3 to the Euro-Mediterranean Agreement establishing an Association between the European Communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan, of the other part, concerning the definition of the concept of 'originating products' and the list of working or processing required to be carried out on non-originating materials in order for certain categories of products, manufactured in dedicated development zones and industrial areas, and connected with generating employment for Syrian refugees and Jordanians, to obtain originating status. Decision N° [2]/2016 of the EU-Jordan Association Committee of 19/07/2016 proposing actions by the EU-Jordan Association Committee regarding the implementation of the relaxation of the rules of origin. [*http://eur-lex.europa.eu/search.html?qid=1501065487627&text=eu-jordan%20agreement%20on%20rules%20of%20origin%20association%20committee&scope=EURLEX&type=quick&lang=en*](http://eur-lex.europa.eu/search.html?qid=1501065487627&text=eu-jordan%20agreement%20on%20rules%20of%20origin%20association%20committee&scope=EURLEX&type=quick&lang=en)

[11] Prosecution rates and instances of appeal to higher courts are extremely low - National Anti-Trafficking Committee, 2015

[12]    Most recently in the context of the EU-Jordan Association Committee (19 July 2016) and the EU-Jordan sub-committee on human rights (24 October 2016)

[13] [*http://ec.europa.eu/dgs/fpi/documents/140311\_icsp\_reg\_230\_2014\_en.pdf*](http://ec.europa.eu/dgs/fpi/documents/140311_icsp_reg_230_2014_en.pdf)

[14] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar10001*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar10001)

[15] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0235*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0235)

[16] [*http://ec.europa.eu/dgs/fpi/documents/pi\_mip\_annex\_en.pdf*](http://ec.europa.eu/dgs/fpi/documents/pi_mip_annex_en.pdf)

[17] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0237*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0237)

[18] [*https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\_en#documents*](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents)

[19] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0233*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0233)

[20] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1291*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1291)

[21] [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1288*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1288)

[22] [*http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32013R1295*](http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32013R1295)

[23]    TIMSS: Trends in International Mathematics and Science Study; PISA: Programme for International Student Assessment.

[24]    See guidelines [*https://europa.eu/capacity4dev/t-and-m-series/document/integrating-environment-and-climate-change-eu-international-cooperation-and-development-tow*](https://europa.eu/capacity4dev/t-and-m-series/document/integrating-environment-and-climate-change-eu-international-cooperation-and-development-tow)

[25]    The latter aspect is particularly relevant as it is part of general conditions on budget transparency and oversight that needs to be fulfilled for Jordan to maintain its eligibility to budget support.

[26]    The results, ***indicators*** and means of verification presented in this Annex are indicative. They will be specified in the corresponding action documents which will be elaborated annually for adoption by the Commission.

[27]    References: a1 to b2: A National Strategy for Human Resources Development 2016-2025, Appendix B; c2: Jordan 2025: A National Vision and Strategy, Second Section.

[28]    [*http://blog.iese.edu/vcpeindex*](http://blog.iese.edu/vcpeindex)/

[29]    [*http://www.wipo.int/ipstats/en/statistics/country\_profile*](http://www.wipo.int/ipstats/en/statistics/country_profile)

[30]    References: a2, b1, c1: Jordan 2025: A National Vision and Strategy, Second Section.

[31]    [*http://www.bti-project.org/en/index/*](http://www.bti-project.org/en/index/)

[32]    [*https://www.amnesty.org/en/countries/middle-east-and-north-africa/jordan/*](https://www.amnesty.org/en/countries/middle-east-and-north-africa/jordan/)

[33]    [*https://www.state.gov/j/drl/rls/hrrpt/*](https://www.state.gov/j/drl/rls/hrrpt/)

[34]    [*http://www.prisonstudies.org/country/jordan*](http://www.prisonstudies.org/country/jordan)

[35]    [*http://data.worldjusticeproject.org*](http://data.worldjusticeproject.org)/

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**End of Document**



[***Register of Commission documents:Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The Future of Food and Farming Document date: 2018-05-08 AGRI\_AM(2018)622077 Amendments to draft opinions***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5SD5-7131-JDG9-Y03R-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

AM\1152954EN.docx EN United in diversity EN Compromise Amendments for the Dorfmann Report on the Future of Food and Farming FINAL VERSION A. whereas the Commission communication ‘The Future of Food and Farming’ acknowledges that the common ***agricultural*** policy (CAP) is one of the oldest and most integrated policies in the EU and is of global ***strategic*** importance, and should be designed to enable the EU farming and forestry sector to respond to justified citizens’ demands regarding not only food security, safety, quality and sustainability, but also environmental care, biodiversity and natural resources protection, climate change action, ***rural*** development, health and high animal welfare standards, and employment; COMP AM B NOT YET TRANSLATED, REPLACING AM 65, 67 - 73 B. whereas the EU’s overarching objective of a multifunctional and diversified ***agriculture*** and forestry sector that creates jobs, is fair, is driven by sustainable ***agricultural*** practices and enables the preservation of viable small and family farms which can be acquired and handed down from generation to generation, remains key to delivering the positive externalities and public goods that European citizens demand (food and non-food products and services); COMP AM C NOT YET TRANSLATED, REPLACING AM 84 - 86, 78, ENVI 4 C. whereas for more than 25 years the CAP has undergone regular reform dictated by the opening-up of European ***agriculture*** to international markets and by the emergence of new challenges in areas such as the environment and climate change; whereas another step is now necessary in this continuous process of adjustment in order to simplify, modernise and reorientate the CAP so that it secures farmers’ incomes and more effectively meets the expectations of society as a whole, in particular as regards food quality and security, climate change, public health and employment, while ensuring policy certainty and financial security for the sector, in order to achieve sustainable ***rural*** areas, tackle food security and ensure that European climate and environmental targets are met, as well as to increase EU added value; COMP AM D NOT YET TRANSLATED, REPLACING AM 101 - 104, 106, 107, 109 - 112 D. whereas, although the Commission has entitled its communication on the ongoing reform of the CAP ‘The Future of Food and Farming’, it has given no guarantee that the CAP budget will be maintained, and whereas it is essential that this be addressed before the forthcoming legislative proposals are presented; whereas these must ensure that there is no renationalisation of the CAP, that the proper functioning of the single market is not impaired, and that there is genuine simplification for beneficiaries, not only at EU level but also at COMP AM A NOT YET TRANSLATED, REPLACING AM 45, 47, 49 - 55, ENVI 9, 24 2/18 AM\1152954EN.docx EN Member State, regional, local and farm level, as well as flexibility and legal security for farmers and forest owners, while ensuring ambitious environmental goals and that the targets of the new CAP are fulfilled without adding new constraints on Member States and thus a new layer of complexity which would lead to delays in the implementation of national strategies; COMP AM E NOT YET TRANSLATED, REPLACING AM 121 - 125 E. whereas the CAP must play an important role in strengthening the long-term productivity and competitiveness of the sector and avoiding stagnation and volatility of farm incomes, which, despite the concentration and intensification of production and increasing productivity, are on average still lower than in the rest of the economy; COMP AM F NOT YET TRANSLATED, REPLACING AM 138, 139 F. whereas over the last few years farmers have been confronted with increasing price volatility, which has reflected price fluctuations on global markets and uncertainty caused by macroeconomic developments, external policies such as trade, political and diplomatic issues, sanitary crises, excess quantities in certain European sectors, climate change and more frequent extreme weather events in the EU; COMP AM G NOT YET TRANSLATED, REPLACING AM 157, 158, 160 - 167, 171 G. whereas it is essential to ensure a level playing field, fair prices and a fair standard of living for all farmers across regions and all EU Member States, thereby ensuring affordable prices for citizens and consumers and that there is ***agricultural*** activity in all parts of the Union including in areas with natural constraints; whereas it is essential to promote consumption of and access to high-quality food and healthy and sustainable diets, while delivering on the commitments for social and environmental sustainability, climate action, health, animal and plant health and welfare and the balanced development of ***rural*** areas; COMP AM H NOT YET TRANSLATED, REPLACING AM 180 - 186, 188, 190 H. whereas there is a need for an updated, simpler and fairer system of payments, for greater equity and legitimacy; COMP AM I NOT YET TRANSLATED, REPLACING AM 215, 218, 207, 209, 213, 210 I. whereas increasing global trade presents both opportunities and challenges, relating among other things to the environment, climate change, water protection, lack of ***agricultural*** land and land degradation, and thus requires an adjustment of the rules of international trade so as to allow the establishment of a common level playing field based on high standards and fair AM\1152954EN.docx 3/18 EN and sustainable conditions for the exchange of goods and services, as well as renewed and efficient trade defence mechanisms, in accordance with existing EU social, economic, environmental, health, sanitary, phytosanitary and animal welfare standards; whereas these high standards need to be maintained and further promoted globally, particularly within the framework of the WTO, preserving the interests of European producers and consumers by ensuring European standards in trade agreements for imports; COMP AM J NOT YET TRANSLATED, REPLACING AM 229 - 240, 227 J. whereas, while the focus on research and development for resource-saving product and process innovation is to be welcomed, more must be done to develop the research capacity and infrastructure necessary to translate the results of research into food and farming and sustainable agro-forestry practice, facilitated by adequate support, as well as to promote a multi-actor approach with farmers at its centre, supported by independent, transparent, sufficiently-funded EU-wide ***agricultural*** extension services in all Member States and regions and by knowledge exchange and training services at Member State level; COMP AM K NOT YET TRANSLATED, REPLACING AM 254, 255, 259 - 263 K. whereas a competitive ***agriculture***, food and forestry sector must continue to play a strong role in reaching the environmental care and climate objectives of the EU as set out in international agreements such as COP21 and UN SDG, with farmers being incentivised and remunerated for their contribution and assisted by a reduction in unnecessary regulatory and administrative burdens in the measures they undertake; COMP AM L NOT YET TRANSLATED, REPLACING AM 275 - 277, 280 L. whereas the European Court of Auditors (ECA) has underlined the fact that, due to greening requirements which often do little more than reflect current practices, the green payments introduced as part of the 2013 reform create added complexity and bureaucracy, are difficult to understand, and in the ECA’s view do not sufficiently enhance the CAP’s environmental and climate ***performance*** due to their design, which points are important to bear in mind when designing the new green architecture for the CAP; COMP AM M NOT YET TRANSLATED, REPLACING AM 285 - 290, 292 - 295 M. whereas the objectives of the Cork 2.0 Declaration for a Better Life in ***Rural*** Areas concern vibrant ***rural*** areas, smart multi-functionality, biodiversity in and outside ***agriculture*** and forestry, rare animal breeds and conservation crops, as well as organic ***agriculture***, support for less-favoured areas, and commitments in the context of Natura 2000; whereas the Declaration also highlights the importance of efforts to avert the depopulation of ***rural*** areas and the role of women and young people in this process, as well as the need for better use of endogenous resources in ***rural*** areas through the implementation of integrated strategies and 4/18 AM\1152954EN.docx EN multi-sectoral approaches that strengthen the bottom-up approach and synergy between stakeholders, and which require investment in the viability of ***rural*** areas, preservation and better management of natural resources, climate action incentives, stimulation of knowledge and innovation, stepping-up of governance in ***rural*** areas, and simplification of ***rural*** development policy and its implementation; COMP AM N NOT YET TRANSLATED, REPLACING AM 310 - 312, 314 - 317 N. whereas it is essential to further strengthen the position of farmers in the food supply chain and to ensure fair competition within the single market, using fair and transparent rules that take into account the specific nature of ***agriculture*** in relations between production and other parts of the food supply chain, both upstream and downstream, and to provide incentives to prevent risk and crises effectively, including active management tools that are able to better match supply with demand and can be deployed at sector level and by public authorities, as pointed out in the report of the ***Agricultural*** Markets Task Force; whereas aspects outside the scope of the CAP affecting the competitiveness and a level playing field for farmers must also be properly considered and monitored; COMP AM O NOT YET TRANSLATED, REPLACING AM 324, 326 O. whereas the new challenges regarding food security and autonomy for European ***agriculture*** within the EU’s political priorities, as stated in the Commission’s reflection paper on the future of EU finances, require the next multiannual financial framework (MFF) to increase or maintain the ***agricultural*** budget in constant euros to cover both existing and new challenges; COMP AM P NOT YET TRANSLATED, REPLACING AM 331 - 333 P. whereas any changes to the current CAP must be introduced in such a way as to ensure stability for the sector and legal certainty and security of planning for farmers and forest owners, by means of adequate transition periods and measures; COMP AM Q NOT YET TRANSLATED, REPLACING AM 336 - 341 Q. whereas Parliament must play a comprehensive role in setting a clear policy framework to maintain common ambition at European level and democratic debate on the ***strategic*** issues which have an impact on the everyday lives of all citizens when it comes to the sustainable use of natural resources, including water, soil and air, the quality of our food, the financial stability of ***agricultural*** producers, food safety, health, and the sustainable modernisation of ***agricultural*** and hygiene practices, with the aim of establishing a societal contract at European level among producers and consumers; AM\1152954EN.docx 5/18 EN COMP AM R NOT YET TRANSLATED, REPLACING AM 200, 203 - 205, 286, 287, 300, 635, 342, 349 R. Whereas equality between women and men is a core objective of the EU and its Member States; whereas many of the roles played by women in ***rural*** areas help to maintain viable farm businesses and ***rural*** communities; whereas efforts to avert ***rural*** depopulation are linked to opportunities for women and young people; whereas ***rural*** women still face numerous challenges, while ***agricultural*** and ***rural*** development policies do not sufficiently include a gender dimension; whereas, although the gender of direct payment or ***rural*** development beneficiaries is a not a reliable ***indicator*** of the impact of programmes, women as applicants or beneficiaries are under-represented; COMP AM S NOT YET TRANSLATED, REPLACING AM 114, 61, 213, 345 S. whereas, in order to justify the CAP budget to European taxpayers, future funding must be linked both to the production of safe and high-quality food and to a clear societal added value as regards sustainable ***agriculture***, ambitious environmental and climate ***performance***, public and animal health and welfare standards, and other societal impacts of the CAP, in order to create a genuine level playing field within and outside the EU; COMP AM T NOT YET TRANSLATED, REPLACING AM 962, 967, 1217, 1304, ENVI 7, 19 T. whereas the use of pesticides, the degradation of biodiversity and changes in the ***agricultural*** environment may have a negative impact on the quantity of pollinators and variety of pollinator species; whereas the challenges faced by pollinators, both domesticated and wild, are significant and the effect on EU ***agriculture*** and food security could be detrimental given the dependency of the majority of EU production on pollinating services; whereas a public consultation under the EU Pollinators Initiative was launched in January 2018 to identify the best approach and necessary steps to tackle the decline of pollinators in the EU; COMP AM U NOT YET TRANSLATED, REPLACING AM 150, 222, 223 299, 334, 335 U. whereas less-favoured areas such as mountainous and outermost regions should continue to be compensated by the CAP for the extra costs associated with their specific constraints in order to maintain farming activity in such areas; whereas the application of the CAP framework in the outermost regions should fully explore the scope of Article 349 of the TFEU, since those areas are in a particularly disadvantaged position in terms of socio-economic development, with regard to aspects such as an ageing population and depopulation; whereas the POSEI is an effective tool intended for the development and strengthening of sector structuring which addresses the specific ***agricultural*** issues in the outermost regions; recalls that the Commission, in its report of 15 December 2016 to Parliament and the Council on the implementation of the POSEI (COM(2016)0797), 6/18 AM\1152954EN.docx EN concluded that ‘taking into account the assessment of the scheme …, a modification of basic Regulation (EU) No 228/2013 is not deemed necessary’; COMP AM V NOT YET TRANSLATED, REPLACING AM 66, 266, 272, 274, 309, 344, 303, 307, 308 V. whereas both forest management and agroforestry comprising an upper storey of woody vegetation over pasture or an ***agricultural*** crop, can contribute resilience at farm and landscape level and to required environmental and climate change mitigation actions, delivering forestry or ***agricultural*** products or other ecosystem services and thereby reinforcing the objectives of the CAP and allowing the circular and bio-economies to contribute to new business models benefiting farmers, foresters and ***rural*** areas; whereas the EU Forest Strategy promotes a coherent, holistic view of forest management and the multiple benefits of forests, addresses the whole forest value chain; stresses that the CAP plays a crucial role in its objectives, and pays special attention to the Mediterranean forests, which suffer more from climate change and fires, with biodiversity and potential ***agricultural*** production thus being put at risk; COMP AM 1 NOT YET TRANSLATED, REPLACING AM 354, 356 - 360, 362 - 367, 37, 1052 1. Welcomes the intention to simplify and modernise the CAP for the economic benefit of farmers and to meet citizens’ expectations, but emphasises that the overriding priorities of reform must be the principles set out in the Treaty of Rome, the integrity of the single market, and a truly common policy, adequately financed by the EU, that is modern and results-orientated, supports sustainable ***agriculture***, and ensures safe, high-quality and varied food, employment and development in ***rural*** areas; COMP AM 2 NOT YET TRANSLATED, REPLACING AM 374, 360, 388, 498, 499, 389, 395 1a. Stresses the need for the CAP to maintain the essential relationship between EU legislators, farmers and citizens; rejects any possibility of renationalising the CAP, which would increase imbalances in competition within the single market; COMP AM 3 NOT YET TRANSLATED, REPLACING AM 381 - 385, 392, 393, 378 2. Points out that the flexibility that Member States currently enjoy regarding options set out in basic rules makes it possible to respond to specific situations but, at the same time, shows that parts of the CAP can no longer be considered as common; underlines the need to uphold the conditions of competition within the single market and to guarantee a level playing field as regards access to support for farmers in different Member States or in different regions, together with the need for adequate and efficient solutions to minimise any risk of distortion of competition or risks for cohesion; AM\1152954EN.docx 7/18 EN COMP AM 4 NOT YET TRANSLATED, REPLACING AM 393, 394, 400, 401, 403, 405, 406, 409, 410, 413, 414, 419 - 421, 423, 425 - 427, 431, 435, 470, 1318, 1320, 1321, ENVI 16 3. Considers that Member States should enjoy a reasonable level of flexibility within a strong common framework of EU rules, basic standards, ***intervention*** tools, controls and financial allocations agreed at EU level by the co-legislator, in order to guarantee a level playing field for farmers and, in particular, an EU approach for support under Pillar I, with a view to guaranteeing respect for the conditions of fair competition; COMP AM 5 - NOT YET TRANSLATED 3a. Considers that, in order to make the implementation of the CAP more effective and better adapted to the realities of the different kinds of ***agriculture*** in Europe, national choices taken within the framework of the EU-defined toolbox available under Pillars I and II should be streamlined and Member States should design, with the involvement of all relevant stakeholders, their own coherent, evidence-based national strategies on the basis of EU objectives and ***indicators*** concerning the main types of possible ***intervention*** tools, which should also be defined at EU level, and their selection criteria, within a clear common framework of rules applicable across the EU, with due respect for the rules and principles of the single market; COMP AM 6 NOT YET TRANSLATED 3b. Emphasises that additional subsidiarity should only be granted on the condition that there is a strong, common set of EU rules, objectives, ***indicators*** and checks; COMP AM 7 NOT YET TRANSLATED 3c. Underlines the risks of gold-plating at national and regional level and the great degree of uncertainty for farmers owing to the possibility that Member States have to independently define their national plans and to review their decisions annually, depending on the positions taken by the governments in charge; calls on the Commission, therefore, to present to the co-legislators, together with its legislative proposals, a clear and simple model of a national ***strategic*** plan in order to enable the co-legislators to assess the scope, the degree of detail and the content of such plans, which are essential elements of the Commission’s forthcoming proposal, and to clarify the criteria against which these national strategies will be evaluated; COMP AM 8 NOT YET TRANSLATED, REPLACING AM 434, 436 - 438, 440, 441 4. Highlights the need for the future CAP to fully respect the distribution of powers within each Member State, often set out in their constitutions, particularly in terms of respecting the legal competences of the EU’s regions, when designing, managing and implementing policies, such as the EAFRD; stresses the need to ensure that farmers and other beneficiaries 8/18 AM\1152954EN.docx EN are duly involved throughout all stages of policy development; COMP AM 9 - NOT YET TRANSLATED, REPLACING AM 424, 443 - 450, 454 - 456, 459 - 462, 467 5. Welcomes the Commission’s efforts to establish programme design, implementation and control of a results-based approach in order to foster ***performance*** rather than compliance, while ensuring adequate, risk-based monitoring via clearly defined, simpler, less bureaucratic (including the prevention of gold-plating), solid, transparent and measurable ***indicators*** at EU level, including appropriate controls of Member State measures and programme design, implementation and sanctions; considers it necessary to introduce basic uniform criteria for the setting of similar penalties for equivalent non-compliances detected in the implementation of the various measures used by the Member States or regions to achieve the common general objectives set by the EU; COMP AM 10 NOT YET TRANSLATED, REPLACING AM 477 - 479 6. Calls on the Commission to carry out financial and ***performance*** control and audits with the aim of guaranteeing that functions are performed to the same high standards and in accordance with the same criteria across all Member States, irrespective of enhanced flexibility for Member States in programme design and management, and with a view, in particular, to ensuring a timely disbursement of funds across Member States to all eligible farmers and ***rural*** communities, while minimising the administrative burden for the beneficiaries; COMP AM 11 NOT YET TRANSLATED, REPLACING AM 493 - 497, 500 7. Welcomes the Commission’s proposal to grant greater flexibility to Member States, regions and farmers within the framework of a higher financial threshold for ***agricultural*** de minimis rules, while preserving the integrity of the internal market; COMP AM 12 NOT YET TRANSLATED, REPLACING AM 520, 522, 526, 528 - 531, 533, 534, 539, ENVI 5, 18 Subheading 2 A smart, efficient, sustainable and fair CAP – delivering for farmers, citizens, ***rural*** areas and the environment 8. Considers it necessary to maintain the current two-pillared architecture and emphasises that the pillars must be coherent and complementary, with Pillar I financed entirely through EU funding and constituting an efficient means of support for income, for baseline environmental measures and for the continuation of existing market measures, and Pillar II AM\1152954EN.docx 9/18 EN meeting the specific needs of the Member States; considers it necessary at the same time, however, to incentivise farmers and other beneficiaries to carry out actions that deliver environmental and social public goods which are not remunerated by the market, and to respect both new and established practices in farming on the basis of common, uniform and objective criteria, while preserving the possibility for Member States to take specific approaches to reflect local and sectoral conditions; considers the transition of all European farms towards sustainability, and for all European farms to be fully integrated into the circular economy, combining economic with environmental ***performance*** standards and with no reduction in social or employment standards, to be a top priority; COMP AM 13 NOT YET TRANSLATED, REPLACING AM 566 - 569, 571, 572, ENVI 1 9. Considers that the future CAP architecture can only deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be increased or maintained in constant euros in the next MFF in order to achieve the ambitions of a revised and efficient CAP beyond 2020; COMP AM 14 NOT YET TRANSLATED, REPLACING AM 603 - 608, 625, 628, 622, 623, 630, 610, 619, 620 10. Believes that more targeted support is necessary for diverse ***agricultural*** systems, especially small and medium family farms and young farmers, in order to strengthen regional economies through a productive ***agricultural*** sector in economic, environmental and social terms; considers that this can be achieved through a compulsory redistributive higher support rate for the first hectares of a holding, linked to the average size of a holding in the Member States, in view of the wide range of farm sizes across the EU; stresses that support for larger farms should be degressive, reflecting economies of scale, with mandatory capping to be decided at European level, and flexible criteria to take into account the capacity of farms and co-operatives to provide stable employment that keeps people in ***rural*** territories; believes that the funds made available by capping and degression should be retained in the Member State or region from which they derive; COMP AM 15 NOT YET TRANSLATED, REPLACING AM 648, 652, 647, 649, 653, 651, 655, 650, ENVI 13 11. Underlines the necessity of identifying the key elements of a well-balanced, transparent, simple and objective system of penalties and incentives, combined with a transparent and timely system for determining the eligibility of beneficiaries for receiving public money for the delivery of public goods, which should consist of simple, voluntary and mandatory measures and be results-oriented, thus shifting the emphasis from compliance to actual ***performance***; COMP AM 16 NOT YET TRANSLATED, REPLACING AM 683, 686, 687, 694, 680, 10/18 AM\1152954EN.docx EN 669, 667, 670 12. Calls for the current system for calculating direct payments in Pillar I, particularly in Member States where the value of entitlements is still calculated partly on the basis of historic references, to be modernised and replaced by an EU payment calculation method, the basic component of which would be income support for farmers within certain limits and which could increase in step with the contribution to delivering public goods in accordance with the EU objectives and targets until 2030, in order to make the system simpler and more transparent; COMP AM 17 NOT YET TRANSLATED, REPLACING AM 731, 749, 753, 1226, 727, 748, 743, 746 13. Stresses the need for a fair distribution of direct payments between Member States, which is essential for the functioning of the single market, and which must take into account objective criteria such as the amounts received by Member States under Pillars I and II and the fact that natural conditions, employment and socio-economic circumstances, general living standards, production costs, especially land costs, and purchasing power are not the same throughout the EU; COMP AM 18 NOT YET TRANSLATED, REPLACING AM 766, 770, 772, 767, 779, 768, 778, ENVI 3 14. Believes that, under the strict conditions of guaranteeing a level playing field in the single market, of preventing a distortion in competition, especially with regard to commodities, of ensuring consistency with WTO rules, and of not compromising efforts to achieve environmental and climate goals, voluntary coupled support (VCS) payments should be maintained, but should only be activated following an assessment by the Commission; believes that VCS serves as a tool to address the needs of sensitive sectors and specific objectives relating to the environment, climate or quality and the marketing of ***agricultural*** products, to incentivise farming practices meeting high animal welfare and environmental standards, to counteract specific difficulties, particularly those arising from the structural competitive disadvantage of less-favoured and mountainous regions, as well as difficulties which are more temporary in nature and arise from a shift away from the old entitlement scheme, for example; believes, furthermore, that VCS is also a tool to promote strategically important production, such as protein crops, in the future, or to compensate for the effects of free trade agreements; stresses, in addition, that VCS payments are important for maintaining the EU’s diversity of ***agricultural*** production, ***agricultural*** employment and sustainable production systems; COMP AM 19 NOT YET TRANSLATED, REPLACING AM 816, 817, 820, 822, 823, 826, 827, 829, 830, 833, 835, 836 15. Recalls that ensuring generational renewal and new entrants is a challenge for farming in AM\1152954EN.docx 11/18 EN many Member States and that each national or regional strategy must therefore address this issue through a comprehensive approach, mobilising all financial resources of the CAP, including the additional payment for young farmers under Pillar I, and measures to help young farmers get set up under Pillar II, both of which should be made mandatory for the Member States, in addition to support from new financial instruments, such as a tool to grant access to capital in the context of limited resources; stresses, furthermore, the importance of national measures in removing regulatory and economic barriers while promoting succession planning, retirement packages and access to land, and facilitating and encouraging collaborative arrangements, such as partnerships, shared farming, contract rearing and leasing between old and young farmers; considers that State aid rules should also take into account the importance of generational renewal and prevent the demise of family farming; COMP AM 20 NOT YET TRANSLATED, REPLACING AM 883, 884, 893, 897, 441, 1166, 880, 882, 890, 440, 881, 889, 878, 879, ENVI 21 16. Underlines the importance of ***rural*** development, including the LEADER initiative, for improving the synergies between different policies and for enhancing competitiveness, for promoting effective and sustainable economies, for supporting sustainable and multi-functional ***agriculture*** and forestry, and for producing food and non-food goods and services, which generate added value and jobs; stresses the importance of ***rural*** development in promoting partnerships between farmers, local communities and civil society and in fostering additional entrepreneurial activities and opportunities, which very often cannot be relocated, in agribusiness, agri-tourism, direct marketing, community-supported ***agriculture***, the bio-economy and the sustainable production of bioenergy and renewable energy, all of which help to ensure the preservation of economic activity in the regions; emphasises, therefore, the importance of bolstering Pillar II financially, thus increasing the potential to generate income, to help tackle depopulation, unemployment, poverty and to promote social inclusion, the provision of social services and the strengthening of the socioeconomic fabric in ***rural*** areas, with the overall objective of improving the quality of life therein; COMP AM 21 NOT YET TRANSLATED, REPLACING AM 925, 927 - 929, 932, 934, 943 - 946, 948, 951, 955, 961, 968, 972, 978, ENVI 3, 16, 21 17. Calls on the Commission to introduce a new, coherent, reinforced and simplified conditionality regime in Pillar I, enabling the integration and implementation of the different types of existing environmental actions, such as the current cross-compliance and greening measures; stresses that the baseline of Pillar I to achieve sustainable ***agricultural*** development should be mandatory and clearly stipulate the measures and results expected from farmers so as to ensure a level playing field, while ensuring minimum bureaucracy at farm level and, taking into account local conditions, adequate control by the Member States; calls, furthermore, for a new and simple scheme, which should be mandatory for Member States and optional for farms, based on EU rules which go beyond the baseline to incentivise farmers’ transitioning to sustainable techniques and practices for climate and the environment and which are compatible with the agri-environment-climate measures (AECMs) in Pillar II; believes that the implementation of this scheme should be determined in the national ***strategic*** 12/18 AM\1152954EN.docx EN plans within an EU framework; COMP AM 22 NOT YET TRANSLATED 17a. Calls on the Commission to ensure that Pillar II’s AECMs for ***rural*** development continue to offset the additional costs and shortfalls associated with the voluntary establishment by farmers of environmentally and climate-friendly practices, with the possibility of adding an incentive for investment in environmental protection, biodiversity and resource-efficiency; considers that these programmes should be simplified, better targeted and more efficient, so that farmers can deliver effectively on ambitious policy goals with regard to environmental protection, biodiversity, water management and climate action and climate change mitigation, while ensuring minimum bureaucracy at farm level and, taking into account local conditions, adequate control by Member States; COMP AM 23 NOT YET TRANSLATED, REPLACING AM 952, 984, 985, 987, 988, 990 - 993, 995, 996, 998, 1006 18. Believes that a minimum amount of the total available budget in Pillar II should be allocated to AECMs, including organic ***agriculture***, CO2 sequestration, soil health, sustainable forestry management measures, nutrient management planning for the protection of biodiversity, and pollination and genetic diversity in animals and plants; emphasises, in this context, the importance of maintaining Natura 2000 payments and ensuring that they are sufficient to serve as a genuine incentive for farmers; COMP AM 24 NOT YET TRANSLATED, REPLACING AM 1021, 1022 - 1032, 1035, 1037, 1069, 1077, 19. Calls on the Commission to foster innovation, research and modernisation in farming, agro-forestry and the food sector by supporting a strong advisory system and training that is better adapted to the needs of CAP beneficiaries in developing their practices towards greater sustainability and resource protection, and by supporting the application of smart technologies in order to respond more effectively to challenges in the areas of health, the environment and competitiveness; stresses that training and extension must be a pre-condition in programme design and implementation in all Member States and that is essential to foster know-how transfer, best practice models and exchanges among cooperatives and producer organisations across the Members States, such as through the European ***agricultural*** knowledge and information system (AKIS); believes that agro-ecological methods, and the principles underpinning precision farming, can generate significant benefits for the environment, increase farmers’ income, rationalise the use of ***agricultural*** machinery and significantly increase resource efficiency; COMP AM 25 NOT YET TRANSLATED, REPLACING AM 792, 804, 972, 1085, 1086, 1088 - 1090, 1092 - 1094, 1096, 1097, 1103, 1104, 1105, 1110 - 1112, 1121 AM\1152954EN.docx 13/18 EN 20. Calls on the Commission to maintain the current single common market organisation (single CMO) framework within Pillar I, including the specific policy instruments and marketing standards, and to improve the EU school fruit, vegetables and milk scheme; stresses the importance of existing production management systems for specific products and maintaining compulsory individual sector programmes (wine, fruit and vegetables, olive oil and apiculture) for producing countries, with the ultimate aim of strengthening the sustainability and competiveness of each sector and maintaining a level playing field while enabling access for all farmers; COMP AM 26 NOT YET TRANSLATED 20a. Believes that the positive and ‘market-oriented’ experience of the single CMO operational programmes in the fruit and vegetable sector, implemented by producer organisations and financed on the basis of the value of marketed production (VMP), have proven their effectiveness in enhancing the competitiveness and structuring of the targeted sectors and improving their sustainability; calls, therefore, on the Commission to consider the introduction of similar operational programmes for other sectors; believes that this could be of particular benefit to producer organisations representing dairy farmers in mountainous regions and outlying areas of the Union, who process and market high-quality products and maintain milk production in these hard-to-farm areas; COMP AM 27 NOT YET TRANSLATED, REPLACING AM 1123, 1128 - 1131, 1136 - 1139, 1143 21. Insists on the critical need for the future CAP to support farmers more efficiently, fairly and promptly in order to cope with price and income volatility due to climate, adverse weather conditions, and sanitary and market risks, by creating additional incentives and market conditions stimulating the development and voluntary use of risk management and stabilisation tools (insurance schemes, income stabilisation tools, individual provision mechanisms and mutual funds) while ensuring accessibility for all farmers and compatibility with existing national schemes; COMP AM 28 NOT YET TRANSLATED, REPLACING AM 1158, 1159, 1162 - 1165, 1168 - 1172, 1174, 1175, 1177 - 1179, 1181, 1182, 1186, 1188, 1191, 1193 - 1195 22. Insists on the importance of strengthening the position of primary producers within the food supply chain, in particular by guaranteeing a fair distribution of the added value between producers, processors and the retail sector, by introducing the financial resources and incentives required to support the creation and development of economic organisations, both vertical and horizontal, such as producer organisations, including cooperatives, and their associations and inter-branch organisations, by establishing harmonised minimum standards to combat unfair and abusive trade practices along the food supply chain and by strengthening transparency in the markets and through crisis prevention tools; 14/18 AM\1152954EN.docx EN COMP AM 29 NOT YET TRANSLATED 22a. Stresses that in accordance with the objectives of Article 39 TFEU and the exception referred to in Article 42 TFEU, the omnibus regulation has clarified the legal relationship between the provisions of the single CMO and EU competition rules and introduced new collective possibilities for farmers to enhance their bargaining power within the food supply chain; believes that these provisions are essential in the framework of the future CAP and should be improved further; COMP AM 30 NOT YET TRANSLATED 22b. Considers that drawing on the lessons learnt from the functioning of the diverse EU Market Observatories (Milk, Meat, Sugar and Crops), such tools should be extended to the sectors that are not yet covered and developed further to offer reliable data and forecasts to market operators in order to deliver an early warning and enable prompt and pre-emptive actions in the case of market disturbances with a view to preventing crises; COMP AM 31 NOT YET TRANSLATED, REPLACING AM 1099, 1100, 1113, 1141, 1144, 1148, 1149, 1196 - 1199, 1203, 1206 - 1209, 1212, 1215 23. Stresses that the historical market management tools of the CAP (i.e public ***intervention*** and private storage) have a reduced and insufficient effect in the context of globalised economies and that risk management tools are not always sufficient to cope with significant price volatility and severe market disturbances; COMP AM 32 NOT YET TRANSLATED 23a. Stresses the need, therefore, for the single CMO to continue to play an important role within the future CAP as a safety net in rapidly stabilising ***agricultural*** markets and in anticipating crises, and underlines the importance of the omnibus regulation in enabling and encouraging – drawing on the lessons learnt during the last market crises, particularly in the dairy sector – the complementary use of innovative market and crisis management instruments, such as voluntary sector agreements, to manage and, where appropriate, reduce supply in quantitative terms among producers, producer organisations, associations of producer organisations, and interbranch organisations and processors (e.g the EU Milk Production Reduction Scheme); COMP AM 33 NOT YET TRANSLATED, REPLACING AM1216, 1218, 1220 - 1222 24. Calls for an in-depth review of the current crisis reserve mechanism in order to create a AM\1152954EN.docx 15/18 EN workable and independent EU fund for ***agricultural*** crises, which would be exempted from the principle of annuality of the budget, so as to permit budgetary transfers from one year to the next, especially when market prices are sufficiently high, while maintaining the crisis reserve at a constant level throughout the MFF period, thereby enabling quicker, more coherent and effective prevention actions and responses complementary to the use of market and risk management tools in the case of severe crisis situations, including those involving economic consequences for farmers due to animal health issues, plant diseases and food safety, but also those arising from external shocks with an impact on ***agriculture***; COMP AM -34 NOT YET TRANSLATED, REPLACING AM 1232, 1234 - 1236, 1238 - 1241, 1243 - 1245, 1247, 1248, ENVI 11, 23 25. Believes that while trade agreements are beneficial for some EU ***agricultural*** sectors, and necessary to strengthen the Union’s position on the global ***agricultural*** market and benefit the EU economy as a whole, they also pose a number of challenges, particularly for small and medium-scale farming and sensitive sectors that need to be taken into account, such as respect for EU sanitary, phytosanitary, animal welfare, environmental and social standards, which requires coherence between trade policy and certain objectives of the CAP and must not lead to the weakening of Europe’s high standards or put at risk its ***rural*** territories; emphasises that, while it is important to continue to work for increased market access for European ***agricultural*** products, adequate measures for the protection of European ***agriculture***, which take into account sector-specific concerns, are necessary, such as safeguarding mechanisms, the potential exclusion from negotiations of the most sensitive sectors and the application of the principle of reciprocity in production conditions, so as to ensure a level playing field between farmers in the EU and their foreign competitors; insists that European production must not be undermined by inferior and substandard imports; COMP AM 35 NOT YET TRANSLATED, REPLACING AM 1274, 1275, 1277 - 1279, 1281, 1282, 1284, 1287, 1295 26. Calls on the Commission to launch clear and transparent initiatives to further reinforce the promotion of EU production, safety, animal welfare and environmental standards and short supply chains and to support quality food production schemes, which could be achieved inter alia through European origin labelling schemes, and marketing and promotion activities on internal and third-country markets for those sectors benefiting from specific policy instruments under the CAP; insists on the need to reduce red tape and unnecessary conditions to allow smaller producers to partake in these schemes; welcomes the steady increase in the budget available for promotional programmes and urges the Commission to maintain the pace of increase in the appropriations in the light of the growing interest from producers; COMP AM 36 NOT YET TRANSLATED, REPLACING AM4 39, 1309 - 1316 A transparent decision-making process for a solid CAP proposal 2021-2028 16/18 AM\1152954EN.docx EN 27. Stresses that Parliament and the Council should, via the co-decision procedure, set the general common objectives, basic standards, measures and financial allocations, and determine the appropriate level of flexibility needed to enable the Member States and their regions to cope with their specificities and needs in line with the single market so as to avoid distortions of competition deriving from national choices; COMP AM 37 NOT YET TRANSLATED, REPLACING AM 1331 - 1334 29. Calls on the Commission to propose, before the introduction of substantial changes in the design and/or implementation of the CAP, a transitional period long enough to ensure a soft landing and time for Member States to properly implement the new policy in an orderly manner so as to avoid any delay in farmers’ annual payments and in the implementation of ***rural*** development measures; COMP AM 38 NOT YET TRANSLATED, REPLACING AM 811, 844, 850, 905, 635, 644, 864, 863 30. Calls on the Commission to ensure that the Member States, in their action plans, guarantee equality between women and men in ***rural*** areas; urges the Commission and the Member States to support equal representation of women in the institutions’ structures for dialogue with the sector and also in the decision-making bodies of the sector’s professional organisations, cooperatives and associations; considers that the new EU legislation should substantially improve the thematic sub-programmes for women in ***rural*** areas; COMP AM 39 NOT YET TRANSLATED, REPLACING AM 501, 656, 663, 986, 1288, 1263, 1017 31. Stresses that the Commission should continue to ensure the strict enforcement of EU animal welfare legislation at all times in all Member States equally, with proper control and sanctions; calls on the Commission to monitor and report on animal health and welfare, including animal transport; recalls that products entering the EU must respect European animal welfare, environmental and social standards; calls for financial incentives for the voluntary adoption of animal welfare measures going beyond minimum legislative standards; COMP AM 40 NOT YET TRANSLATED, REPLACING AM 805, 806, 119, 1297, 502, 511 31 (new). Insists that special consideration should be granted to farmers who face extra costs owing to specific constraints linked to high value natural areas such as mountainous areas, islands, outermost regions, and other less favoured areas; believes that owing to their specific constraints, CAP financing is vitally important for these regions and that any reduction would have a very damaging impact on many ***agricultural*** products; urges the Member States to AM\1152954EN.docx 17/18 EN develop and implement quality schemes in order to give the producers interested the opportunity to introduce them swiftly; COMP AM 41 NOT YET TRANSLATED, REPLACING AM 754, 503, 506, 581 32 (new). Considers that the budget of POSEI should be maintained at sufficient levels to face the challenges of ***agriculture*** in the outermost regions, as called for several times by Parliament; welcomes the results of the most recent Commission report on the POSEI implementation and considers that programmes for outermost regions and for the smaller Aegean islands should be kept separate from the general EU direct payments scheme, in order to ensure balanced territorial development by preventing the risk of abandonment of production as a result of challenges related to remoteness, insularity, small size, difficult topography and climate, and economic dependence on a small number of products; COMP AM 42 NOT YET TRANSLATED, REPLACING AM 1146, 1158 33 (new). Calls on the Commission to include in the Milk Market Observatory an autonomous section to study prices in the outermost regions, in order to react promptly to a crisis in the sector; believes that the definition of ‘crisis’ and subsequent ***intervention*** of the Commission should be adapted to the outermost regions, taking into consideration the size of the market, dependence on a limited number of economic activities and less capacity for diversification; COMP AM 43 NOT YET TRANSLATED, REPLACING AM 1146, 1158 34 (new). Calls for better integration of the ‘circular economy’ to ensure the best and most efficient use of primary material and by-products in the emerging bioeconomy while respecting the limits of availability of biomass and land and other ecosystem services, and believes that the development of bio-based industry in ***rural*** areas might provide new business models that could help farmers and forest owners to find new markets for their products and create new jobs; calls on the Commission and the Member States, therefore, to provide the necessary support to the ***agricultural*** and forestry sector with a view to making a greater contribution to the further development of the bioeconomy in the EU; underlines the need to promote agroforestry, which can provide multipurpose, recreational and productive ecosystems and microclimates, and to close the gaps that could hamper its development; COMP AM 44 NOT YET TRANSLATED, REPLACING AM 978, 987, 990, 984 35 (new). Believes that AECM support, complemented by eco-schemes at Member State level, should cover the costs for farmers of transitioning to new sustainable practices, such as through promotion and support for agroforestry and other sustainable forestry measures that support biodiversity and genetic diversity in animal and plant species, and of adapting to changing climatic conditions; 18/18 AM\1152954EN.docx EN COMP AM 45 NOT YET TRANSLATED, REPLACING AM 1026, 1030, 1035, 1056, 1120 36 (new). Calls on the Commission to guarantee innovation, research and modernisation in agroforestry and forestry by supporting a strong and tailored advisory system, targeted training and tailored solutions to drive innovation and the exchange of know-how and best practices among Member States, with a general focus on relevant new technologies and digitalisation; underlines, at the same time, the crucial role of forest owner associations in information and innovation transfer, training and further education for small-scale forest owners and in the implementation of active multifunctional forest management.

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**Body**

Brussels: Public Register European Parliament has issued the following document:

1 This action is funded by the European Union ANNEX 1 of the Commission Implementing Decision on the Annual Action Programme 2017 Part II and 2018 Part I in favour of the Asia region Action Document for the Asia Investment Facility (AIF) 2017 1. Title/basic act/ CRIS number Asia Investment Facility (AIF) CRIS number: ACA/2017/040-370 (MA - part 1) and ACA/2018/040-409 (MA - part 2) financed under Development Cooperation Instrument 2. Zone benefiting from the action/ location DCI regions 'South Asia' and 'North and South East Asia' The action shall be carried out at the following location: all countries of Asia eligible under the Multiannual Regional Indicative Programme for Asia for the period 2014-2020 3. Programming document Multi-annual Regional Indicative Programme for Asia for the period 2014-2020 (RIP) Multi-annual Indicative Programme for Vietnam for the period 2014-2020 (MIP) 4. Sector of concentration/ thematic area Promotion of Green Economy DEV. Aid: YES 5. Amounts concerned Total estimated cost: EUR 71 000 000 Total amount of EU budget contribution EUR 71 000 000 The contribution is for an amount of EUR 39 million from the general budget of the European Union for financial year 2017 (040-370) and for an amount of EUR 32 million from the general budget of the European Union for financial year 2018 (040-409), subject to the availability of appropriations following the adoption of the relevant budget.

This action will unlock investments for indicative amounts as specified in the indicative project pipeline in appendix 2. 6. Aid modality(ies) and implementation modality(ies) Project Modality This action shall be implemented in indirect management by entities to be indicated in complementary financing decisions to be adopted at the end of the Regional Blending Facilities award procedure. 7a) DAC codes 23010 Energy Policy and administrative management Ref. Ares(2017)3082593 - 20/06/2017 2 41010 Environmental policy and administrative management 32130 SME Development 21010 Transport policy and administrative management 16050 Multi-sector aid for basic social services b) Main delivery Channel 42004 European Investment Bank European Development Banks 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance X ☐ ☐ Aid to environment ☐ X Gender equality (including Women In Development) ☐ X ☐ Trade Development X ☐ ☐ Reproductive, Maternal, New born and child health X ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity X ☐ ☐ Combat desertification X ☐ ☐ Climate change mitigation ☐ x Climate change adaptation ☐ x 9. Global Public Goods and Challenges (GPGC) thematic flagships N/A 10. SDGs Main SDG Goal: 13 Climate Action Secondary SDG Goal(s):7 Affordable and Clean Energy; 8 Decent work and economic growth, 11 Sustainable cities and communities SUMMARY The Asia Investment Facility ('AIF' or 'the Facility') was created in 2010 under the former Development Cooperation Instrument (DCI) and the Regional Strategy – Asia Region - and then aligned to the objectives of the new DCI Regulation1 and of the new Regional Strategy - Asia Region2 and Multiannual Regional Indicative Programme for Asia for the period 2014-20203. Its main purpose is to promote additional investments and key infrastructure with a focus on climate change relevance and 'green' investments in the areas of energy, environment, and transport. In addition, the Facility may help to improve access to finance for small and medium sized enterprises (SMEs) and to promote social sector investments. Where relevant and possible, a regional dimension should be included to the above mentioned 1 Regulation (EU) No 233/2014 of the European Parliament and of the Council establishing a financing instrument for development cooperation, for the period 2014-2020, OJ L 77, 15.3.2014 2 Decision C(2014) 9382 3 Decision C(2014) 6112 3 sectors. In order to ensure the effectiveness of blending operations in meeting their policy objectives of poverty reduction and sustainable socio-economic development as well as the efficiency of their management including a reduction of transaction costs, blending operations funded under the Development Cooperation Instrument (DCI) will be managed under the 'DCI blending framework', covering three regional facilities for Asia (AIF) , Central Asia (IFCA), and Latin America (LAIF) as well as thematic facilities. Financing of the DCI blending framework will be possible from DCI regional and bilateral multi-annual indicative programmes as well as relevant thematic programmes. In this replenishment an allocation from the bilateral multi-annual indicative programme for Vietnam4 will be added as well. The Facility is designed to combine EU grants with other public and private financing. By reducing, through co-financing, the overall cost of the project or its perceived risk, the Facility will encourage beneficiary governments, private sector and/or public institutions to carry out essential investments in sectors which could otherwise be postponed or even not financed at all due to lack of appropriate resources. The present Action Document is a continuation of Commission decision C(2011)9053, the decision C(2013)8672 the decision C(2014)878, the decision C(2015)5830 and the decision C(2016)7768 on AIF. 1 CONTEXT 1.1 Regional context Asia is a vast and non-homogenous continent, very diverse in population, languages, religions, traditions, cultures, economic development and socio-political systems. Wealth and economic ***performances*** reflect this diversity and have been unevenly distributed across the region and across countries. As a result, poverty remains a significant challenge as Asia is still home to two thirds of the world poor, although it is worth noting a middle class is gradually developing thanks to the combination of economic growth and improved access to secondary and tertiary education. The region covered by the EU-Asia regional cooperation accounts for more than half of the world’s population, a significant part of the world economic wealth created every year, and is home to two of the ten largest economies in the world, China and India. Fast growth rates in the region are achieved at the cost of environmental degradation. In this context, EU support to regional cooperation aims at contributing to the smooth, fair and sustainable development of Asia while coping with common problems and globalisation challenges, in particular the setting up of common rules and fair trade to facilitate regional integration, environment preservation, the reduction of poverty pockets, humanitarian aid supporting uprooted people and the amplification of the emergence of a middle class through access to internationally recognized tertiary education programmes. 4 26 MEURO, part of the AAP 2017 and AAP 2018 for Vietnam 4 Asia emits more than 30% of worldwide green-house gases (GHG) which on the basis of current trends would reach over 40% in 2030. In the recent past, the degradation and burning of peat soils in South-East Asia represented 6-7 per cent of global fossil fuel emissions. Asia also has the 3rd largest incidence of natural disasters worldwide. The anticipated effects of climate change imply a serious risk for future development in Asia. Since 2002, Vietnam is firmly engaged in a power sector reform aimed at ensuring the sustainability of the sector, through establishing a fully competitive power market, leading to a more cost-reflective pricing of electricity. In terms of climate change, energy (38.9%) and ***agriculture*** (47.8%)5 are the two sectors generating most GHG with a substantial increase over the last 20 years, followed by the industry sector which is also expected to further increase GHG emissions. In the future, energy is expected to become by far the main source of GHG emission with a projection of 86% by 20306. Renewable energy and energy efficiency constitute major un-tapped areas for mitigation. 1.2 EU Policy Framework The Rio+20 Outcome, strongly supported by the EU, identify the transition to a green economy as a key goal of sustainable development. Under the Regional Asia programme green economy is addressed in two areas. The first area is the adoption of sustainable consumption and production techniques by Asian manufacturers and service providers, in order to decouple economic growth from environmental degradation and natural resource depletion that so often accompany it. The second area is the leveraging of investment funding in green infrastructure that will limit the emission of CO2 and equivalents and increase resilience to climate change in vulnerable countries. The AIF is the vehicle for leveraging this investment funding. These continental programmes will contribute to achieving the EU’s target of at least 20% of spending on climate change adaptation and mitigation. Investment needs in EU partner countries are huge as was concluded in the Addis Ababa Action Agenda on Financing for Development in July 2015. Government and donor funds are far from sufficient to cover these needs. Already the Agenda for Change emphasises the support for inclusive growth and job creation as a key priority of EU external cooperation. Blending and leveraging private investments are also key components in the context of the Sustainable Development Goals and the new European Consensus on Development as well as the climate finance objectives agreed upon in the COP 21 and in the discussions of the new Investment Plan. In accordance with the Regulation (EU) No 236/20147, the Union should seek the most efficient use of available resources in order to optimise the impact of its external action. That should be achieved through coherence and complementarity between the Union's instruments for external action, as well as the creation of synergies between the Instruments and other policies of the Union. This should further entail mutual reinforcement of the programmes devised under the Instruments, and, where appropriate, the use of financial instruments that have a leverage effect. 5 UN Climate Change Secretariat. 6 Technical report on VN's INDC (Ministry of Natural Resources and Environment – Nov 2015). 7 Regulation of the European Parliament and of the Council (EU) No 236/2014 of 11 March 2014 establishing common implementing rules and procedures for the implementation of the Union's instruments for external action 5 Within Vietnam's policy framework, decision 2068 adopting a 'Renewable Energy Development Strategy until 2030, vision 2050' serves as basis for delivering on Vietnam's commitments at COP 21 in the field of renewable energy8. 1.3 Stakeholders analysis The beneficiaries of the Facility will be the Asian countries via their central, regional and local administrations or semi-public institutions, and the private sector, in particular local Financial Institutions and SMEs. In addition, stakeholders include European or multi-national Financial Institutions that are eligible to become Lead Financial Institutions for AIF funded operations. In accordance with Article 4 e) the Regulation (EU)No 236/2014, financial instruments shall be implemented whenever possible under the lead of the European Investment Bank (EIB), a multilateral European financial institution such as the European Bank for Reconstruction and Development (EBRD), or a bilateral European financial institution. The Agence Française de Développement (AFD) has so far been the main financial institution partner in Asia followed by Kreditanstalt für Wiederaufbau (KfW). The main focus has been on projects relevant to climate change objectives and 'green' investments in areas of environment and energy, as well as in SME's and social infrastructure. In accordance with the recommendations made under the EU Platform for Blending in External Cooperation (EUBEC), the involvement of non-European FIs as lead financiers should be examined by the Board of the DCI Blending Framework on a case by case basis following a targeted approach, based on the specific added value as a lead financier brought in a particular project or region. This would include those aspects in which non-European FIs might contribute to fill the gap left by European FIs, in particular regarding their : a. specific thorough knowledge of local conditions and presence in the region, b. specific analytical capacities and specific expertise and know-how, notably on private sector financing and the promotion of financial instruments and /or of innovative financing tools that attract private funding, c. specific know-how and experience in relevant sectors, d. additional technical and/or financial capacity to substantially leverage further resources. In accordance with art 2 of the Rules of Procedure of the DCI Blending Framework, non-European finance institutions active in a particular region should be invited to attend relevant Technical Assessment and Board meetings as observers. 1.4 Priority areas for support/problem analysis See point 1.1 and 1.2 above. 8 Decision 2068/ QĐ-TTg (Nov. 2015) 6 2 RISKS AND ASSUMPTIONS Risks Risk level (H/M/L) Mitigating measures Debt level of beneficiary countries is not sustainable. M Close attention is paid to this issue during the project selection process. This is facilitated by detailed information that the applying Financial Institution needs to provide on the application form. For the specific case of Vietnam, high level of debt is an issue. However, investments in the areas of sustainable energy and more broadly on climate change are expected to be prioritized by the Government. Assumptions  The political and security climate at the regional as well as country level in Asia will remain sufficiently stable to promote and secure investments.  Partner countries have identified priority investments and are ready to finance them through their own resources as well as through loans.  The Financial Institutions' pipeline of projects is of sufficient volume and quality to consume the present allocation to the Asia Investment Facility within the period n+1.  Financial Institutions' capability to provide sufficient loan amounts also depends on the availability/accessibility of financial guarantees/grant resources in countries with a concessionality requirement.  Partner countries and other local beneficiaries are engaged since the early stage and have full ownership of the project prepared by the eligible European Financial Institutions. 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES 3.1 Lessons learnt The AIF draws to the maximum extent possible lessons from previous similar experiences through reviews, assessments, monitoring results (Results Oriented Monitoring), evaluations of previous actions and, where possible, other assessments from other donors, relevant to this specific action. An evaluation of the EU regional cooperation with Asia was carried out in 2013, but all AIF projects were still ongoing at the time of the evaluation, so that their development impact could not be assessed. An overall evaluation on blending9 was conducted between July 2015 and July 2016 incorporating all regional investment facilities10 active during the period 2007-2014. The outcome of the evaluation is positive and following recommendations are relevant for further follow-up under AIF:  Focus strongly on the additionality of the blending grant 9 Evaluation of Blending, final report, December 2016, ADE 10 ITF, NIF, LAIF, CIF, IFCA, AIF and IFP 7  Expand the number and specialization of IFI partners  Sharpen the alignment of the blending projects with national policies  Expand the use of risk sharing instruments to financial intermediaries selected for their strategy and policies with respect to pro-poor and pro-development risk taking  Achieve greater development impact through blending projects by placing greater focus on job creation and poverty alleviation. In line with the overall objective of the Asia Regional Indicative Programme 2014-2020, the AIF encourages multi-country projects which address common constraints and efficiently uses available resources and institution, complementing national efforts, enhancing sustainable and inclusive development within the Asia region. However, most projects approved so far have mainly national objectives. The AIF Technical Assessment Meeting and the AIF Board have therefore encouraged the Financing Institutions to consider additional regional projects in the future. These findings have been used, with other reports, by the EU Platform for Blending in External Cooperation, set-up in December 2012, to make concrete recommendations for further increasing the effectiveness of aid delivered by the European Union through blending. At the same time, the Court of Auditors published a special report on blending in October 2014. The conclusions were very much in line with the above: blending the regional investment facility grants with loans from FIs to support EU external policies was found generally effective, and projects were relevant. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant, ensure the maturity of projects submitted to the facilities' Boards, produce guidelines, ensure a more pro-active role of Delegations, simplify the decision making process, improve the Commission’s monitoring of the projects, and ensure appropriate visibility for EU funding. These recommendations have been dealt with by the EU policy group established under the EU Platform for Blending in External Cooperation. They were consequently incorporated in an improved project application form, as well as in a newly developed blending results measurement framework. These will continue to be improved according to arising needs as well as knowledge obtained from the implementation of blending projects. Finally, DCI blending facilities have been working since 2014 in context of a revised and harmonized governance framework that improves the accountability of the decision making process while reducing transaction costs. 3.2 Complementarity, synergy and donor coordination AIF provides Asian countries with the possibility to fund investments where funding cannot (yet) be obtained on the financial market. It is funded under the EU's Regional Indicative Programme 2014 – 2020 for the region of Asia and the various National Indicative Programmes and thus focuses on activities that are in line with the priorities of these Regional and/or National Indicative Programmes respectively. Notably, AIF, as it encourages green investments11, is complementary to the SWITCH-Asia programme which pursues a similar objective and has been tentatively allocated EUR 120 million over the programming period 2014-2020. The former, however, by combing grant 11 A green investment is to be understood as an investment that promotes green economy (see definition of a green economy on page 1) 8 resources with other type of financing could even support larger scale projects, while the latter targets SMEs' small scale projects. Furthermore, in terms of access to finance for SMEs, SWITCH-Asia's ***interventions*** are limited to capacity building measures while AIF can intervene in risk sharing activities. Links between AIF and SWITCH-Asia have already been established via the SWITCH-Asia magazine12, highlighting relevant projects. Furthermore, links between the two programmes will be encouraged during SWITCH networking events and through webinars organized under SWITCH ASIA on access to green finance for SMEs and MSMEs. The allocation from the MIP Vietnam is fully linked with the main focal sector of the MIP which is Sustainable Energy with three main objectives: Access to Energy in ***Rural*** Areas, Energy Efficiency and Renewable Energy. In support of these objectives the EU wants to promote infrastructure investments in the sector and this via blending operations. In line with the overall objective of the Asia Regional Indicative Programme 2014-2020, the AIF encourages multi-country projects which addresses common constraints and efficiently uses available resources and institutions, complementing national efforts, enhancing sustainable and inclusive development within the Asia region, By combining grant funds from the European Commission's budget with financing from European Financial Institutions, the Facility promotes coherence and enhanced coordination between donors, in line with the Paris Declaration principles and in compliance with the Regulation (EU, Euratom) No 966/2012. Since Financial Institutions' resources reinforce EU resources, AIF is able to finance larger operations and bring more EU visibility than classical stand-alone projects. In addition, by helping to carry out public investments, the EU will be able to exert greater influence on the beneficiary governments or their public bodies to carry out necessary reforms. Following the recommendations of the EU Platform for Blending in External Cooperation, the involvement of non-European FIs, including the possibility to act as lead FIs is to be examined by the Board of the relevant blending framework on the basis of their value added to a particular project or region. 3.3 Cross-cutting issues The European Commission will ensure during the project selection process as well as through the normal project monitoring process that funds entrusted to eligible Financial Institutions for projects financed under AIF from the EU budget respect European Union principles in terms of climate change, environmental sustainability, EU law on Environment Impact Assessment, gender equality, good governance and human rights. Synergies between the blending facilities and EU funded capacity building programmes related to cross cutting issues and, where applicable, policy reform instruments including sector budget support will be sought. 12 [*http://www.switch-asia.eu/publications/switch-asia-magazine/*](http://www.switch-asia.eu/publications/switch-asia-magazine/) 9 4 DESCRIPTION OF THE ACTION 4.1 Objectives/results This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG target(s) 13, but also promotes progress towards Goal(s) 7, 8 and 11. This does not imply a commitment by the Asian countries benefiting from this programme. In line with the objectives of the Regional Indicative Programme 2014 – 2020 for Asia, AIF's main objective is the promotion of a green economy through the leverage of additional investments and key infrastructure with a priority focus on climate change relevant and 'green' investments in areas of environment, energy as well as in SMEs and social infrastructure. The blending mechanism allows mitigating financial risks, and thus, funding of projects that without blending would not be possible or only possible at a higher price/interest rate, later stage, lower quality etc. The leverage effect of AIF is expected to mobilize additional financing amounts several times the amount of the AIF grant contribution. AIF promotes investments in the sectors energy, environment, SMEs development, social infrastructure and transport. The Facility thus contributes to the realization of projects aiming to reduce unemployment and poverty and to advance the economy in a sustainable way. Furthermore, AIF aims to support investments with the potential to mitigate or reduce the negative impact of climate change. AIF is an appropriate instrument to co-finance some of these investments and to develop a range of climate change oriented operations in Asia. Synergies will be sought with other partners active in this sector. The expected results of AIF include contributions to: (1) Better energy infrastructure13,, notably: - Improved transit connections between Asian countries, thus increasing security of energy supply for Asian countries; - Improved safety and security of energy infrastructure; - Improved energy efficiency and energy savings; - Increased production and use of renewable energy (e.g wind, solar energy, bio-mass). (2) Increased protection of the environment and better focus and control of climate change impacts, notably: - Introduction of integrated water management, including necessary related infrastructure; - Reduction of air, soil and water pollution including monitoring infrastructure when needed; - Increased forest protection including by strengthening forest governance - Promotion of climate change related investments, i.e renewable energy, energy saving and cleaner production and other environment friendly techniques; - Promotion of integrated waste management (household, municipal and industrial) including necessary related infrastructures. 13 The MIP allocation of Vietnam will be totally allocated in order to attain the expected results formulated for energy. 10 (3) Creation and growth of SMEs and improvement of the employment situations, notably in the area of climate change relevant and 'green' investments: - Better access to financing for SMEs (availability of a larger range of financial products than currently available) at the different stages of enterprise creation, restructuring and modernisation, favouring cleaner and low carbon production focused projects; - Creation of technological pools, enterprise incubators, etc. (4) Improved social services and infrastructures, notably in the area of climate change relevant and 'green' investments: - Better access to health care and improved health services installations in urban and ***rural*** areas; - Better education facilities, increased access to education in urban and ***rural*** areas; - Improve vocational training facilities. (5) Better transport infrastructure, notably in the area of climate change relevant and 'green' investments: - Better (faster, cheaper and safer, environmental friendly and low carbon) transport infrastructure within beneficiary countries and between them; - Better interconnection between Asian countries; - Faster and cheaper movement of people and goods within Asia. 4.2 Main activities The types of operations to be financed under AIF are the following:  Direct investment grants  Technical assistance;  Risk capital operations and risk-sharing operations, e.g guarantees  Interest rate subsidies 4.3 ***Intervention*** logic To be developed at project level. 5 IMPLEMENTATION 5.1 Financing agreement In order to implement this action, it is foreseen that a financing agreement may be concluded with partner countries, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2 Indicative implementation period The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 120 months from the entry into force of the financing agreement or, when none is concluded, from the adoption by the Commission of this Action Document. 11 Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 Contribution to the Asia Investment Facility This contribution may be implemented under indirect management with the entities, called Lead Financial Institutions, and for indicative amounts identified in the appendix of this action document, in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. The entrusted budget-implementation tasks consist in the implementation of procurement, grants, financial instruments and payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it. The Lead Financial Institutions are not definitively known at the moment of adoption of this Action Document but are indicatively listed in its appendix. Complementary financing decisions will be adopted under Article 84(3) of Regulation (EU, Euratom) No 966/2012 to determine the Lead Financial Institutions definitively. Certain entrusted entities are currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission’s authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002, they can be entrusted with budget-implementation tasks under indirect management. 5.4 Procurement (direct management) Subject in generic terms, if possible Type (works, supplies, services) Indicative number of contracts Indicative trimester of launch of the procedure Visibility services 1 Q2 - 2018 5.4 Scope of geographical eligibility for procurement and grants The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provision. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult. 5.5 Indicative budget Facility EU contribution 12 (Amount in EUR) 5.3.1 2014-2020 RIP contribution to AIF in support of activities covered by the regional programme 44 950 000 5.3.2 2014-2020 MIP contribution to AIF for Vietnam in support of activities covered by Vietnam's bilateral programme 26 000 000 5.10 2014-2020 RIP contribution to AIF communication & visibility 50 000 Total 71 000 000 In case additional funds originating from a bilateral Multi-Annual Indicative Programme are added to the Investment Facility, these funds will be allocated to projects benefiting the country contributing, and in line with the priorities of that Indicative Programme. In case the total budget of the projects recommended by the Board for this country is lower than the amount allocated under the MIP, the Commission may consider financing other eligible projects in other countries covered by the Facility. In this case, a non-substantial rider to the Decision will be duly processed in order to use the Regional Indicative Programme (RIP) resources, up to an amount corresponding to the difference between the amount initially allocated under the MIP and the total amount of the projects relating to the concerned country. 5.6 Organisational set-up and responsibilities DCI Blending Framework The Asia Investment Facility will operate under the governance of the DCI blending framework. The operational decision-making process will be prepared in a two level structure:  opinions on projects will be formulated at the Board meetings, held if possible back to back with the respective financing instrument's committee (DCI Committee);  such opinions will be prepared in dedicated Technical Meetings. The Board is chaired by the Commission. The EEAS and the EU Member states are members who provide an opinion. FIs14 participate as observers. The opinion of the Board can be positive, negative or recommend re-submission of project proposals. FIs will be present for the purposes of presenting their proposals and responding to any request for clarifications on proposals submitted. The conclusions – reached according to DCI rules - of the meetings including their justifications will subsequently be communicated to the Financial Institutions in writing. The Board will also be responsible for: • providing guidance to participating institutions on appropriate future financing proposals (based on ***strategic*** priorities defined in the context of the programming process and further discussed in the ***strategic*** meetings - see hereunder), monitor and review the pipeline of projects, based on the results of the discussions at the technical level; 14 Financial Institutions for the purposes of this document comprise European Financial Institutions participating in AI

F and invited non-European Financial Institutions. 13 • examining project related results (including the annual reports) and monitor the portfolio of approved projects; • promoting exchanges of best practices; • drawing upon the specific expertise of the FIs as appropriate and respect the appropriate division of labour; • examining the involvement of non-European FIs as lead financiers on a case by case basis following a targeted approach, based on the specific added value as a lead financier brought in a particular project or region. The Board would meet two to four times a year, depending on the needs. To improve efficiency, Board meetings will be held back to back with DCI Committee meetings whenever possible. When duly justified by time constraints, opinion on projects could be requested by written procedure. Technical assessment meetings (TAMs) chaired by the Commission with the participation of EEAS and Finance Institutions will be held to: • review and discuss the pipeline to ensure coordination at an early stage, including in relation to geographical balance and agreed EU political objectives. Results of the pipeline discussion shall be transmitted to the Boards. • assess project proposals submitted by a so called Lead Financial Institution based on the appropriate application form. The proposal will also be shared with other Financial Institutions for peer review and possible written comments. In particular, such assessment will include alignment to EU policy objectives, the justification of the added value of the grant contribution, social and environmental aspects, appropriate financial structure and other issues such as debt sustainability. • facilitate exchanges on best practices across regions, including the possible development of selected blending operations or financial instruments that extend across geographical regions. Such meetings will be held on a regular basis depending on the needs and will be organised pragmatically bringing together appropriate experts from the FI’s, the Commission and the EEAS. If appropriate such meetings may include or be complemented by virtual meetings and/or written exchanges facilitated by the Secretariat. The Lead Financial Institution, on the basis of and depending on the comments made, will then be able to submit a revised proposal for further technical discussions at a later technical meeting or a final revised application form in view of the submission to the Board. In accordance with the recommendations made under the EU Platform for Blending in External Cooperation, non-European Finance Institutions active in a particular region should be invited to attend relevant technical and Board meetings as observers. ***Strategic*** orientations will be discussed with beneficiary countries in dedicated ***strategic*** meetings when appropriate, under the ownership principle of EU development cooperation. The Commission and the EEAS will conduct and co-chair ***strategic*** discussions at the appropriate level with Member States, beneficiary countries and relevant regional organisations. Financial Institutions will participate in the discussions as observers. These ***strategic*** discussions will cover regional investment plans and priorities, provide ***strategic*** and policy guidance and advice for identification and preparation of the most relevant proposals 14 for blending and for the Board to review the pipeline and approve the most relevant projects for achieving the objectives of the EU-Central Asia Strategy. Rules of procedure for the DCI Blending Framework, adopted in October 2015, provide further details regarding the decision making process as well as the organisation of the ***strategic*** meetings. The Commission will ensure the secretariat of the DCI blending framework. Regarding this role, its tasks may include but are not limited to: providing opinions on individual blending operations, coordinating the internal Commission/EEAS consultation process including DG BUDG, DG SJ, DG ECFIN and DG SG; monitoring of implementation at facility level; consolidation of the pipeline on the basis of the information provided by the Financial Institutions; reporting to EU institutions; production of regular up-to-date information and annual reports on the facilities; preparation of exchanges on best practices etc.. The Commission will also provide support in the organization of communication events and the general implementation of the communication strategy (websites and other communication tools), thereby contributing to the visibility of the EU. The Secretariat organises the technical level assessment of proposals and is the central contact point for all stakeholders involved in the blending framework. 5.7 ***Performance*** monitoring and reporting In accordance with Regulation (EU) No 236/2014, financial instruments may be grouped into facilities for implementation and reporting purposes. The Commission will report annually to the European Parliament and the Council on the activities relating to the Asia Investment Facility, including the details laid down in Article 140 of Regulation (EU, Euratom) No 966/2012. Reporting will also be carried out at an individual operational level by the entrusted entities, in line with the contractual provisions of the bilateral agreement that the Commission will sign with these entities. The entrusted entities should provide all the relevant information on the execution of the projects in order to enable the European Commission to carry out the required follow up of the actions. As per the recommendation of the EU Platform for Blending and External Cooperation (EUBEC), the Commission will monitor the ***performance*** of the projects benefiting from AIF grants based on the minimum set of results ***indicators*** listed in Appendix I, as may be adapted from time to time following the EU Platform on Blending in External Cooperation discussions and considering the relevant EU Result Framework, or any further ***indicator*** agreed. The reporting shall also enable the Commission to report on the ***performance*** ***indicators*** defined in the EU Results Framework as well as in the Regional Indicative Programme and – where applicable – the relevant bilateral Multi-annual Indicative Programme The day-to-day technical and financial monitoring of the implementation of contracts funded under the Facility will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. 15 The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.8 Evaluation Having regard to the importance of the action, ex-post evaluations may be carried out for this action or its components via independent consultants contracted by the Commission or through a joint mission. It will be carried out for accountability and learning purposes at various levels. The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. The financing of the evaluation shall be covered by another measure constituting a financing decision. 5.9 Audit Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. The financing of the audit shall be covered by another measure constituting a financing decision. 5.10 Communication and visibility Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. Actions funded under the Asia Investment Facility shall contain communication and visibility measures which shall be based on specific Communication and Visibility Plans elaborated for each action at the start of implementation. An additional budget indicated in section 5.5 above is reserved for communication and visibility activities on the facility in general. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plans of the actions and the appropriate contractual obligations. 16 Indicatively one contract for visibility shall be concluded under a service contract in 2018. 17 APPENDIX I: STANDARD OUTPUT AND OUTCOME ***INDICATORS*** FOR BLENDING PROJECTS15 15 Source: guidance note on project application form; version January 2016 Energy OUTPUT ***INDICATORS*** UNIT DEFINITION 1.1 Transmission and distribution lines installed or upgraded Km The ***indicator*** covers power transmission and distribution lines. It is the measure of the ground distance traversed, in kilometres. 1.2 New connections to affordable, reliable and modern energy Number of connections Number of 1) new connections to the grid, 2) inferred new connections and calculation methodology. 1.3 Renewable capacity installed MW Renewable capacity installed of a new power plant or refurbishment of an existing plant with the aim of increasing capacity. 1.4 Population benefitting from energy production Number of households The number of households which are estimated to benefit from new energy supply from the project. 1.5 Power production MWh/year Total net annual average electricity generated by project (as registered by a meter). 1.6 Energy efficiency GWh/year Energy savings as a result of project against no project or most likely alternative (e.g loss reduction in generation, distribution, etc.) 1.7 Population benefitting from electricity production Nr. of households The number of households which are estimated to benefit from new electricity supply from the project. 1.8 Power production GWh/year Total net annual average electricity generated by project, independently 18 Transport OUTPUT ***INDICATORS*** UNIT DEFINITION 2.1 Length of new or upgraded roads km Total length of the road built or upgraded through the project. This ***indicator*** will refer to paved roads and in general cover motorways, highways, main or national roads, secondary or regional roads. 2.2 Length of new or upgraded railways km Total length of railroad tracks built or upgraded. 2.3 Length of new or upgraded urban transport lanes. km Total length of urban transport lanes including bus lane, tramline or metro tracks built or upgraded. 2.4 Port terminal capacity (passenger, container or cargo) Million passenger per annum “mppa” (passenger); million TEU/year (container); million tons/year (cargo) The ***indicator*** is the future capacity of the container terminal(s). In case of a terminal expansion, it includes the total capacity of the terminal(s) (current terminal(s) + expansion). The baseline is the current capacity of the container terminal(s). Depending on the type of terminal (container, passenger or cargo), the units used will be different. 2.5 Airport terminal capacity Million Passengers per annum – “mppa” or million tons /year (cargo) The ***indicator*** is the increase in passenger terminal capacity of the airport. It is calculated as the difference between the assessed total passenger terminal capacity of the existing airport prior to the project being implemented and the assessed total passenger terminal capacity of the airport after the project has been implemented. OUTCOME ***INDICATORS*** UNIT DEFINITION 2.6 Users of new or upgraded roads Average Annual Daily Traffic “AADT” Average Annual Daily Traffic. All vehicle will be counted, including those of traffic that existed before upgrading, diverted traffic, traffic generated as a result of road improvement, as well as growth in each of these categories. 2.7 Rail use Million Passengers /year or tons /year (cargo) Total of passengers or freight using rail service. 2.8 Urban transport users Million passenger per annum Total urban transport passengers indicating those shifted from other transport modes as a result of the project. of its maximum capacity. 1.9 Power production from renewable sources GWh/year Total net annual average electricity generated by project from renewable sources, independently of its maximum capacity. 1.10 Energy efficiencies GWh/year Energy savings as a result of project against no project or most likely alternative (e.g loss reduction in generation, distribution, etc.) 19 2.9 Ports: Terminal(s) user traffic (passenger, container or cargo) Million passenger per annum “mppa” (passenger); million TEU/year (container); million tons/year (cargo) Total of passengers, containers or cargo using port services. Depending on the type of terminal (container, passenger or cargo), the units used will be different. 2.10 Airport use Million Passengers per annum – “mppa”or million tons /year (cargo) Passenger or freight traffic handled at the airport. Environment (water and sanitation) OUTPUT ***INDICATORS*** UNIT DEFINITION 3.1 Length of new or rehabilitated water supply pipes Km Length of water mains and distribution pipes installed/ upgraded. All sizes of pipes intended to transport water for urban water use expressed in their aggregate length in the network, irrespective of pipe diameter, comprising mains as well as reticulation pipes. 3.2 Length of new or rehabilitated sewer pipes installed Km Length of collectors and sewers installed or upgraded. All sizes of sewer pipes expressed in their aggregate length in the network, irrespective of pipe diameter, comprising mains as well as reticulation pipes. 3.3 New connections to water supply Nr Number of new connections to the water network. Only new connections resulting from a project are counted; those already connected to the network and receiving improved services through a project are not counted. 3.4 Water treatment capacity M3/day Maximum amount of water that the new or improved treatment plant can process. This ***indicator*** reflects the total new or additional capacity of treatment plant independently of its production during operation. 3.5 Wastewater treatment capacity M3/day Maximum amount of waste water that the new or improved treatment plant can process. This ***indicator*** reflects the total new or additional capacity of treatment plant independently of its production during operation. OUTCOME ***INDICATORS*** UNIT DEFINITION 3.6 Population benefitting from safe drinking water Nr of households Urban or ***rural*** population using a safe drinking water supply, as defined by international standards. 3.7 Population benefitting from improved sanitation services Nr of households Urban or ***rural*** population with access to improved sanitation services, as defined by international standards. 3.8 Potable Water Produced M3/day Amount of potable water produced, independently of the maximum capacity of the network. 3.9 Wastewater Treated Population Amount of wastewater treated, independently of the maximum capacity of the treatment 20 equivalent “p.e ” plant. Private sector development OUTPUT ***INDICATORS*** UNIT DEFINITION 4.1 For direct operations: Access to finance: number of units served among relevant target group Nr. Number of outstanding loans/ at the end of their fiscal year and annual number of new loans/investments disbursed/made during the year. 4.2 For direct operations: Access to finance: Amount of outstanding loans to relevant target group Currency Amount of outstanding loans/investments at the end of their fiscal year and annual volume of new loans/investments disbursed/made during the year. 4.3 For indirect operations: New financing made available to financial intermediaries (e.g banks, microfinance institutions, funds) Currency Volume of credit lines/guarantees / capital investment extended to financial intermediaries for on lending to target groups (target groups being understood as Microfinance/MSME/Agribusiness/Energy Efficiency/Renewable Energy/Student Loans/Housing Finance/Retail Finance/Total Portfolio/Other to be specified in each instance). OUTCOME ***INDICATORS*** UNIT DEFINITION 4.4 For indirect operations: Access to finance: number of units served among relevant target group Nr. Number of outstanding loans/investments in the portfolio of relevant financial intermediaries at the end of their fiscal year and annual number of new loans/investments disbursed/made during the year. 4.5 For indirect operations: Access to finance: Amount of Outstanding Loans and other sources of financing to relevant target group Currency Amount of outstanding loans/investments in the portfolio of relevant financial intermediaries at the end of their fiscal year and annual volume of new loans/investments disbursed/made during the year. 4.6 For direct operations: Number of MSMEs reporting increased turnover (as a result of direct support received from the FIs) Nr. Number of MSMEs receiving direct assistance from FI that have increased the volume of their turnover. 4.7 For both direct and, where feasible, indirect operations: Number of jobs sustained (resulting from the project) FTE Number of full-time equivalent employees at the end of the reporting period. Includes full-time equivalent worked by seasonal, contractual and part time employees. Part-time jobs are converted to full-time equivalent jobs on a pro-rata basis. 21 Social (social housing, health and education) OUTPUT ***INDICATORS*** UNIT DEFINITION 5.1 New and/or refurbished habitable floor area Square meter Square meters of new and/or refurbished social housing. 5.2 New and/or refurbished health facilities Nr. Number of new and/or refurbished health facilities of any type (hospitals, clinics, health centres etc.). 5.3 New and/or refurbished educational facility Nr. Number of new and/or refurbished educational facility of any type (schools, universities etc.). OUTCOME ***INDICATORS*** UNIT DEFINITION 5.4 Population benefitting from improved housing conditions Nr. of households Number of households benefitting from improved housing conditions. 5.5 Bed occupancy rate % Percentage of beds occupied at the hospital. 5.6 Inpatients Nr. per year Number of patients per year that are admitted and stay at least one night at the hospital. 5.7 Outpatient Consultations Nr. per year Number of patients per year that are diagnosed or treated at but do not stay overnight at the hospital from the project. 5.8 Students benefitting from new and/or refurbished educational facility Nr. per year Students per year benefitting from new and/or refurbished educational facility by gender and age group. 5.9 Students enrolled Nr. per year Total aggregate of pre-primary, primary, secondary, tertiary, further, vocational as required by gender. ***Agriculture***, Food and Nutrition Security OUTPUT ***INDICATORS*** UNIT DEFINITION 6.1 ***Agricultural*** production Tons per yr For the main productions impacted by the project, measured yearly 6.2 Area under cultivation Ha per yr For the main productions impacted by the project, measured yearly 22 6.3 Due diligence report of projects that affect land and property rights Yes/No Based on the guidelines developed by the Agence Française de Développement (AFD) and in line with the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT) OUTCOME ***INDICATORS*** UNIT DEFINITION 6.4 Additional added value created Euro (constant value) per yr For the main productions impacted by the project, measured yearly 6.5 Added value going to farmers Euro (constant value) per yr For the main productions impacted by the project, measured yearly 6.6 Net employment creation (gender differentiated) Nr. per yr Informal and formal jobs, measured yearly 6.7 Minimum Dietary Diversity Score Score Minimum number of food groups consumed by an individual over a reference period. Ref.: FAO Manual Minimum Dietary Diversity in Women (in preparation). Cross sector ***indicators*** 16 Enter baseline according to point (2), expected value with the project according to gross emissions calculation in point (3) and expected result according to net emissions impact calculation in point (4). Indicate in the comments box the project impact category as outlined in point (1). The ***indicator*** should be assessed for a 'typical year of operation': there is no need to 'indicate the year'. ***INDICATORS*** UNIT DEFINITION 7.1 Total number of beneficiaries # Estimated number of people with improved access to services (financial services, social and economic infrastructure, etc.) 7.2 Number of beneficiaries living below the poverty line # (and/or %) Sub-group of total beneficiaries above (if applicable). Reference point used, e.g national or international definitions of poverty, should be made transparent) 7.3 Relative (net) Greenhouse gas emissions impact16 CO2 ktons eq / year Average amount of GHG emissions induced, avoided, reduced or sequestered per year by the project during its lifetime or for a typical year of operation: net balance between gross emissions and emissions that would occur in a baseline scenario. 23 7.4 Direct employment: Construction phase # (FTE) Number of full-time equivalent construction workers employed for the construction of the company or project's hard assets during the reporting period. 7.5 Direct employment: Operations and maintenance # (FTE) Number of full-time equivalent employees as per local definition working for the client company or project at the end of the reporting period. 24 APPENDIX 2: Indicative pipeline EU Contribution Year Country Lead Finance Institution FIs consort Operation's Title Sector Total budget (MEUR) Technical Assistance Investment Grants Risk sharing instruments (guarantee/risk capital) 1 2017 Myanmar AFD AFD Urban development and heritage protection Yangon Sustainable cities. Climate adaptation 88,7 5,0 8,0 2 2016 Philippines AFD RENAISSANCE Project Environment - mngt of natural resources 55,0 10,0 3 2017 Cambodia AFD Access to renewable energy in remote areas Energy 34,0 4,0 4 2017 Cambodia AFD Provincial Water Supply and Sanitation Project Sustainable cities. Climate adaptation 92,4 4,0 5 2017 Cambodia AFD PSEA 2 Irrigation 200,0 8,0 6 2017 India AFD AFD Programmatic approach supporting the Smart Cities Mission Urban development 110,0 5,0 5,0 25 7 2017 Myanmar AFD AFD Satellite Fishery resources monitoring Environment 58,0 To be specified 8,0 8 2017 Regional AFD AFD / ADB CICLASIA Sustainable cities 8,0 9 2017 Vietnam AFD AFD Integrated Coastal Zone Management Natural resources 114,5 10,0 10 2017 Vietnam AFD AFD Support to EVN for sustainable and renewable energy ( Ialy hydropowerplant and solar powerplant) Sustainable energy/Renewable energy 202,0 2,0 80,0 10,0 11 2017 Myanmar CDP CDP-AICS) NEP - Italian Contribution to the National Electrification Project Energy/***Rural*** development 38,1 6,0 12 2017 Mongolia EBRD Secondary cities water/wastewater modernisation Municipal Infrastructure 22,7 2,0 6,8 13 2017 Lao PDR EIB WB/NDF Lao Climate Resilient Road Transport 69,0 5,0 14 2017 China KfW TA Facility for Green Promotional Loans Environment and Natural Resources 260,0 10,0 15 2017 Vietnam KfW Renewable Energy Development Facility “GET FiT” Vietnam Energy 248,0 14,0 16 2018 Cambodia AFD Rehabilitation & extension of Calmette Hospital as the national reference hospital Health and social protection 30,0 5,0 26 17 2018 Cambodia AFD Modernisation and Extension of National Grid Energy Efficiency 106,0 6,0 18 2018 Vietnam AFD AFD Upgrading Fishing Port Project in Da Nang, Khanh Hoa, Kien Giang and Ba Ria Vung Tau Natural resources/Fisheries 135,0 15,0 TBC 19 2018 Vietnam AFD AFD Improving resilience of urban water infrastructure to climate change effects in four Provinces of North-Center Vietnam Water/Urban development 147,0 TBC 10,0 20 2018 Vietnam AFD AFD Danang City Development Investment Fund (DDIF) Urban development 35,0 5,0 21 2017 (or 2018) Sri Lanka AFD AFD Mundeni Aru Basin Development ***Agriculture*** and Water Resources Management 112,0 10,0 2,0 22 2018-2019 Vietnam AFD AFD Integrated water resources management Natural resources/ Resilience Climate change 105,0 To be specified 10,0 23 2019-2020 Mongolia EBRD Support for Mongolian Economic Diversification through SME Access to Finance - Phase 2 SME Development 102,3 5,3 4,0 24 2017 Vietnam KfW KfW/EIB/ADB Extension of HCMC Metro Line 2 Transport 1.400,0 6,0

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**End of Document**



[***Register of Commission documents: RAP East2017-part 1-SUM EN: Commission Implementing Decision on the Neighbourhood East Regional Action Programme 2017 Part I (including 1 action on budget 2018 and 2019), to be financed from the general budget of the European Union Document date: 2017-09-26 COM-AC\_DR(2017)D053173-01(ANN03) Comitology - Right of scrutiny***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R13-MHW1-JDG9-Y0JD-00000-00&context=1516831)

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**Body**

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Annex 2

of the Commission Implementing Decision on the ENI East Regional Action Programme 2017 Part I

Action Document'Supporting firm competitiveness and business environment reformsin the Eastern Partnership: an EU4Business initiative'

|  |
| --- |
| Information for Potential Grant Applicants Work Programme for Grants This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in section 5.3.1 concerning grants awarded directly without a call for proposals. |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 1. Title/basic act/ CRIS number | Supporting firm competitiveness and business environment reforms in the Eastern Partnership: anEU4Business initiative CRIS number: ENI/2017/040-510 financed under European Neighbourhood Instrument |  |  |  |
|  | 2. Zone benefiting from the action/location | EU Eastern Partnership region, Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine The action shall be carried out at the following location: Eastern Partnership countries and EU Member States |  |  |  |
|  | 3. Programming document | ENI Multiannual indicative programme 2017-2020 |  |  |  |
|  | 4. Sector of concentration/ thematic area | Private sector and economic development |  |  |  |
|  | 5. Amounts concerned | Total estimated cost: EUR 4 400 000 Total amount of EU budget contribution: EUR 4 000 000 This action is co-financed in joint co-financing by the OECD for EUR 400 000 |  |  |  |
|  | 6. Aid modality(ies) and implementation modality(ies) | Project Modality Direct management ?grants ? direct award |  |  |  |
|  | 7. DAC code(s) | 32130-Small and medium-sized enterprises (SME) development |  |  |  |
| 8. Markers (from CRIS DAC form) | General policy objective | Not targeted | Significant objective | Main objective |  |
| Participation development/good governance |  | X |  |  |  |
| Aid to environment | X |  |  |  |  |
| Gender equality (including Women In Development) |  | X |  |  |  |
| Trade Development |  |  | X |  |  |
| Reproductive, Maternal, New born and child health | X |  |  |  |  |
| RIO Convention markers | Not targeted | Significant objective | Main objective |  |  |
| Biological diversity | X |  |  |  |  |
| Combat desertification | X |  |  |  |  |
| Climate change mitigation | X |  |  |  |  |
| Climate change adaptation | X |  |  |  |  |
|  | 9. Global Public Goods and Challenges (GPGC) thematic flagships | NA |  |  |  |
|  |  |  |  |  |  |

Summary

The Action entails a multi-country project to support firm competitiveness and business environment development in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

It aims at improving in particular the design, implementation, monitoring and evaluation of Small and medium-sized enterprises (SMEs) policies and action plans in the Eastern Partnership countries, while strengthening relevant institutions and government bodies in ensure inter-ministerial coordination on relevant policies, assisting them in the organisation of public private consultations, promoting evidence based policy making via the use of business statistics and in helping them to design and monitor national SME assistance programmes.

The assistance will be provided based on the findings of the 2016 Small Business Act  assessment 'SME Policy Index – Eastern Partner Countries 2016 (OECD, EU, EBRD, ETF)' focussing in particular on the weakest areas of ***performance*** for each country. The SME Policy Index is a benchmarking tool designed for emerging economies to assess SME policy frameworks and monitor progress in policy implementation over time. For the Eastern Partner Countries, the assessment framework is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide-range of pro-enterprise measures to guide the design and implementation of SME policies based on good practices promoted by the EU and the OECD.

The project is structured around two pillars:

(a) a country-level pillar to provide tailored support in the design, monitoring and upgrading of strategies and programmes to support firm competitiveness, evidence based policy making and wider business environment reform;

(b) a regional pillar to support regional policy dialogue notably via the annual OECD Eurasia week and benchmark policy ***performance*** across the region through a new SBA assessment cycle (2018-2019). In parallel, the OECD will carry out a study on the relationship between SME policies and firm ***performance*** to assess trends in SME ***performance*** in the EaP over time and to draw correlations between the changes in SME Policy Index scores with the changes in ***performance*** variables, which would also allow to control for country-specific factors.

* Context

1.1 Sectorcontext: Economic challenges in the EaP region

In 2009, the EU and its six Eastern partners (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine) launched the Eastern Partnership (EaP), based on a commitment to fundamental values such as a market economy, sustainable development and good governance. Since 2009, the EU policy context towards its neighbourhood also evolved. Launched in 2004, the European Neighbourhood Policy (ENP) was designed to foster stability, security and prosperity in the countries closest to the EU borders. At the 2015 review, the EU emphasized differentiationamong the countries, in accordance with their ambitions in the relationship with the European Union. It also calls for prioritisation and for a more focused approach in order to deliver tangible and noticeable results to the citizens, as reflected in the2015 EaP Summit in Riga which prioritized the strengthening of institutions, mobility, market opportunities and interconnections as well as in the Joint Staff Working document 'Eastern Partnership – focusing on key priorities and deliverables' which identifies a list of 20 deliverables for 2020. This Action addresses deliverables under Priority 1: Economic development and Market Opportunities. More specifically, it will contribute to improve EaP countries business climate, notably on the 10 dimensions of the Small Business Act (SBA), by following the recommendations of the 2016 SBA assessment

              Since 2012, when the first assessment of SME policies based on the Small Business Act for Europe was published, the macro-economic situation in the EU Eastern Partnership region has changed significantly. All six EaP countries are struggling with serious economic challenges as a result of lower commodity prices and a slowdown in main trading partners. The result has been significant currency depreciation, rising inflationary pressures, and a credit contraction which has negatively impacted output. While the drivers and impacts vary by country, these developments highlight these countries’ vulnerability to external events and the importance of strengthening economic competitiveness and diversification in the region.

Given this context, bolstering the region’s SMEs is more important than ever. SMEs can facilitate the shift from mass production to a more diverse, demand-driven and market-oriented supply of products, being well-positioned to react quickly to changing market conditions, introduce product and market innovation and challenge inefficient incumbents. With SME development acting as an engine for employment generation and sustained growth, they offer a significant opportunity for economic recovery in the short term and increased resilience over the medium to long term. Yet the potential of SMEs remains largely untapped in the region. Despite making up between 83% and 99% of all firms, they account for only about half of all employment and one-third of value-added. The vast majority of SMEs are subsistence micro-entrepreneurs operating in low-added-value sectors.

SMEs in the EaP region face challenges along a number of dimensions – such as access to finance, skills, innovative capacity, and opportunities for internationalisation. Furthermore, there is a dearth of dynamic and innovative SMEs with high growth potential. Designing and implementing effective policies to fully exploit the potential of SMEs is a crucial step in building more inclusive and resilient economies in the Eastern Partner region

In addition, SMEs are not only key to sustainable economic development, but also an important factor in the consolidation of open societies. A business enabling environment and a large SME sector prevent economies from becoming dominated by few entities and thus impede concentration of power in the hands of oligarchs hindering a country’s development in both economic and political terms. 1.1.1 SME policy development in the EaP region (2012-2016)

A comprehensive assessment of SME-related policies in the Eastern Partner countries was undertaken between November 2014 and June 2015 by the Organisation for Economic Co-operation and Development OECD and its partners (the European Commission, the European Bank for Reconstruction and Development and the European Training Foundation), on the basis of the ten principles of the Small Business Act for Europe (SBA). The assessment was conducted in parallel for all six EaP countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and its findings are summarised in the report SME Policy Index: Eastern Partner Countries 2016.

While SME policy was largely non-existent in all six EaP countries in 2012, the SME Policy Index 2016 has identified that EaP countries are increasingly paying attention to the development of comprehensive institutional and policy frameworks for SME development. Two groups of countries can be identified:

* Armenia, Moldova and Georgia. Armenia and Moldova have the main building blocks for an SME policy in place or in progress, including an SME policy implementation agency and a strategy for SME development. Georgia has recently joined this group with the creation of a dedicated agency (Enterprise Georgia) in 2014. A medium-term SME strategy, developed with OECD support in 2015, has been adopted in early 2016. Georgia and Moldova organised participatory processes preceding the adoption of SME strategies, while Armenia’s SME Development Council offers a regular consultation platform.

1. Azerbaijan, Belarus and Ukraine.These countries are starting to develop the institutional framework for SME and their institutional frameworks for public-private dialogue on SME-related issues are less developed.In Azerbaijan for example, the ***Strategic*** Roadmap for National Economy development of Azerbaijan (including chapter on SME's) was adopted in December 2016 The SME Chapter foresees the establishment of the SME Agency.

At the regional level, the SBA assessment identified three key messages that are highly relevant for all EaP countries:

* Horizontal business environment reforms continue to be the area of strongest ***performance***. Most EaP countries have made substantial progress in the design and implementation of business and investment climate reforms benefiting all enterprises regardless of their size, including simplification of business-related legislation, streamlining of technical barriers to trade and upgrading of quality infrastructure, and improvement of the legal and regulatory environment in the financial sector.

1. Governments are paying growing attention to developing institutional frameworks for SME development. There is an overall trend towards the introduction of the basic elements of a ***strategic*** framework for SME support, including developing SME strategies (e.g Georgia and Moldova), improving the definition of SMEs (e.g Ukraine, Azerbaijan) and establishing an SME support agency (e.g Georgia and Azerbaijan).
2. Targeted SME policy tools are required to further support SME growth across the region. Most EaP countries have introduced new programmes to enhance SME competitiveness, including through support services for SMEs and start-ups (e.g training programmes), specific instruments to encourage SME access to finance (e.g credit guarantee mechanism, start-up finance), entrepreneurial learning and women’s entrepreneurship initiatives (e.g events for female entrepreneurs) and export promotion (e.g export agency).

The table below provides an overview of the current state of play of SME policy institutions in the EaP countries.

Table 1. State of play of SME policy institutions in the EaP countries

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | SME strategy-state of play (ie: in place, to be developed) | SME Action plan/roadmap (yes/no) | SME agency (yes/no, name) | Business and/or Investment council (yes/no, name) | Investment and/or export promotion agency (yes/no, name) | OECD contribution (past / future) |
| Armenia | Strategy for Small and Medium Entrepreneurship Development 2016-2018 available here | Action plan for 2016 (in Armenian) available here | Small and Medium Entrepreneurship Development National Center (SME DNC) [*www.smednc.am*](http://www.smednc.am) | SME Development Council [*www.bso.am/what-we-do-2/assistance-to-sme-development-council/*](http://www.bso.am/what-we-do-2/assistance-to-sme-development-council/) | Development Foundation of Armenia (National Authority for Investment, Export and Tourism promotion) [*www.dfa.am*](http://www.dfa.am) | Past:  Reform roadmap to support SME competitiveness; SME strategy based on SBA assessment and OECD recommendations   Future: OECD to monitor implementation of reform roadmap to support SME competitiveness; OECD to support Action Plan 2018-2020, including developing relevant statistics and KPIs to monitor implementation |
| Azerbaijan | State ***Strategic*** Roadmap (including SME chapter) adopted in December 2016 | No, being developed for finalisation in 2017 | SME Agency to be established according to the ***Strategic*** Road Map;   Centre for Economic Reforms monitors the ***Strategic*** Road Map implementation | NO | Agency for Investment and Export promotion (AZPROMO) [*www.azpromo.az*](http://www.azpromo.az) | Past: n/a   Future: OECD to support operationalisation of the SME strategy and Action Plan 2018-2020 |
| Belarus | No, being developed for finalisation in 2017 (SME Strategy until 2030) | SME Development Program for 2016-2020(in Russian) available here   Reform roadmap for developing a private market for business development services | NO | Foreign Investment Advisory Council under the Council of Ministers of the Republic of Belarus   No specific SME-related investment councils | National Agency of Investment and Privatization [*www.investinbelarus.by/en*](http://www.investinbelarus.by/en)/ | Past: Reform roadmap for developing a market for business development services   Future: OECD to support finalisation and monitoring of SME strategy and Action Plan 2018-2020, including pilot programme dedicated to high-growth SMEs |
| Georgia | SME Development Strategy 2016-2020, approved in May 2016 available here | Action Plan 2016-2017, approved in May 2016 | Enterprise Development Agency (EDA) [*www.enterprisegeorgia.gov.ge*](http://www.enterprisegeorgia.gov.ge)   Georgia Information and Technology Development Agency (GITA)   [*www.gita.gov.ge*](http://www.gita.gov.ge) | Investors Council | Invest in Georgia [*www.investingeorgia.org/en*](http://www.investingeorgia.org/en)/ | Past: SME Development Strategy and Action Plan developed with OECD support   Future: OECD to support monitoring implementation of SME strategy, development of Action Plan 2018-2020 andadvise on operationalising selected actions |
| Moldova | Small and Medium Enterprise Sector Development Strategy 2012-2020 available here | Action plan for the implementation of strategy for the period 2015-2017 (in Romanian) available here | Organization for the Development of the SME Sector (ODIMM) [*www.odimm.md*](http://www.odimm.md) | Economic Council under the Prime Minister | Moldova Investment and Export Promotion Organization (MIEPO) [*www.miepo.md*](http://www.miepo.md)/ | Past: SME Development Strategy and Action Plan developed with OECD support   Future: OECD to support development of Action Plan 2018-2020, including financial and non-financial measures for sector-specific SME support |
| Ukraine | Draft version of the Strategy placed for a public discussion between stakeholders and subject to subsequent official adoption | Draft version | NO | NO | Governmental office forinvestment attraction and support established by decree of the Cabinet of Ministers,19 Oct 2016 | Past: n/a   Future: OECD to support developing SME statistics and monitoring implementation of SME strategy |

  1.1.2 Stakeholder analysis

Governments and institutions of Eastern partner countries

Representatives from national Governments and institutions of Eastern partner countries will be the direct beneficiaries of the Action. The main counterparts for the OECD will be representatives from Ministries of Economies and government agencies in charge of the SME development.Their role is to design, implement and monitor SME policy reforms and transpose the OECD recommendations into national policies. With the support of the OECD, they willdevelop comprehensive SME policy frameworks, design SME support policies, co-ordinate the implementation of the SME policy reforms and monitor progress. Other key government stakeholders involved will include representatives from ministries of finance and education, export and investment promotion agencies, national statistical offices and central banks. They will contribute to the SME policy making processes and participate in activities carried out under this Action in their area of expertise.

High-level Government representatives of all EaP countries at Deputy Prime Minister or Minister of Economy level have already committed to work with the OECD on the implementation of reforms to further align SME policies with the Small Business Act for Europe.

As both political and technical support are necessary conditions for a successful implementation of the Action, the OECD will put particular attention in maintaininghigh-level commitment, while regularly engaging policy makers at the operational level through shared responsibilities (e.g data collection) and agreed project milestones.

Business Support Organisations (chambers of commerce, employers’ associations, etc.)

Business Support Organisations (BSO) will be actively involved in the implementation of the Action. Their role is to contribute to public-private consultation processes and lobby for improving the business enabling environment. BSOs will be instrumental to provide inputs on the main needs and challenges faced by SMEs and comment on draft reform policies being developed as part of this Action. Active BSO engagement will help to ensure that government programmes and policies in support of SME development will address the specific needs of the SME community and ensure buy-in from the private sector. To mediate between potentially conflicting positions of the government and the private sector, the OECD will facilitate the discussion and propose policy options based on evidence-based analysis.

This Action will actively build on previous and ongoing work carried out within the framework of the EU4Business initiative to foster effective public-private dialogue in the six EaP countries. More specifically, the OECDwill leverage the networks created through East Invest 2 by: i) engaging relevant BSOs into public-private consultation processes facilitated by the OECDto discuss reform priorities with relevant policy makers; and ii) seeking BSO input in preparation of draft reform policies.

EU delegations in Eastern partner countries.

EU delegations will play a fundamental role in ensuring that policy support provided through this Action is consistent with and complementary to bilateral EU technical assistance programmes. They will also ensure adequate visibility of the European Union as the main donor for this Action.

EU delegations have already substantially contributed to the design of this Action and provided input to the definition of country-level activities.

Development partners

Development partners, such as other international organisations or bilateral agencies of EU member states will be actively involved in the Action to ensure complementarity, synergies and coherence. They play an important role in the provision of technical assistance which will be highly complementaryto policy support provided by the OECD.

To this end, representatives of development partners in all EaP countrieswill be invited to participate in Advisory Group and Working Group meetings toprovide inputs to policy discussions and share feedback on draft reform policies. The OECD will also regularly consult with relevant development partners to align on activities andidentify synergies for co-operation.

At the regional level, the established co-operation between the OECD, the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation(ETF) will be continued to carry out a third round of the Small Business Act (SBA) Assessment. Furthermore, in order to maximise the impact of the initiative at the country level, full alignment with ongoing donor-funded programmes will be ensured (e.g EU DCFTA Facility for SMEs, International Trade Center (ITC) regional project on Integrating SMEs from EaP countries into domestic and global value chains, EBRD Small Business Support projects in EaP countries, Deutsche Gesellschaftfür Internationale Zusammenarbeit (GIZ) programme for DCFTA support in Georgia, EU SURE programme in Ukraine, EU/GIZ programme for SME development in Armenia, EU-funded Technical Cooperation Facility and SPRING programme, International Finance Corporation (IFC) Investment Climate Advisory project and World Bank’s Competitiveness Enhancement Project in Belarus, etc.) and synergies sought through close co-operation with existing structures, such as the EBRD-supported Investment Councils and public-private dialogue activities under the East Invest 2 initiative (see also section 3.2 below).

  1.1.3 Priority areas for support/problem analysis

The SME Policy Index: Eastern Partner Countries 2016 has developed detailed, country-specific policy roadmaps in co-operation with the relevant authorities and in consultation with local stakeholders. Those roadmaps include a prioritisation of crucial pending reforms and a proposed sequencing over the short, medium and long term based on each country’s ***performance*** in terms of progress and remaining challenges. Such priority roadmaps reflect the current level of institutional development for SME policy making in each country, and will be the basis for targeted OECD assistance in the context of this Action. In particular, for the countries with themain building blocks for SME policy already in place, emphasis should be put on preparing the next Action Plans and operationalising specific actions of the SME Strategies. On the other hand, for the countries with SME institutions lagging behind, assistance should be provided to finalise medium-term SME Strategies and build capacity for implementation. For all countries, a monitoring culture should be promoted within government bodies in charge of design and implementation.

* Armenia has continued to improve its policy framework for SME development since 2012. Building on a strong entrepreneurial culture, the country has implemented effective business environment reforms and created a well-developed system of business support infrastructure co-ordinated by SME DNC (one of the region’s most dynamic SME agencies). Building on the existing SME Strategy, priorities should focus on continuing implementation on the basis of an updated action plan, monitoring the implementation of reforms for SME competitiveness, while improving the overall production of statistics to evaluate effectiveness of SME support programmes.

1. Azerbaijan continues to be largely dependent on oil and gas extraction and related services with small businesses representing only 3% of GDP and less than 8% of employment. To complement the government’s efforts aimed at promoting economic diversification and reforming the business environment, priorities should focus on theoperationalisation of the ***Strategic*** Road Map for National Economy development of Azerbaijan (including SME chapter) adopted by President on the 6 December 2016and the design of targeted support programmes, in particular for exporting SMEs.
2. Large industrial enterprises characterise Belarus’s economy, where privatisation is proceeding at a slow pace and the SME sector remains underdeveloped. In recent years, the government has been increasing its efforts to develop the private sector and create a level playing field for all businesses, regardless of size and ownership structure. Tobuild on these reforms, priorities should focus on improving the institutional framework for SME policymaking, including thefinalisationof the SME strategy, the design of targeted support programmes for SME innovation/internationalisation, andmonitoring theimplementationof policy roadmap to improve business development services.
3. Georgia made considerable progress in recent years by adopting a more proactive approach to SME development, which helped attract foreign direct investment, expand export activities and achieve sustained economic growth. However, the SME sector currently accounts for only 20% of value added and could be further developed by prioritising the following areas: strengthening government capacity for an effective implementation and monitoring of SME policies, as well as further developing targeted support to exporting SMEs and promoting Foreign Direct Investments andSME linkages.
4. Moldova is a relatively small, landlocked country with few natural resources and the SME sector remains underdeveloped, contributing to solely 30% of the country’s GDP. In recent years, the government has made considerable progress in developing a comprehensive institutional framework for SME policymaking. Priorities moving forward should focus on continuing implementation and monitoring of the SME Strategy through an updated Action Plan,developing financing opportunities for SMEs by aligning Moldova’s policies to international standards and on upgrading the business support infrastructure to deliver high-value support programmes for SME internationalisation in priority sectors (***agriculture*** produce, foodstuffs, machinery equipment and spare parts).
5. Ukraine’s economy has been stagnant since 2012 and in deep recession since mid-2014, with modest growth returning only in 2016, heavily constraining the development and implementation of SME support policies. To further level the playing field for small businesses in the country and restore sustainable economic growth, SME policy should focus on the effective implementation and monitoring of the SME strategy, as well as the improvement of the overall production ofbusiness statistics to assess the impact of SME support policies.

1. Risks and Assumptions

Table 2.Risks and assumptions

|  |  |  |
| --- | --- | --- |
| Risks | Risk level (H/M/L) | Mitigating measures |
| Limited political support from EaP governments to carry out country-specific activities | Low | Secure high-level commitment prior to starting country-specific activities   Tailor OECD support to country-specific needs and align with governments? reform agenda   Engage high-level policy makers by requiring Minister-level chairmanship of Advisory Groups and exert peer pressure through exposure to peer review processes involving OECD member countries |
| Significant changes in public policy priorities (e.g change in the composition of EaP governments, and/or political leadership of the project) | Medium | Maintain frequent dialogue at political and technical level to ensure continuity of activities and consistency with arising priorities |
| Lack of data for the assessment of SME sector strengths and weaknesses | Medium | Advise to improve production of business statistics, and co-operate with donors? community to diversify sources and access relevant information (e.g official statistics, expert interviews, surveys, international reports)   Carry out primary research (e.g surveys, focus groups) to fill gaps |
| Difficulties in engaging the private sector for policy reform | Low | Ensure private sector participation in project Working Group meetings, as source of information and for feedback on project outputs |
| Limited co-ordination with other donors/development partners | Low | Ensure awareness of development partners from the beginning of project activities and, where applicable, develop partnerships with relevant organisations (e.g GIZ) |
| Assumptions |  |  |
| Overall political and economic stability at the country level is maintained over time Effective involvement and dialogue with private sector stakeholders |  |  |

* Lessons learnt, complementarity and cross-cutting issues

3.1 Lessons learnt

The 2012 and 2016 SBA assessments as well as country-specific projects carried out by the OECD within the project 'Supporting SME competitiveness reforms in the Eastern partner countries' have provided a solid foundation for the design and implementation of future advisory projects to promote SME development in the region, including those presented under this Action. In particular, the following lessons have been derived from direct experience and feedback received from various stakeholders in the EaP countries (e.g local governments, private sector representatives, development partners, EU delegations):

* Increase links in the third SBA assessment between SME policy settings as measured by the SBA assessment and firm-level ***performance***: the second SBA assessment cycle provided a solid basis to measure progress in SME policy development in the EaP countries but provided only limited insights on the relationship between policy reform and firm-level ***performance***. A follow-up study carried out in 2016 analysed the links between SME policy settings as measured by the SBA assessment and firm-level ***performance***. The findings indicate that SMEs in the EaP region underperform compared to their peers in other regions. In particular, EaP SMEs are less likely to invest in research and development (R&D), less likely to report innovation activity, less likely to have access to loans, and less likely to export than SMEs in the EU pre-accession countries and new EU members (EU-10). This analysis will become an integral part of the third SBA assessment to benchmark not only policy inputs but also firm-level ***performance***. A specific emphasis will be placed on policy areas in which EaP SMEs showed a low ***performance*** (i.e innovation, export and finance). This approach will be reinforced through country-specific assistance in the design of pilot programmes dedicated to high-growth and export-oriented SMEs.

* Stronger emphasis on the assessment of policy constraints by sector of activity: the follow-up study on SME ***performance*** revealed that SMEs in the EaP countries face different policy barriers depending on their sector of operation. A stronger emphasis will therefore be placed on the assessment of policy constraints by sector of activity (manufacturing, services, and ***agriculture***) and the identification of corresponding policy solutions. This approach is also expected to help strengthening the engagement of the private sector in the assessment process and allow the OECD and its partners to provide more tailored and sector-specific recommendation for potential policy solutions. Existing private sector networks, for example those created through East Invest 2 and the upcoming ITC programme, would be leveraged extensively for this purpose.

* Review of policy areas to be covered in the SBA assessment: the SBA assessment focuses on the 10 principles of the Small Business Act for Europe but disregards other policy priorities that matter for a functioning business environment in which SMEs can thrive. Prior to starting a third SBA assessment round, the policy areas covered will be reviewed through an inclusive public-private dialogue process to better address emerging policy priorities to create an enabling business environment (e.g competition policy, trade facilitation, SME taxation) while aiming at preserving comparability over time of the assessment of the other policy dimensions.

* Increase country-level support: countries have expressed the need for more country-level support for the implementation of policy recommendations that would complement the benchmarking exercise through tailored advisory support. A series of country-level activities presented in section 4.2 (support in reviewing SME strategies, drafting new SME strategies/action plans, assist in thedesign of pilot programmes dedicated to high-growth and export-oriented SMEs, support to monitoring and evaluation) have been identified based on the results of the second SBA assessment and in alignment with governments’ priorities. Support provided at the country level is expected to help partner countries significantly improve their ranking prior to starting the third assessment cycle.

* Further OECD advice on national support programmes for SMEs: the second SBA assessment revealed that progress in SME development can be achieved through more targeted support programmes for SMEs. The OECD would provide further advice on the design and implementation of such programmes, specifically dedicated to high-growth and export-oriented SMEs, while supporting the development of adequate monitoring and evaluation systems to assess the programme’s impact on pre-defined target groups.

* Continuation of peer review exercise: five out of six EaP countries (Armenia, Belarus, Georgia, Moldova and Ukraine) have already undergone a first peer review at the OECD Eurasia Competitiveness Roundtable, showcasing the progress they achieved in selected SME policy areas. Three years after a first peer review, countries are invited to share the results through a monitoring review to solidify their commitment to effectively implement reform roadmaps. The OECD peer review process has proven to be an excellent tool to facilitate the exchange of good practice among EaP countries and with OECD members:

* First, the process has proven to be a stepping stone towards the formal adoption of government policies (e.g Georgia’s SME development strategy 2016-2020 was finalised and adopted after the peer review);

1. Second, it has helped to create a strong and sustainable commitment mechanism over time: three years after the peer review, countries are asked to go through a monitoring review to take stock on reform achievements, create momentum for the implementation of remaining reform commitments and to identify new priorities (e.g the monitoring of Moldova’s SME policy reforms in November 2016 has helped to push for important reforms towards the regulation of non-bank financing);
2. Third, it has helped to disseminate good practices among Eastern partner governments and raise interest in promoting SME policy reforms with countries that have previously been hesitant (e.g Ukraine and Azerbaijan have both requested OECD support in developing an SME strategy and carrying out a peer review after having attended the peer review of Georgia's SME strategy).

A tentative planning for the peer review and monitoring cycle under this Action is as follows: Armenia (2017), Azerbaijan (2018), Georgia (2018), Belarus (2019), Moldova (2019), Ukraine (2019).

  3.2 Complementarity, synergy and coherence with other ***interventions***

OECD support to policymakers will be complementary to the following technical assistance support provided by the European Commission and other development partners:

EU4Business[1]

* ITC (International Trade Centre) is starting a project to help SMEs from EaP countries integrate into international value chains and access new markets with a focus on the European Union.

* East Invest 2 is a regional trade facilitation project which targets BSOs and SMEs. It provides trainings to BSOs to strengthen their lobbying capacity and provision of services to SMEs. This Action will build in particular on the East Invest’s private sector networks by involving their members in public-private dialogue initiatives to promote SME policies reforms and contribute to national documents for SME policy.

* Advice for Small Businesses Programme (ASB) implemented by EBRDprovides financial support to SMEs in form of grants, as well as a wide range of capacity building assistance to BSOs and SMEs.This Action will coordinate with the activities of the ASB, in particular in Belarus and Moldova, where the Action will monitor progress in the implementation of the roadmap to develop a market for BDS and propose measures to support the delivery of BDS to SMEs in priority sectors,.

* DCFTA facility for SMEs helps small businesses grow and prepare for new market opportunities, and support national authorities in Georgia, Moldova and Ukraine to implement their Association Agreements. In particular, the Action will seek synergies with technical assistance projects in each country designed to support SMEs and business support institutions.

* Eastern Partnership SME Finance Facility - Phase II which will make new loans available to the financial intermediaries, who will lend that money to local companies in Ukraine, Georgia and Moldova. These loans will be accompanied by a grant for credit enhancement support to participating financial intermediaries through risk-sharing instruments. The project aims at stimulating local currency lending, especially for micro, small and medium sized enterprises (MSMEs) that are not earning foreign currency and cannot afford the high costs of borrowing.

* In Georgia, the Action will build on the successful co-operation with GIZ to support the Government in the preparation of the SME Development Strategy 2016-2020 and will seek further synergies with the “SME Development and DCFTA” project.Coordination will also be ensured with the bilateral project on Economic and Business Development (AAP 2017) in particular with activities aimed at strengthening capacities of policy makers to facilitate the development of SME, clusters and incubators.

* In Moldova, the Action will consider potential for coordination with several projects relevant for SME development, including the DCFTA Technical Assistance Service Contract covering quality infrastructure, market surveillance and Internal and external markets and Competitiveness awareness in the AA/DCFTA context; the Support to ***Agriculture*** and ***Rural*** Development through Confidence Building Measures, which includes a component on local entrepreneurship and SMEs development; the Comprehensive Institution Building Programme (CIB): twinning and technical assistance projects supporting the DCFTA implementation including support to Intellectual Property Rights, Customs Service, food safety agency (to enhance the commercial and export potential of the agro-business food chain in Moldova in line with EU standards and DCFTA technical requirements), and several planned projects (Annual Action Programme 2016) including 'Support to SMEs in ***rural*** areas'; 'Technical assistance support to BSOs'; 'Increase of competitiveness in ***agricultural*** sector', which includes facilitating access to markets and establishing market linkages through domestic and international value chain.

* In Ukraine, the Action will coordinate with the EU FORBIZ project and the EU4Business: network of business support centers project, which notably facilitates access to business advice and finance.The FORBIZ project is notably finalizing a feasibility study on the future  SME support agency.

* In Armenia, the Action will take into account and coordinate with several technical assistance initiatives, notably GIZ’s SMEDA (SME development in Armenia) programme, and the twinning projects on ‘strengthening the investment promotion and investment policy institutional framework of Armenia’ and on ‘strengthening of the National Statistical System of Armenia’.

* In Azerbaijan, the Action will closely co-ordinate with the World Bank's programmes on enhancing the country's competitiveness and private sector development.

* In Belarus, the Action will take into account and explore synergies with the Strengthening Private Initiative Growth (SPRING) implemented by UNDP and EBRD, IFC’s Improving Business and Investment Climate Advisory Project and the World Bank’s Competitiveness Enhancement Project in Belarus. These programmes focus on improving SME competitiveness through technical assistance measures such as qualified business advice and support to access finance.

Beyond EU4Business

* EBRD-supported Investment Councils and SME Development Councils provide a platform for dialogue between the private sector and the authorities, with the aim of leveraging the private sector’s experience to enhance the content and prioritisation of policy reforms.This Action will build on the existing Investment and SME Development Councils and their members in Armenia, Georgia and Moldova in order to obtain inputs for the new SBA assessment and leverage them as a platform to discuss priorities for SME development between the private and public sector.

* Eurostat is the statistical office of the European Union and plans to start a programme to improve the availability and quality of statistical data from the EaP countries as well as their dissemination to a wider public.The Action will coordinate with Eurostat’s future regional programme and will involve national statistics offices in EaP countries. Specific focus will be on country-level advice to support the production of harmonised and comparable business statistics and to develop key ***indicators*** to analyse SME ***performance*** to enhance the evidence base for SME policy making. The activities will be based on the methodological tools provided by the OECD-Eurostat Entrepreneurship ***Indicators*** Programme (EIP) and the OECD Scoreboard on Financing SMEs and Entrepreneurs.

* EBA (European Business Associations) support representatives of European business communities in EaP countries and make proposals to local authorities to improve the business environment, encourage foreign investments and improve corresponding legislative frameworks.The Action will leverage the presence and activities of EBAs (including regular surveys among EBA members, legal proposals and events) to receive inputs from foreign investors already present in the countries about the business environment and the opportunities to help integrate local SMEs in global supply and value chains.

* The Enterprise Europe Network assists SMEs with advice on EU laws and standards, access to finance and help local SMEs find business partners to become part of European and global value chains. In this sense the EEN facilitates export and internationalisation strategies of Partner Countries. Belarus, Armenia, Georgia, Moldova and Ukraine are already participating. The consortia are co-funded by the EU in Armenia and Moldova and now also in Ukraine as these countries are fully participating in COSME. Whilst the consortia in Belarus and Georgia are Business Cooperation Centres offering more limited services. The Action will take into account and coordinate with the local EENs to support increased cooperation via in particular Business Support Organisations.

  3.3 Cross-cutting issues

The OECD will also ensure that the gender dimension will  be addressed in countries SME strategies and actions plans in line with the EU Gender Action Plan 2016-2020, the Convention on the Elimination of All Forms of Discrimination against Women and anti-discrimination principles. Notably, constraints for women entrepreneurship or women participation in SME economic activities will be identified. Women’s entrepreneurship will indeed be considered when building the evidence base for SME policies and when designing targeted support programmes for SMEs. The policy framework to support women's entrepreneurship will be evaluated through the SBA assessment, as well as the extent to which regular training needs analyses for women's entrepreneurships are conducted. Furthermore, gender issues in national SME strategies will be promoted by engaging women in public-private consultations and highlighting women entrepreneurs as an important beneficiary group of SME policies.

Building on the results achieved under 'Greening Economies in the Eastern Neighbourhood' (EaP GREEN) Programme, the OECD will ensure that environment-related considerations, such as, for example, energy and resource efficiency, circular economy and cleaner production, the eco-design of products, climate-related risks, and environmental impacts more generally are duly addressed in countries' SME strategies and actions plans. The latter will be fully aligned with key global policy goals and targets set by the UN 2030 Sustainable Development Goals and the Paris Agreement on Climate Change, which guide progress towards a modern and low-carbon economy and provide important opportunities for sustainable economic transformation, jobs and growth. Where available, for example in Armenia and the Republic of Moldova, specific recommendations in this area will be further promoted. Particular attention will be given to assessing the degree of “greening” of the current policy framework for SME development in comparison with benchmarks outlined in the EaP GREEN 'Environmental Policy Toolkit for SME Greening', including the existence of specific environmental policies targeting SMEs. As part of the third SBA assessment, additional weight will be given to the mainstreaming of such cross-cutting issues in national SME policies.

Evidence on the above-mentioned cross-cutting issues will be collected, such as gender balance of participants to public-private dialogue events and capacity building activities, as well as the inclusion of green elements in regional and country-level activities as well as in the monitoring, design and evaluation of national assistance programmes to SMEs.

* Objectives/results

The overall objective of the Action is to supportfirm competitiveness and business environment reforms in the countries of the EU Eastern Partnership.in line with Priority 1 on Economic development & market opportunities of the Joint Staff Working Document 'Eastern Partnership Focussing on key priorities and deliverables[2].

The specific objectives of the Action are:

* To strengthen institutional frameworks and delivery of government support to SMEsand improve the business environment, by assisting governments in the design of medium-term SME strategies and action plans, proposing key ***performance*** ***indicators*** to assess results, advising on the design and operationalisation of selected actions, and facilitating government co-ordination and public-private stakeholder dialogue.Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment (e.g competition, environment, investment, taxation;

1. To support monitoring and evaluation of SME policies and improve production of business statistics, by strengthening government capacity to monitor progress in the implementation of SME strategies and assisting in the production of harmonised and internationally comparable SME statistics;
2. To support evidence-based policy making and regional benchmarking, through a third SBA assessment cycle (including collectingharmonised ***indicators*** covering structural business statistics based on OECD-Eurostat methodology, ***performance***-based ***indicators*** (BEEPS) and new policy ***indicators***, e.g on SME finance, openness to foreign investment, trade facilitation, green economy) and capacity building for systematic data collection on the SME sector (development of key ***performance*** ***indicators*** (KPI) to assess progress of SME Strategies/Action Plans);
3. To stimulate reform implementation, through peer reviews and regional policy dialogue events with SME policy stakeholders.

4.1 Main activities

The Action will be structured around two components:

* Component A will provide country-specific support to policy making and public-private dialogue by strengthening government capacity in all six EaP countries to design SME strategies/action plans, deliver SME support measures, and to monitor and evaluate progress in implementation.Additional ad hoc expertise in the form of thematic reviews, studies and workshops could be provided to address emerging priorities and advise governments to improve selected areas of the business environment.

1. Component B will support regional benchmarking and policy dialogue through a third SBA assessment, peer reviews and regional events.

All project activities have been designed upon request from national governmentsand in close co-ordination with EU delegations.The following table provides an overview of project activities that will contribute to achieving the specific project objectives:

Table 3.Overview of project activities, by objective and level of ***intervention*** (country/regional)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Component A: Country-specific support to SME policy making and public-private dialogue | Component B: Regional SBA assessment and policy dialogue |  |  |
| Objective | 1. To strengthen institutional frameworks and deliveryof government support to SMEs and improve the business environment | 2. To support monitoring and evaluation of SME policies and improve production of business statistics | 3. To support evidence-based policy making and regional benchmarking | 4. To stimulate reform implementation and promote regional policy dialogue |
| Armenia | 1.1 Assist the government in preparingan SME Strategy Action Plan 2018-2020 andpropose key ***performance*** ***indicators*** to assess results 1.2 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process | 2.1Assist the government in monitoring progress in the implementation of SME competitiveness reforms 2.2 Assist the government in the production, analysis and dissemination of harmonised business statistics | 3.1 Revise SBA assessment methodology 3.2 Organise one private sector focus group meeting per country and three SBA stakeholder workshops per country to facilitate the SBA assessment process 3.3Carry out government self-assessment and OECD assessment of the SBA in six countries 3.4 Publish regional 'SME Policy Index' report 3.5 Disseminate the report and its main findings at a high-level regional event and six country-level events 3.6 Prepare annual SBA factsheets for EaP countries participating in COSME (Armenia, Moldova and Ukraine) | 4.1 Organise three regional meetings of the OECD Eurasia Competitiveness Roundtable 4.2 Carry out six peer reviews (2017: Armenia, 2018: Azerbaijan, Georgia, 2019: Belarus, Moldova, Ukraine) 4.3 Organise three regional workshops for SBA co-ordinators to facilitate the SBA assessment process |
| Azerbaijan | 1.3 Assist the government in finalisingthe SME Action Plan for 2018-2020 and propose key ***performance*** ***indicators*** to assess results 1.4Assist the government in operationalisingspecific actions of the SME strategy, e.g by advising on the designof a government support programme to link SMEs with foreign investors 1.5 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process |  |  |  |
| Belarus | 1.6 Assist the government in finalising the SME Strategy and Action Plan for 2018-2020 and propose key ***performance*** ***indicators*** to assess results 1.7 Assist the government in operationalising specific actions of the SME strategy, e.g by advising on the design of a programme on supporting high-growth SMEs with export and innovation potential (blueprint for implementation by national authorities) 1.8 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process | 2.3 Assist the government in monitoring progress in the implementation of a policy roadmap to support the development of a private market for business development services (BDS) |  |  |
| Georgia | 1.9 Assist the government preparing the SME Strategy Action Plan 2018-2020 and propose key ***performance*** ***indicators*** to assess results 1.10 Assist the government in operationalising specific actions of the SME strategy, e.g by advising on the design of a programme on linking investors with domestic SMEs in a selected sector 1.11 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process | 2.4 Strengthen the institutional capacity of the government (MoESD, EDA) to monitor the implementation of the SME Development Strategy 2016-2020 |  |  |
| Moldova | 1.12 Assist the government in preparing the SME Strategy Action Plan 2018-2020 and propose key ***performance*** ***indicators*** to assess results 1.13 Assist the government in operationalising specific actions of the SME strategy, e.g by proposing measures (financial and non-financial) and mechanisms to support the delivery of high value-added business development services to SMEs in selected sectors 1.14 Strengthen the policy making process by introducing a public-private SME strategy stakeholder process | 2.5 Strengthen the institutional capacity of the government (Ministry of Economy, ODIMM) to monitor the implementation of the Small and Medium Enterprise Sector Development Strategy 2012-2020 |  |  |
| Ukraine | 1.15 Strengthen the policy making process by Introducing a public-private stakeholder process to review the SME strategy | 2.6 Strengthen the institutional capacity of the government (MEDT) to monitor the implementation of the SME Development Strategy 2017-2020 2.7 Assist the government in the production, analysis and dissemination of harmonised business statistics |  |  |

Component A: Country-level support to policy making and public-private dialogue

Project component A will focus on delivering analysis, policy advice and capacity building to provide country-level assistanceto policy makers in all six EaP countries. The OECD will leverage the expertise of its Secretariat and involve experts from OECD Member states to strengthen institutional frameworks and delivery of government support to SMEs (objective 1) and to support monitoring and evaluation of SME policies and improve the production of business statistics.Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment.The duration of the support per country may generally range between 18 and 24 months (see 5.2 for tentative schedule). The specific activities per country will be subject to an annual discussion with EU delegations in all six EaP countries.

Component B: Regional SBA assessment and policy dialogue

Project component B will support evidence-based policy making and regional benchmarking (objective 3) through a third round of the SBA assessment leading to a third report of the SME Policy Index: Eastern Partner Countries. In addition, this component will stimulate reform implementation and promote regional policy dialogue (objective 4) through a peer review process and regional SBA stakeholder workshops. 4.2 ***Intervention*** logic

A recent study 'Enterprise ***performance*** and SME policies in the Eastern Partner countries and peer regions'[3] published by the OECD has indicated that SMEs in the EaP are less competitive than their peers in other regions in particular, in terms of access to loans,  innovation and capacity to export. When examining the determinants of firm ***performance***, the study found that firm size is a core determinant, reaffirming the conventional theory that SMEs are more likely to face barriers when accessing finance, innovating and internationalising. The study also found a strong link between the various policy areas, with SMEs that have access to finance being more likely to export and exporting SMEs being more likely to invest in R&D.

The study also investigated the relationship between SME policies and firm ***performance*** in the Eastern Partner countries and peer regions. Drawing on SME Policy Index scores as a measure of the quality of SME policies and on firm-level data about selected aspects of enterprise ***performance***, the study identified a positive relationship between policy inputs and economic outcomes in the real sector. These findings provide evidence around the assumption that better policy making contributes to building a stronger and more dynamic SME sector and build momentum for further work in this area. Through its two components described below, the Action will build on these findings to assist countries addressing gaps in the business environment identified in the most recent SBA assessment. A specific emphasis will be placed on policy areas in which EaP SMEs showed a low ***performance*** (i.e innovation, export and finance). This approach will be reinforced through country-specific assistance in the design of pilot programmes dedicated to high-growth and export-oriented SMEs.

Through Component A, the Action will assist policy makers in EaP countries in the implementation of reform priorities as identified in the policy roadmaps presented in the SME Policy Index 2016. The OECD will assist governments in the preparation of SME strategies and action plans to strengthen the institutional framework and facilitate the implementation of SME policy reforms. Implementation of selected priorities of the Action Plans will be supported through evidence-based analysis, transfer of methodology, capacity building and facilitation of government co-ordination and public-private consultation processes. In addition, the OECD will assist governments to develop harmonised and comparable business statistics and monitor progress in the implementation of SME strategies. Country-level activities have been designed based on every country's individual needs and identified in close consultation with national administrations and local EU delegations to ensure synergies with other relevant EU initiatives to support SMEs in the EaP region. Ad hoc expertise in the form of thematic reviews, studies and workshops could also be provided to advise governments to improve selected priority areas of the business environment.Support provided under Component A is expected to lead to improvements in country scores of the SBA assessment (Component B).

Through Component B, SME policy stakeholders in EaP countries will be able to assess progress in the implementation of the Small Business Act for Europe and benchmark their policies and SME ***performance*** with neighbouring countries. Cross-country analysis will nurture regional policy dialogue and exchange of good practices. Governments in EaP countries will also be able use the SBA assessment as a change management tool for identifying reform priorities in consultation with the private sector. High-level dissemination events will help increase local awareness about the findings of the SBA assessment and enable a broader range of stakeholders (including the private sector and civil society) to take action to promote a better environment for small and medium-sized enterprises.

Before the end of the project and in parallel to the 2019 SBA assessment, the OECD will carry out a follow-up study on the relationship between SME policies and firm ***performance*** to assess trends in SME ***performance*** in the EaP over time and to draw correlations between the changes in SME Policy Index scores with the changes in ***performance*** variables, which would also allow to control for country-specific factors.

* Implementation

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2 Indicative implementation period

The indicative implementation period for this Action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of adoption by the Commission of this Action Document.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

  5.3 Implementation modalities 5.3.1 Grant: direct award 'supporting SME policies in the Eastern Partnership'(direct management)

(a) Objectives of the grant, fields of ***intervention***, priorities of the year and expected results

As described above (see point 4.1 and 4.2)

(b) Justification of a direct grant

Article 190(1) (f) of Commission Delegated Regulation (EU) No 1268/2012 authorises that grants be awarded without a call for proposals for actions with specific characteristics that require a particular type of body on account of its technical competence, its high degree of specialisation, on condition that the actions concerned do not fall within the scope of a call for proposals. On this basis and under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to a specialised entity having relevant specific experience and capacities in the fields of ***intervention***. For the reasons detailed below, the OECD has been identified as the most suitable entity.

Under the responsibility of the Commission’s authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because:

* The OECD is an international organisation with a widely respected peer review mechanism that gathers around the table the governments of Eastern partner countries and OECD countries on an equal footing to exchange good practices in an impartial environment. This type of activity also fosters regional integration.

1. The OECD has successfully co-ordinated two SBA assessments in the EU Eastern Partnership region and published two corresponding reports in 2012 and 2016 (SME Policy Index).
2. The OECD has built a solid relationship with governments of Eastern partner countries. They participate in public-private Advisory Group and Working Group meetings established by the OECD across the region as well as in annual meetings of the OECD Eurasia Competitiveness Roundtable at Deputy Prime Minister, Minister of Economy and/or Deputy Minister level.
3. The OECD has established a network of local partner organisations (e.g research institutions, think tanks and national experts) that carry out local research and analysis on behalf of the OECD and help co-ordinate local activities.
4. The OECD relies on an extensive network of expert practitioners from Member states who provide in-kind support and policy expertise based on their own countries' experience in the form of lead reviewers and expert inputs to policy papers during seminars, working groups and peer reviews.
5. The OECD has built extensive partnerships with local development partners (e.g EBRD, GIZ, IFC, ITC, World Bank) to ensure synergies and maximise the impact of the Action..
6. The Commission is contributing to an existing programme that has worked successfully with Eastern partner countries on related topics since 2009: 'The OECD Eastern Europe and South Caucasus Initiative', which is part of the OECD Eurasia Competitiveness Programme.

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 95%.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement

4th quarter 2017

(f) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the adoption by the Commission of this Action Document as of 1 September2017, in line with the preliminary project proposal (grant application) submitted by OECD, to ensure continuity with the activities and with the team implementing the project 'Supporting SME Competitiveness Reforms in the Eastern Partner Countries - Implementing the Recommendations of the SME Policy Index 2012' to which the present Action constitutes a continuation and that has come to an end on 30 June 2017. 5.4 Indicative budget

|  |  |  |
| --- | --- | --- |
|  | EU contribution in EUR | OECD contribution in EUR |
| Grant - Direct management (OECD) | 4 000 000 | 400 000 |
| Total estimated cost | 4 400 000 |  |

* Organisational set-up and responsibilities

In order to carry out this Action, the OECD team will be based in its headquarters in Paris, with frequent travel to each EaP countries to collect information, co-ordinate public-private consultations and discuss intermediate project findings with local stakeholders (policy makers, private sector, development partners, EU delegations, etc.).

Advisory Groupsare chaired by a Deputy Prime Minister or Minister of Economy and would include high-level officials from the relevant ministries, representatives from the European Union Delegations and project partners. They typically meet 1-2 times per year to provide feedback on project activities.

Public-private thematic Working Groupsare chaired at Deputy Minister-level, and would include policy makers from relevant ministries and government agencies, representatives from the European Union Delegations, project partners, business associations, and academia. Working Groups typically meet 3-4 times per year and are led by the OECD to facilitate public-private consultations, receive inputs, discuss analysis and project findings and develop recommendations for policy reforms.In addition to the above, whenever necessary the OECD will mobilize its trusted network of local consultants of proven quality to carry out field work in each EaP country, as well as senior international consultant to provide key analytical inputs to project deliverables. Finally, the OECD will benefit from in-kind contributions provided by experts and practitioners from OECD member countries, who will contribute to capacity building events and lead the peer review process.

The project will be implemented by the OECD in close consultation with the Commission under the lead of Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), and including representatives of any other concerned services of Commission to co-ordinate activities. The OECD will provide annual narrative and financial reports in accordance with the Framework Administrative Agreement signed on 16 June 2015 between the European Union and the Organisation and applicable provisions in the General conditions and Special conditions.

Annual activity reports shall be drafted and structured on the basis of the results/outcomes that have been achieved for each country. The introductory chapter will entail a table summarising progress achieved against the agreed logframe and initial baseline for the region and by country. Based on these annual activity reports, annual meetings of a dedicated Advisory Group will be organised and chaired by DG NEAR.

As this project will be part of the Eastern Partnership EU4Business initiative,OECD will also take part in the EU4Business annual general assembly meeting to ensure complementarity with other EU funded initiatives. The OECD will cooperate with the EU4Business Secretariat to prepare the annual consolidated report on the initiative’s impact and results. This will notably include results achieved under this project in the framework of the defined and agreed key ***performance*** ***indicators***.

Annual co-ordination meetings in each of the six EaP countries will also take place to further ensure co-ordination with other related programmes funded by the EU or by other donors, as well as to enhance the ownership of the project by the partner countries (government representatives, BSOs, SMEs). Close co-operation with representatives of EU delegations in the EaP countries will be key to ensure that OECD activities under this Action are consistent with other EU support provided at the bilateral level. The OECD will work in close consultation with EU Delegations and regularly discuss project progress and activities. EU Delegations will be part of all project Advisory Groups and Working Groups and play a fundamental role in providing input and feedback. In addition, an annual update between the OECD and counterparts in the EU Delegations will provide an opportunity to discuss progress in the implementation of the Action, align on foreseen activities and identify ways to address emerging priorities.

The project's team will attend relevant donor coordination group/workshop on private sector development in all EaP countries.The OECD will also participate in regular meetings/videoconference with EU Delegations and relevant stakeholders to co-ordinate activities and to ensure synergies and complementarities with other EU funded and donor actions. 5.6 ***Performance*** monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports.

Every report shall provide an accurate account of implementation of the action for each of the 6 Eastern Partnership country, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the logframe matrix (for project modality). The introductory chapter will entail this table summarising progress achieved against the agreed logframe and initial baseline for the region and by country.

The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action.The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

***Performance*** monitoring and reporting will need to be in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation[4].

  5.7 Evaluation

The Commission may, during implementation, decide to undertake an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

Evaluation will need to be in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation

Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

  5.8  Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

The financing of the audit shall be covered by another measure constituting a financing decision.

  5.9 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.4 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It shall be the responsibility of the implementing partners to keep the EU Delegations fully informed of the planning and implementation of the specific visibility and communication activities.

The action shall use common branding regarding all EU support to SME in the Eastern Partnership, in particular, the name EU for Business (EU4Business) shall be used for all relevant SME activities both in English and in local official languages.

The OECD will use the EU4Business visibility tips and guidelines proposed by the EU4Business Secretariat and co-operate with the latter to further disseminate the project's key activities, events, and results. For country based activities, OECD will combine the EU4Business branding with the EU4country one (ie: EU4Georgia).Where appropriate the provisions included in the framework agreement signed with the international organisation will apply.

  [APPENDIX - Indicative Logframe matrix (for project modality) [5]]

The activities, the expected outputs and all the ***indicators***, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by ***indicators***.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | ***Intervention*** logic | ***Indicators*** | Baselines (2016) | Targets (2020) | Sources and means of verification | Assumptions |
| Overall objective:   Impact | To improve SME competitiveness[6] in the countries of the EU Eastern Partnership | 1 ? Averagecountry's score in the SME Policy Index across all dimensions[7]     2 ? Relationship between SME Policy Index scores and enterprise ***performance*** | 1 ? Country's score in the SME Policy Index 2016   2 ? Cross-sectional analysis of relationship between selected SME Policy Index dimensions and firm-level ***performance*** variables | 1 ? The average country scores increase by 10% across all dimensions in the 2019 SME policy Index compared to the 2016 SME policy Index   2 ? Positive changes in selected SME Policy Index dimensions are correlated with improved firm-level ***performance*** | SME Policy Index: Eastern Partner Countries EBRD-WB Business Environment and Enterprise ***Performance*** Survey (BEEPS) OECD study on enterprise ***performance*** and SME policies in the Eastern Partner countries | Political and economic stability at country and regional level is maintained over time Political commitment to SME policy reform is maintained over time Availability of next round of BEEPS data during implementation of the Action |
| Specific objective(s): Outcome(s) | 1 ? To strengthen institutional frameworks and delivery of government support to SMEs | 1.1 ?  Averagescore of the SME Policy Index on dimension 3 (regulatory framework for SME policy making)   1.2 ? Average score of the SME Policy Index on sub-dimension 3.3 (Public-Private Consultations: frequency and transparency, private sector involvement, M&E)   1.3 ? Average score of the SME Policy Index on dimension 5a (Support services for SMEs) | 1.1 ? 2.95 (2016)         1.2 ? 3.00 (2016)             1.3 ? 3.13 (2016) | 1.1 ? 3.54 (2020)         1.2 ? 3.60 (2016)             1.3 ? 3.76 (2020) | SME Policy Index: Eastern Partner Countries Government documents and reports/adopted policy documents National statistics office websites OECD Entrepreneurship at a Glance report OECD Scoreboard on SME Financing Monitoring reports Minutes of Advisory Group and Working Group meetings Minutes of launch and dissemination events Media reports Members of the project Advisory Group and Working Group List of participants at the OECD Eurasia Competitiveness Roundtable Private sector survey | Political and economic stability at country and regional level is maintained over time Availability of statistical and survey data for analysis High-level government involvement and commitment to implement SME policies Strong interest and capacity of the private sector to participate and contribute to public-private consultations |
| 2 ? To support monitoring and evaluation of SME policies and improve  production of business statistics | 2.1 ? Extent to which monitoring of national SME strategies takes place         2.2 ? Extent to which accurate and comprehensive business statistics are available | 2.1 ? Progress in the implementation of national SME strategies is not monitored       2.2 ? Structural business statistics to measure entrepreneurial ***performance*** are not harmonised and not published in Armenia and Ukraine | 2.1 ? Monitoring process for national SME strategies are established in at least 4 countries (Armenia, Georgia, Moldova, Ukraine)   2.2 ? Analysis on structural and business demography statistics is harmonised with OECD-Eurostat methodology and published in Armenia and Ukraine |  |  |  |
| 3 ? To support evidence-based policy making and regional benchmarking | 3.1 ? Number of SBA assessment cycles completed | 3.1 ? Two SBA assessment cycles completed in the EaP region (2012, 2016) | 3.1 Third SBA assessment cycle completed |  |  |  |
| 4 ? To stimulate reform implementation and promote regional policy dialogue | 4.1 ?Extent to which countries report on progress in the implementation of policy reforms at the Roundtable and discuss it with OECD and EaP countries | 4.1 ? All EaP countries have committed to undertake a peer review at the OECD Eurasia Competitiveness Roundtable | 4.1 All EaP countries have undertaken a peer review at the OECD Eurasia Competitiveness Roundtable at high political level and committed to the implementation of policy recommendations provided by the Roundtable |  |  |  |
| Outputs [and corresponding activities presented in Table 3] | 1.1 ? Improved ***strategic*** policy framework (SME strategies/action plans) [act. 1.1,1.3,1.6,1.9,1.12] | 1.1.1 ? Extent to which SME strategies and action plans for the period 2018-2020 are developed according to international good practices   1.1.2 ? Number of OECD countries involved in providing expertise and sharing good practice for SME development | 1.1.1 ? SME strategies in place in 3 countries (Armenia, Georgia, Moldova), no action plans in place for the period 2018-2020   1.1.2 ? None | 1.1.1 ? SME strategies and action plans for the period 2018-2020 are endorsed by 5 EaP countries     1.1.2 ? On average 2 experts from OECD countries involved in the design/review of SME strategies/action plans in five EaP country | SME Policy Index: Eastern Partner Countries Government documents and reports/adopted policy documents (strategies, action plans) National statistics office websites OECD Entrepreneurship at a Glance report OECD Scoreboard on SME Financing Monitoring reports Minutes of Advisory Group and Working Group meetings Minutes of launch and dissemination events Media reports Members of the project Advisory Group and Working Group List of participants at the OECD Eurasia Competitiveness Roundtable Private sector survey | Political and economic stability at country and regional level is maintained over time Availability of statistical and survey data for analysis High-level government involvement and commitment to implement SME policies Strong interest and capacity of the private sector to participate and contribute to public-private consultations |
| 1.2 ? Enhanced institutional capacity of the government to deliver support to SMEs [act. 1.4,1.7,1.10,1.13] | 1.2.1 ? Extent to which specific actions of the SME strategy have been designed according to international good practices   1.2.2 ? Number of capacity building seminars/events to support design of targeted SME support programmes | 1.2.1 ? No operational guidance on how to implement specific actions of the SME strategy   1.2.2 ? None | 1.2.1 ? Operational guidance provided through analytical support, workshops and OECD reports   1.2.2 ? At least 2 in four countries (Azerbaijan, Belarus, Georgia, Moldova) |  |  |  |
| 1.3 ? Enhanced contribution of business associations to SME policy making processes [act. 1.2,1.5,1.8,1.11,1.14 1.15] | 1.3.1 ? Extent to which the private sector is involved in public-private consultations on the SME strategy | 1.3.1 ? Limited private sector involvement in SME policy consultations | 1.3.1 ? At least 4 public-private SME policy consultations held in each EaP country to consult with the private sector on the SME strategy |  |  |  |
| 2.1 ? Enhanced capacity to monitor implementation of SME policy [act. 2.1,2.3,2.4,2.5,2.6] | 2.1.1 ? Extent to which progress in the implementation of SME policies is monitored | 2.1.1 ? National SME strategies, action plans and SME policies are not monitored | 2.1.1 ? Monitoring info available for four countries (Armenia, Georgia, Moldova, Ukraine) |  |  |  |
| 2.2 ? Availability of structural and business demography statistics [act. 2.2,2.7] | 2.2.1 ? Extent to which internationally comparable ***indicators*** on SME ***performance*** and statistics on SME finance are produced regularly | 2.2.1 ? Limited statistics available for the SME sector | 2.2.1 ? Structural and business demography statistics following the methodology of the OECD-Eurostat Entrepreneurship ***Indicators*** Programme available in Armenia and Ukraine |  |  |  |
| 3.1 ? Third SBA assessment published, disseminated and used for policy making [act. 3.1,3.2,3.3,3.4,3.5,3.6] | 3.1.1 ? Extent to which SME Policy Index is based on amended methodology   3.1.2 ? Number of meetings and meeting participants at SME stakeholder workshops   3.1.3 ? Number of government self-assessments provided   3.1.4 ? Extent to which SME Policy Index is published   3.1.5 ? Number and level of participation at dissemination events   3.1.6 ? Number of SBA factsheets prepared | 3.1.1 ? SBA assessment based on current methodology   3.1.2 - None   3.1.3 - None   3.1.4 ? Latest SME Policy Index for EaP countries published in 2015   3.1.5 ? None   3.1.6 - None | 3.1.1 ? SBA assessment methodology revised to reflect emerging policy priorities and company ***performance***   3.1.2 ? One private sector focus group and three SBA stakeholder workshops held per country with 20 participants on average   3.1.3 ? One government self-assessment completed by country   3.1.4 ? Third SME Policy Index for EaP countries is published in 2019   3.1.5 ? One regional and six country-level dissemination events held with 100 participants on average   3.1.6 ? SBA factsheets prepared for Armenia, Moldova and Ukraine |  |  |  |
| 4.1 ? Peer reviews on SME policy reforms are carried out [act. 4.1,4.2,4.3] | 4.1.1 ? Number of peer reviews carried out   4.1.2 ? Extent to which high-level commitment to SME policy reform is secured | 4.1.1 ? Five EaP countries (all except Azerbaijan) have undergone a first round of peer reviews at the OECD Eurasia Competitiveness Roundtable (2013-2016)   4.1.2 ? None | 4.1.1 ? Five EaP countries have undergone a second round of peer review, one country has undergone a first peer review (Azerbaijan) at the OECD Eurasia Competitiveness Roundtable   4.1.2 ? All EaP countries have endorsed to implement reform recommendations provided at the peer review discussion |  |  |  |

[1]Recognizing the role of SMEs in furthering growth, the EU launched in 2009 the regional SME Flagship Initiative which was rebranded as the 'EU4business initiative' in 2016 to cover both bilateral and regional projects to support SMEs in EaP countries in addressing common challenges, such as access to finance, SME policy and regulatory framework, knowledge and business skills and access to markets.

[2][*https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near-eeas\_joint\_swd\_2016467\_0.pdf*](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near-eeas_joint_swd_2016467_0.pdf)

[3][*http://www.oecd.org/globalrelations/Enterprise-****Performance****-and-SME-Policies-in-Eastern-Partner-Countries-and-Peer-Regions.pdf*](http://www.oecd.org/globalrelations/Enterprise-Performance-and-SME-Policies-in-Eastern-Partner-Countries-and-Peer-Regions.pdf)

[4] Refer to: [*https://ec.europa.eu/neighbourhood-enlargement/tenders/monitoring-and-evaluation\_cs*](https://ec.europa.eu/neighbourhood-enlargement/tenders/monitoring-and-evaluation_cs)

[5] Mark ***indicators*** aligned with the relevant programming document mark with '\*' and ***indicators*** aligned to the EU Results Framework with '\*\*'.

[6]In this context, competitiveness is defined as the ability of enterprises to operate as successful entities in a market-based economy, as revealed by the extent to which they can access inputs (finance), invest and develop quality products and services (innovation), and sell their output on international markets (internationalisation)

[7] The dimensions assessed in the SME Policy Index 2016 are: 1. Entrepreneurial learning and women’s entrepreneurship; 2. Bankruptcy and second chance for SMEs; 3. Regulatory framework for SME policy making; 4. Operational environment for SMEs; 5a. Support services for SMEs and start-ups; 5b. Public procurement; 6.Access to ­finance for SMEs; 7.Standards and technical regulations; 8a.Enterprise skills; 8b.Innovation; 9.SMEs in a green economy; 10. Internationalisation of SMEs

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**End of Document**



[***Register of Commission documents:Annex to Commission Implementing Decision adopting an Annual Action Programme for Albania for the year 2017, EUR 61 200 000 Document date: 2017-09-04 COM-AC\_DR(2017)D052804-01 Comitology - Right of scrutiny***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PV5-VR61-F0YC-N1JP-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

ANNEX 1

ANNUAL ACTION PROGRAMME FOR ALBANIA FOR THE YEAR 2017

* Identification

* Description of theAction Programme

* Sectors selected under this Action Programme

The Indicative Strategy Paper for Albania (2014-2020) (ISP)focusespre-accession assistance on governance, rule of law and economic governance, competitiveness and growth.

|  |  |
| --- | --- |
| Beneficiary | Albania |
| CRIS/ABAC Commitment references Total cost EU Contribution Budget line   CRIS/ABAC Commitment references Total cost EU Contribution Budget line     Total cost of the programme EU Contribution to the programme | 2017/040-209 objective 1   EUR 14, 600,000 EUR 14, 600,000 22.02.01.01   2017/040-210objective 2   EUR 46,600, 000 EUR 46,600, 000 22.02.01.02     EUR 61,200,000 EUR 61,200,000 |
| Management Mode/ Entrusted entities | Action 1: EU Integration facility: Direct management by the EU Delegationto Albania for activities 1.1, 1.7 and 2.1 Indirect management with Albania for activities 1.2, 1.3 and 1.5 The entrusted entity is the Central Finance and Contracting Unit (CFCU) within the Ministry of Finance. Indirect Management by the entrusted entities listed below: United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) for activity 1.4; Organisation and Security for Cooperation in Europe (OSCE) for activity 1.6; Action 2: EU Support to a tourism-ledmodel for local economic development: Indirect Management by the entrusted entities listed below: European Bank for Reconstruction and Development (EBRD) for Component 1 and 2 German Society for Development Cooperation (Deutsche Gesellschaftfür Internationale Zusammenarbeit GmbH, GIZ)and Swedish International Development Cooperation Agency (SIDA) as co-delegateeor, if negotiations fail with SIDA as co-delegatee, only the German Society for Development Cooperation (Deutsche Gesellschaftfür Internationale Zusammenarbeit GmbH GIZ)for Component 3 |
| Final datefor concluding Financing Agreementswith the IPA IIbeneficiary | At the latest by 31 December 2018 |
| Final date for concluding delegation agreements under indirect management | At the latest by 31 December 2018 |
| Final date for concluding procurement and grant contracts | 3 years following the date of conclusion of the Financing Agreement,with the exception of the cases listed under Article 189(2) Financial Regulation |
| Final date for operational implementation | 6 years following the date of conclusion of the Financing Agreement |
| Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed) | 12 years following the conclusion of the Financing Agreement. |
| Programming Unit | Unit D4, DG NEAR |
| Implementing Unit/ EU Delegation | European Union Delegation to Albania |

In line with the ISP objectives, and also in line with Albania's key priority 1 for the opening of accession negotiations (implementing public administration reform),the Instrument for Pre-Accession Assistance (IPA II) 2017 annual action programme (AAP)will support governance and public administration reform.TheEU integration facilitywill contribute tostrengthen the capacity and accountability of the Albanian public administration to assist the Government in the preparation for EU membership. The support will be instrumental for alignment with the EU acquisand development and implementation of relevant reforms and strategies.

Another ISP priority is enhancing thecompetitiveness of Albania's economy.To this end,the 2017 AAP will support the local economic development. The action EU support to a tourism – led model for Local Economic Development aims at increasing the contribution of sustainable and responsible tourism to Albania’s economic growth. The action will implement and testa tourism-led local economicdevelopment model focused on a number of pilotsof cultural and natural heritage, and other local destinations' assets. The action will improve sustainable and responsible tourism, thus regenerating local economic fabric and urban environment. More and attractive tourist destinations will increase tourists’ spending, the length of the tourist season, job opportunities for local population and income in target areas.This goes along with a high visibility of EU support. The model will be extended to other locations, which will be selected based on their needs and potential for local development, in line with the Albanian regional development policy. Municipalitiescan receive support for the upgrading of municipal and business related infrastructures, improved energy efficiency and increased climate resilience, regional connectivity, and municipal services. Support to growth and competitiveness will also include improving the innovative eco-system and boosting start-ups creation.

List of Actionsforeseen under the selected Sectors/Priorities:

Sector - Democracy and governance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Indirect Management with Albania (EUR) |  | Other implementation arrangements (EUR) |  |  |
| Action 1 ? European Union integration facility | 4,500,000 |  | Action 1 ?European Union integration facility | 10,100,000 |
| TOTAL | 4,500,000 |  | TOTAL | 10,100,000 |

Sector - Competitiveness, innovation, ***agriculture*** and ***rural*** development

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Indirect Management with Albania (EUR) |  | Other implementation arrangements (EUR) |  |  |
| N.a | N.a |  | Action 2?EU support to atourism-ledmodel for Local Economic Development | 46,600,000 |
| TOTAL | N.a |  | TOTAL | 46,600,000 |

* Description and Implementation of the Actions

|  |  |  |  |
| --- | --- | --- | --- |
| SECTOR | Democracy and Governance | EUR 14,600,000 |  |
| Action 1 | European Union Integration Facility | Direct management | EUR 7,750,000 |
| Indirect management with Albania | EUR 4,500,000 |  |  |
| Indirect management with OSCE | EUR 650,000 |  |  |
| Indirect management with UN Women | EUR 1,700,000 |  |  |
|  |  | Total | EUR14,600,000 |

(1) Description of the Action, objective, expected results and key ***performance*** ***indicators***

The overall objective of this action is to strengthen the capacity of the Government of Albania to prepare for and participate in EU membership talks, to progress towards meeting the Copenhagen criteria and the five 'key priorities' for opening of negotiations.

The specific objective is to support alignment, to enhance the accountability of the Albanian administration, and to improve inclusive, gender-responsive and evidence-based planning, implementation and monitoring of national sectors reforms.

More specifically the EU integration facility will provide

1.1: Support to Albania's institutional arrangements for accession negotiations, including the functioning of the law approximation units of the Ministry of European Integration and the Parliament

1.2: Capacity building for civil servants of the Public Administration (of which at least 30% and preferably 50% women), including trainings/internships in EU Members State administrations and scholarship scheme ('young cells') for school years 2019-20 and 2020-21

1.3: Support to Civil Society Organisations for enhanced cooperation with state institutions in relation to the European Integration process

1.4: Supportto the Gender Equality Facility in assisting the Government in the national adoption of gender equality acquis, in ensuring that gender mainstreaming is taken into consideration by line Ministries and municipalities throughout the reform cycle.

1.5: Institution-building for alignment with the EU acquis and enhanced ability to meet economic criteria for:

* Customs Administration under the Ministry of Finance, in relation to the UnionCustoms Code;

1. Energy Efficiency Agency under the Ministry of Energy and Industry in relation to energy efficiency;
2. Ministry ofEconomic Development, Tourism, Trade and Entrepreneurship,General Directorate of Patents and Trademarks in relation to intellectual property law;
3. National Tourism Agency under the Ministry ofEconomic Development, Tourism, Trade and Entrepreneurship to support upgrading of tourism services;
4. Commissioner for Data Protection and Access to Information in relation to data protection.

1.6: Strengthen the capacity and independence of the public broadcaster andthe public school of journalism, including enhanced international cooperation (notably with the European Broadcasting Union)with a view to strengthening the freedom of expression in the context of the Copenhagen political criteria

1.7: Support to enhanced quality of journalism with a view to strengthening media pluralism and freedom of expression in the context of the Copenhagen political criteria.

2.1: Facility to support a) the preparation/programming, implementation, communication and visibility, monitoring and evaluation of IPA actions under direct and indirect management; support to actions needed to develop and implement reforms, strategies and plans including areas supported by sector reform contracts,elaboration of preparatory studies andprovision of supply to address material needs identified in relevant EU accession related report; b) preparation of EU accession-related documents, studies including annual country reports[1], Stabilisation and Association Agreement (SAA) Committee conclusions, Enlargement Strategy[2] and related texts.

The first expected result of the action is that the actions related to political and economic Copenhagen criteria and to EU acquisare implemented in order to meet specific needs identified in the course of the pre-accession and upcoming negotiation processes, the creation of a sustainable pool of excellence, highly skilled in EU affairs within the Albanian public administration is created; gender mainstreaming is taken into consideration throughout the reform cycle; and cooperation between Albanian authorities andcivil society organisations (CSOs)in relation to EU Integration is enhanced.

The second expected result of the action is that draft national reforms, sector strategies and action plans are developed in line with EU standards; acquis-related analyses and policy recommendations available; maturity of action proposals presented by the Government for future EU funding increased; EU-funded actions are monitored and evaluated.

Key ***performance*** ***indicators***:

* Percentage of implementation of the National Plan for European Integration;

1. Extent to which reporting provides information on the outcomes achieved;
2. Extent to which policy development process makes the best use of analytical tools;
3. Percentage of corrective measures proposed by the monitoring system for which an action has been taken;
4. Extent to which public consultation is used in developing policies and legislation;
5. Gender Inequality Index;
6. World Press Freedom Index.

(2) Assumptionsand conditions

In meeting the criteria on European standards, Albania generally fulfilled the SAA requirements according to the established deadlines and EU-Albania joint recommendations.

Although there is no major risk foreseen to the implementation of this Action for 2017, there are still a number of assumptions that should be considered:

* Continuous high-level commitment from the Albanian authorities, from Ministry of European Integration and line Ministries to the EU accession process;

* Continuous commitment to the implementation of the cross-cutting public administration reform and public financial management reform programmes;

* Continuous commitment from the Albanian authorities, from Ministry of European Integration and line Ministries to the development and drafting of policy and program documents related to the EU accession reform process;

* The Ministry of European Integration has sufficient administrative capacity and authority to play a pro-active role during facility implementation and speeds up the implementation of actions foreseen in the EU integration facility 2014/2015/2016.

There are three main conditions to be fulfilled while the IPA 2017 assistance is provided that will contribute to the efficient implementation of the action. These are (i) effective communication and active involvement of all stakeholders, (ii) no fundamental changes in priority setting, and (iii) sufficient ownership, motivation and support from all stakeholders to effectively and actively implement and monitor sector reform.Failure to comply with these requirements may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation arrangements for the action:

(3.1) Implementation arrangements for the action: direct management by the EU Delegation for Activities 1.1, 1.7 and 2.1

(3.1) (a) Essential elements of the action (direct management)

Procurementfor Activity 1.1 and 2.1:

* the global budgetary envelope reserved for procurement: EUR 7,000,000

1. the indicative number and type of contracts:

Activity 1.1: one service contract;

Activity 2.1: indicatively 15 service/framework and/or supply contracts

* indicative time frame for launching the procurement procedure:Q2 2018- Q2 2021

Grant – Call for proposal: for Activity1.7

* Objectives and foreseen results: The objective is to create a critical mass of media outlets providing quality journalism in the country. The expected result is to produce and broadcast quality radio/TV/online news content and programmes about issues of interest to the Albanian public in an objective, professional and innovative manner, including investigative journalism.

1. The essential eligibility criteria:

The types of actions eligible for financing are:

* Production and broadcasting of news stories, feature stories, interviews as part of prime time news programmes and/or online editions;

1. Production and broadcasting of daily or weekly news programmes;
2. In-depth reporting through reportages, feature stories, documentaries for radio/TV/online broadcasting and publication

In order to be eligible for a grant, the applicant must:

* be a legal person,

1. be a radio/TV/online outlet, ,
2. be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary, and
3. be based and registered in Albania.

1. The essential selection criteria are financial and operational capacity of the applicant.
2. The essential award criteria are relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.
3. Maximum rate of EU co-financing: The maximum possible rate of EU co-financing for grants under this call is 90 % of the eligible cost of the action.
4. Indicative amount of the call: EUR 750,000.00
5. Indicative date for launch of the call for proposals: Q1 of 2018

(3.2) Implementation arrangements for the action: indirect management by Albaniafor Activities 1.2, 1.3and 1.5

(3.2) (a)Short description of the tasks entrusted to the entity

For Activities 1.2, 1.3 and 1.5the Central Finance and Contracting Unit (CFCU) within the Ministry of Finance shall be responsible for carrying out all the tasks relating to the implementation. In particular, itshall be responsible for managing calls for tenders/proposals, contracting, implementation, managing payments, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programmewith an overall amount of EUR 4,500,000 as EU contribution.

(3.3) Implementation arrangements for the action: indirect management with international organisationsfor Activities 1.4and 1.6

(3.3.1)(a) Entity entrusted with budget implementation tasks for Activity 1.4

For Activity 1.4 UN Womenas pillar assessed entrusted entity shall be responsible for carrying out all the tasks relating to the implementation.UN Women is the mandated UN body to define global standards and norms for the full respect of women and to assist UN Member States to implement them. UN Women stands ready to provide suitable technical and financial support to central and local level administrations and to forge effective partnerships with civil society in the recipient country. It is therefore considered the appropriate implementing partner to achieve the results envisaged under this component of the EU integration facility.This implementation modality has been selected to benefit from donors' comparative advantage and expertise and previous assistance to Albania.

The selection criteria were (i) international mandate of the potential delegatee entity; (ii) presence and experience of the potential delegatee entityin particular in Albania; (iii) technical expertise, logistical & management capacities of potential delegatee entity, including at the local level; (iv) impact, results, leverage effect of cooperation with other entities/donors, also covering effectiveness of the delegation of tasks, included in Albania; (v) added value of gender-related actions under implementation by the potential delegatee entity or planned in the near future, and synergies envisaged or proposed with the IPA2017program; and (vi) reduced transaction costs level by the potential delegatee entity.

(3.3.1) (b)Short description of the tasks entrusted to the entity

UN Womenshall be responsible for carrying out all the tasks relating to the implementation, including Budget Implementation Tasks. In particular, the entrusted entity shall be responsible for managing calls for tenders, call for proposals, contracting, implementation, managing payments, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

(3.3.2)(a) Entity entrusted with budget implementation tasks for Activity 1.6

For Activity 1.6the selected pillar assessed entrusted entity is the Organisation for Security and Cooperation in Europe (OSCE), whichshall be responsible for carrying out all tasks relating to the implementation. This implementation modality has been selected to benefit from the comparative advantage of the OSCE which has expertise in the area of media freedom and development, both in the Western Balkans and specifically in Albania and has a longstanding cooperation in place in support of the Albanian Radio and Television (RTSH), including cooperation with the European Broadcasting Union through a tripartite Memorandum of Understanding.

The reason for choosing an international organisation is that the beneficiary needs support from a specialised institutional partner with comparative expertise and relevant project management capacity. The selection criteria were (i) experience of the potential delegatee entity in the area and with the beneficiary; (iii) technical expertise, logistical & management capacities of potential delegatee entity, including at the local level; (iv) impact, results, leverage effect of cooperation with other entities/donors, also covering effectiveness of the delegation of tasks included in Albania; and (v) reduced transaction costs level by the potential delegatee entity.

(3.3.2) (b)Short description of the tasks entrusted to the entity

The OSCE shall be responsible for carrying out all the tasks relating to the implementation, including Budget Implementation Tasks. In particular, the entrusted entity shall be responsible for managing calls for tenders, contracting, implementation, managing payments, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

|  |  |  |  |
| --- | --- | --- | --- |
| SECTOR | Competitiveness, innovation, ***agriculture*** and ***rural*** development | EUR 46,600,000 |  |
| Action 2 | EU support to atourism-led model for Local Economic Development | Indirect management with EBRD | EUR 40,000,000 |
| Indirect management with GIZ and SIDA as co-delegatee or, if negotiations fail with SIDA as co-delegatee, only with GIZ | EUR 6,600,000 |  |  |
|  |  | Total | EUR 46,600,000 |

(1) Description of the Action, objective, expected results and key ***performance*** ***indicators***

In line with the ISP objective, this action is designed to support the economic, social and territorial development of the country. The action will contribute to achieving the National Strategy for Development and Integration objective to support a recognised and attractive tourism industry.

The overall objective of the action is to enhance the contribution of high quality and sustainable tourism to economic growth and competitiveness of Albanian regions.

For Component 1 the specific objectives of the action arei) to raise the quality and sustainability of integrated tourism offer in pilot territories, ii)to enhance and preserve the attractiveness of cultural, natural and other assets in pilot territories for tourists.

For Component 2 the specific objective of the action isto improve local, sustainable development of priority infrastructures and improve its climate resilience in the framework of the Albanian regional development policy.

For Component 3 the specific objective of the action is to improve the innovative eco-system and boost start-ups creation.

The expected results for Component 1:

* Marketed integrated tourism package for the target area;

1. Established local tourism initiatives based on sustainability,partnerships, clusters and value chain development;
2. Improved skills through training provided to potential local tourism services/product providers in the target areas;
3. Improved tourism standards and data in line with international best practice
4. Preserved and restored cultural heritage, natural and other local assets;
5. Improved accessibility and enhanced sustainabilityof cultural heritage, natural and other local assets;
6. Improved skills on preservation, restoration and management of experts of relevant public institutions, and cultural heritage and natural sites.

The expected results for Component 2:

* Improved implementation of National Single Project pipeline priority infrastructures in the framework of local development plans;

The expected results for Component 3:

* Improved accelerators/incubators facilities for supporting startups;

1. Improved access to finance forinnovative startups.

Key ***performance*** ***indicators*** for Component 1:

* Average length of stay per tourist in target territories per year (nights);

1. Number of tourists visiting cultural heritage/natural assets in target destinations per year;

Key ***performance*** ***indicators*** for Component 2:

* Number (with amount) of completed infrastructure investment projects supported by this action;

Key ***performance*** ***indicators*** for Component 3:

* Number of innovative start-ups created (disaggregated by women – led).

(2) Assumptions and conditions

The assumptions for the action are that: the National Tourism Strategy will be finalised taking into account i) the methodology for development of the ***strategic*** documents and advice on the content of each chapter outlined in the Prime Minister Order No. 93 of 7 August 2012 ”On Drafting the National Sector and Cross-Sector Strategies for the period 2013-2010 and Sector ***Strategic*** Documents 2013-2020 in the Frame of the National Strategy for Development and Integration, 2013-2020” ii) Organisation for Economic Co-operation and DevelopmentSupport for Improvement in Governance and Management (OECD/SIGMA) Recommendations for Monitoring and Reporting of Strategies in Albania (2016);

* the results/objectives of the National Adaptation to Climate Change Strategy on dealing with climate change vulnerability are taken into consideration

1. the action will be coordinated with the Ministry of Environment at nature protected areas. All action shall be consistent with the Albanian Strategy for Environment and any investment aiming at boosting tourism shall be done with respecting environment laws and in accordance with the acquis, particularly with the Environmental Impact Assessment, Natura 2000 and Birds Directives.
2. the sub-thematic group on Tourism within the Integrated Policy Management Group for Competitiveness will be established with the involvement of key stakeholders, (i.e National IPA Coordinator, Ministry of Economic Development, Tourism, Trade and Entrepreneurship, Ministry of Culture, local actors at the target destinations) and supported by a Technical Secretariat with at least three staff and operates an effective and transparent sector reform planning, monitoring and donor coordination mechanism including for tourism development;
3. the involvement and commitment of the stakeholders is maintained;
4. the mobilisation of key stakeholders in the target territories, including local authorities, civil society and private sector, is effective;
5. the Regional Development Policy framework is operational;
6. the cultural heritage assets restored by the IPA II ***interventions*** continue to be maintained and preserved by the beneficiaries.

For Component 2 the law on Regional Development is required to be adopted. Failure to comply with this requirement may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation arrangements for the action:

(3.1)Implementation arrangements for the action: indirect management withan international organisation for Component 1 and 2

(3.1) (a)Entity entrusted with budget implementation tasks

For Component 1 and 2 the implementation method will be indirect management through a delegation agreement with the European Bank for Reconstruction and Development (EBRD).

This implementation modality has been selected to increase donors` coordination and aid effectiveness and benefit from donors' comparative advantage and expertise developed in the sector. The reason for choosing the EBRD is that the beneficiary needs hands-on support from a peer institutional partner with relevant project management experience in the sector. Furthermore, the EBRD possesses: a) mandate of promoting entrepreneurship and fosters transition towards open and democratic market economies b) specific expertise in support to private sector competitiveness and enabling business environment; c) long term presence in the country to improve infrastructures and to support advisory services to small and medium sized entreprises (SMEs); d) has a Country Strategy approved in 2016[3].

The added value of collaboration with the EBRD include: a) access to the Western Balkans Investment Framework (WBIF)for technical assistance and feasibility studies needed for the investments, b) possibility to increase the financial scope of the action, c) access to competence for competitiveness and municipal investments, d) improvement of the absorption and stimulating better uptake of other IPA-funded EBRD products as energy efficiency, environment, climate change, competitiveness, equity and small business support. In addition, the EBRD could more easily attract other donors on a joint virtual management with the new regional development agency/ies that could be developed together with loans from the EBRD, and possible grants.

The selection criteria were (i) international mandate of the potential delegatee entity; (ii) presence and experience of the potential delegatee entity in the tourism and local development sector,  particular in Albania (including the volumes of assistance in the sector and projected assistance in the near future); (iii) technical expertise, logistical & management capacities of potential delegatee entity, including at the local level; (iv) impact, results, leverage effect of cooperation with other entities/donors, also covering effectiveness of the delegation of tasks, included in Albania; (v) added value of actions in the sector under implementation by the potential delegatee entity or planned in the near future; and (vi) reduced transaction costs level by the potential delegatee entity.

(3.1) (b)Short description of the tasks entrusted to the entity

For Component 1 and 2the EBRD shall be responsible for carrying out all the tasks relating to the implementation of the action. In particular, the entrusted entity shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

The EBRD will execute budget implementation tasks and choose its implementing partner(s) in order to implement grants, loans, supplies, works and supervision services according to the description of the activities.

(3.2) Implementation arrangements for the action: indirect management with an EU Member State body for Component 3

(3.2) (a)Entity entrusted with budget implementation tasks

For Component 3the implementation method will be indirect management through a delegation agreement with the German Society for Development Cooperation, (Deutsche GesellschaftfürInternationale Zusammenarbeit GmbH GIZ)and the Swedish International Development Cooperation Agency (SIDA) as co-delegateeor, if negotiations fail with SIDA as co-delegatee, only withthe German Society for Development Cooperation (GIZ).

This implementation modality has been selected to increase donors’ coordination and aid effectiveness and benefit from donors’ comparative advantage and expertise in the sector.

The reasons for choosing GIZ are: a) experience in support to innovative eco-systems covering institutional infrastructure support, incubation, access to finance, capacity to manage large projects implemented in the region particularly in establishing innovation fundsb) in-house capacity and easy access to specialized expertise partnerships, including for FabLabs, financial instruments and pre-incubation support c) sub-granting experiences with innovation grants matching and voucher schemes, including in relevant subsectors as agri sector, ***rural*** development, cultural heritage and tourism.

The reasons for choosing SIDA as co-delegatee are: a) relevant sector experience at both policy making and start-up support particularly in grants management in tourism and agri-tourism sector; b) experience in Albania in sub-granting, in business coaching, training and spin-offs in sub-sectors oftourism and agro-tourism; c) added value in implementing socially oriented activities including youth, gender, employment and talent growth d)possibility of financial contribution of 10 % of co-financing.

The selection criteria included(i) sector expertise in innovative eco-systems; (ii) technical capacity in the implementation of projects in the field of innovative start-ups creation; (iii) experience in sub-granting(iv) financial capacity and willingness to provide co-financing.

(3.2) (b)Short description of the tasks entrusted to the entity

For Component 3 GIZ and SIDA as co-delegatee or , if negotiations fail with SIDA as co-delegatee only GIZshall be responsible for carrying out the tasks relating to the implementation. In particular, the entrusted entity/ies shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

  3.         Budget

3.1       Indicative budget table - AnnualAction Programme for Albania

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Indirect Management with the IPA II beneficiary | Other implementation arrangements |  |  |  |  |  |  |  |  |
|  |  |  |  | Total expenditure |  |  |  | Total expenditure | MM | Total |
|  | EU Contribution | IPA II beneficiary Co-financing | EU Contribution | IPA II beneficiary Co-financing | programme |  |  |  |  |  |
| Objective 1 | 01 Democracy and Governance | 4,500,000 | 0 | 4,500,000 | 01 Democracy and Governance | 10,100,000 | 0 | 10,100,000 |  | 14,600,000 |
| Action 1 EU integration facility | 4,500,000 | 0 | 4,500,000 | Action 1 EU integration facility | 10,100,000 | 0 | 10,100,000 | 1,Direct Management 2, Indirect Management with entrusted entities | 14,600,000 |  |
| Objective 2 | 06 Competitiveness and Innovation | 0 | 0 | 0 | 06Competitiveness and Innovation | 46,600,000 | 0 | 46,600,000 |  | 46,600,000 |
| Action 2 EU support to tourism and local economic development | 0 | 0 | 0 | Action 2 EU support to tourism and local economic development | 46,600,000 | 0 | 46,600,000 | Indirect management with entrusted entities |  |  |
|  | TOTALS | 4,500,000 | 0 | 4,500,000 |  | 56,700,000 | 0 | 56,700,000 |  | 61,200,000 |

  4.       Implementation modalities and General rules for procurement and grant award procedures

direct management:

Part of this programme shall be implemented by direct management by the Commission / by the Union Delegations in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part Two Title II Chapter 4 of its Rules of Application.

Under the Financial Regulation, Parts One and Three of the Financial Regulation and its Rules of Applicationshall apply to external actions except as otherwise provided in Part Two,  Title IV.

The Commission may also use services(and supplies) under its Framework Contracts concluded following Part One of the Financial Regulation.

Twinning:

Twinning projects shall be set up in the form of a grant agreement, whereby the selected Member State administrations agree to provide the requested public sector expertise against the reimbursement of the expenses thus incurred.

The contract may in particular provide for the long-term secondment of an official assigned to provide full-time advice to the administration of the IPA II beneficiary as resident twinning advisor.

The twinning grant agreement shall be established in accordance with relevant provisions of Part Two Title IV Chapter 4 of the Financial Regulation and Part Two Title II Chapter 4 of its Rules of Application.Parts One and Three of the Financial Regulation and its Rules of Application shall apply to external actions except as otherwise provided in Part Two, Title IV.

indirect management:

Part of this programme shall be implemented by indirect management by the Albanian Government in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Part of this programme shall be implemented by indirect management with entrusted entities other than the IPA II beneficiary in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the Financing Agreement and the relevant delegation agreements between the Commission and the entrusted entities implementing such actions.

  5.         ***performance*** Monitoring arrangements

As part of its ***performance*** measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable ***indicators***. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect ***performance*** data (process, output and outcome ***indicators***) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Country Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Co-ordinators (NIPACs) will collect information on the ***performance*** of the actions and programmes (process, output and outcome ***indicators***) and coordinate the collection and production of ***indicators*** coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by DG Enlargement and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

[1][*https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key\_documents/2016/20161109\_report\_albania.pdf*](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_albania.pdf)

[2] [*https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key\_documents/2016/20161109\_strategy\_paper\_en.pdf*](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_strategy_paper_en.pdf)

[3] [*http://www.ebrd.com/news/2016/ebrd-approves-new-strategy-for-albania.html*](http://www.ebrd.com/news/2016/ebrd-approves-new-strategy-for-albania.html)

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[***Reinsurance in China Market Analysis 2017 (By Segment, Key Players and Applications) and Forecasts To 2020***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5P0S-3H11-F0K1-N4HX-00000-00&context=1516831)

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**Body**

July 12, 2017

WiseGuyReports.com adds Exclusive Research on "Reinsurance in China, Key Trends and Opportunities to 2020" reports to its database.

Synopsis

'Reinsurance in China, Key Trends and Opportunities to 2020' report provides detailed analysis of the market trends, drivers and challenges in the Chinese reinsurance segment. It provides values for key ***performance*** ***indicators*** such as written premium, reinsurance ceded and reinsurance accepted during the review period (2011-2015) and forecast period (2015-2020).

The report also analyses information pertaining to the competitive landscape in the country, gives a comprehensive overview of the Chinese economy and demographics, and provides detailed analysis of natural hazards and their impact on the Chinese insurance industry.

GET SAMPLE REPORT @ [*https://www.wiseguyreports.com/sample-request/1573805-reinsurance-in-china-key-trends-and-opportunities-to-2020*](https://www.wiseguyreports.com/sample-request/1573805-reinsurance-in-china-key-trends-and-opportunities-to-2020)

The report brings together research, modeling and analysis expertise to enable reinsurers to identify segment dynamics and competitive advantages, and access profiles of reinsurers operating in the country.

Summary

'Reinsurance in China, Key Trends and Opportunities to 2020' report provides in-depth market analysis, information and insights into the Chinese reinsurance segment, including:

\* The Chinese reinsurance segment's growth prospects by reinsurance ceded from direct insurance

\* A comprehensive overview of the Chinese economy and demographics

\* Detailed analysis of natural hazards and their impact on the Chinese insurance industry

\* The competitive landscape in the Chinese reinsurance segment

Scope

This report provides a comprehensive analysis of the reinsurance segment in China:

\* It provides historical values for the Chinese reinsurance segment for the report's 2011-2015 review period, and projected figures for the 2015-2020 forecast period.

\* It offers a detailed analysis of the key categories in the Chinese reinsurance segment, and market forecasts to 2020.

\* It provides a detailed analysis of the reinsurance ceded from various direct insurance segments in China, and the reinsurance segment's growth prospects.

Reasons to Buy

\* Make ***strategic*** business decisions using in-depth historic and forecast market data related to the Chinese reinsurance segment, and each category within it.

\* Understand the demand-side dynamics, key market trends and growth opportunities in the Chinese reinsurance segment.

\* Identify growth opportunities and market dynamics in key product categories.

\* Gain insights into key regulations governing the Chinese insurance industry, and their impact on companies and the industry's future.

Key Highlights

\* At the end of 2016, China overtook Japan to become the world's second-largest insurance market, after the US.

\* The China Insurance Regulatory Commission (CIRC) implemented the China Risk Oriented Solvency System (C-ROSS) framework in January 2016 with the objective of improving regulatory control and establishing a solvency supervisory system.

\* The government and the CIRC approved the establishment of three domestic reinsurance companies in 2016: Taiping Re (China), PICC Re and Qianhai Re.

\* In June 2015, CIRC established a consortium of 45 qualified companies with the objective of providing earthquake insurance for residential properties in urban and ***rural*** areas.

\* In November 2014, the China ***Agriculture*** Insurance Reinsurance Community was established by 23 ***agricultural*** insurers, with the objective of developing ***agricultural*** insurance.

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[***Credit for Agricultural Households in India: Growing Inequities***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BH2-VXY1-JBMY-H404-00000-00&context=1516831)

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**Body**

**ABSTRACT**

Why has the share of non-institutional finance sources for ***agricultural*** households not come down between 2002 and 2012? Is the dependency on non-institutional sources the same across farm size classes? Who are the major beneficiaries of the revival in ***agricultural*** credit in the 2000s? Are larger farmers becoming more productive and commercial thus requiring higher levels of credit? Are small farms becoming unviable, making it difficult for banks to finance them? This paper examines these issues empirically based on data from the Situation Assessment Survey (SAS) of ***Agricultural*** households and the All India Debt and Investment Survey (AIDIS) conducted by the National Sample Survey Organization (NSSO) in its 59th (i.e. 2003) and 70th round (i.e. 2013) and various publications from the Reserve Bank of India (RBI).

**FULL TEXT**

**Introduction**

Credit is one of the critical inputs in ***agricultural*** production. It plays an important role in farmers’ decision making processes by meeting short-term working capital requirements as well as long-term investment needs. Recognizing the importance of ***agricultural*** credit in fostering ***agricultural*** growth and development, the main goal of ***rural*** policy in India since the beginning of the planned era (i.e. five year plans) has been the institutional framework for ***agricultural*** credit, as excessive reliance of farmers on money lenders and other informal credit sources has resulted in usurious interest rates and exploitation.

With the input-intensive Green Revolution which monetized the ***rural*** economy, together with an increase in consumption, there has been a substantial increase in the credit needs of farmers. This situation necessitated a multi-agency approach to meet the challenge of addressing their credit needs through formal agencies. As a result, a vast network of institutions providing credit for ***agriculture*** emerged, displacing usurious moneylenders and landlords. Over the years, there has been a striking increase in the share of formal financial institutions in the total credit availed by cultivator households. In the 1950s, non-institutional sources, particularly money lenders, accounted for virtually all the credit taken by cultivator households, with only negligible credit flow from the formal institutional structure. This situation had changed dramatically by the early 1980s, with formal financial institutions accounting for as much as 60% of total credit, which increased to 66% by the early 1990s.

However, with the implementation of the liberalization policy in the financial sector in the 1990s, there was a significant slowdown in the growth of commercial bank credit to ***agriculture*** compared with the 1980s. After recording an annual rate of growth of 6.8% between 1981 and 1990, ***agricultural*** credit grew at just 2.6% per annum between 1991 and 2001, mainly on account of pull back by commercial banks (Ramakumar, 2013). The liberalization of the branch licensing policy resulted in slowdown in the operation of commercial banks in ***rural*** areas with a significant reduction in the number of ***rural*** branches (Chavan, 2005; Ministry of ***Agriculture***, 2007; Ramachandran and Swaminathan, 2005; Shetty, 2005; Subbarao, 2012). As a result, the gradual increase in the share of formal institutional credit in ***agriculture*** was reversed in the period between 1991 and 2002.

Over the 2000s, following reports of growing agrarian indebtedness to informal sources and the resulting distress, there was emphasis on reviving the supply of ***agricultural*** credit. Indeed, as many as three major policy initiatives focused on institutional credit to bolster the ***agricultural*** sector have been implemented since 2000. First, in 2004, a Comprehensive Credit Policy was announced with a mandate to step up institutional credit to ***agriculture*** by 30% per year; financing of 100 farmers per branch (thus, 50 Lakh1 farmers in a year); two to three new investments in ***agricultural*** projects per branch per year, and a host of debt-relief measures, such as debt restructuring, one-time settlement and financial assistance to redeem loans from moneylenders (Ministry of ***Agriculture***, 2007). Second, in 2006–07, the central government introduced an interest subvention of 2% for short-term credit up to rupees (Rs.) 3 lakh. The subvention was enhanced subsequently and by 2013–14, an additional subvention of 3% was available for prompt payment, making a total subvention of 5% and reducing the effective rate of interest for short-term credit to 4%. Third, in addition to the interest subvention schemes, there has been an intensification of debt waiver schemes as well. To address the issue of indebtedness of farmers, the Farmer’s Debt Waiver Scheme was announced by the central government in 2008, covering 3.69 crore2 small and marginal farmers and 0.6 crore other farmers.

The new strategy paid dividends and resulted in the reversal of the slowdown of ***agricultural*** credit in the period after 2000. For instance, between 2002 and 2011, ***agricultural*** credit from Scheduled Commercial Banks (SCBs) grew by 17.6% per annum, which was significantly higher than the growth rate recorded for the 1990s; similarly, between 2004 and 2011 ***agricultural*** credit from SCBs witnessed an increase of Rs 364,776 crore as it grew from Rs 96,245 crore to Rs 461,021 crore. There was also an increase in the number of ***rural*** branches of commercial banks after 2006. Between 2006 and 2012, the number of ***rural*** bank branches rose sharply from 30,188 branches to 35,850 branches (Ramakumar, 2013).

Despite the impressive gains made by the ***rural*** credit delivery system in terms of resource mobilization, geographical coverage and functional reach, the financial health of ***agricultural*** households has deteriorated raising questions about the effectiveness of the ***rural*** credit policy. The results of the Situation Assessment Survey (SAS) of ***Agricultural*** Households in India, 70th round i.e. Jan-Dec 2013, show that in 2012, about 51.9% of ***agricultural*** households were indebted to one agency or the other i.e., either to institutional or non-institutional credit sources. That is, about 48% of ***agricultural*** households could not borrow. Compared to this, in 2002, the proportion of households who took credit was 48.6 %. Thus, the decrease in the proportion of households who could not obtain any loan was disappointingly low during a period (between the years 2002 and 2012) which saw the highest level of policy and institutional ***interventions***. Another disturbing trend in the data is that increment in the proportion of borrowing households as one moves from tiny and small holdings to large holdings3 . Regarding the source of credit, the latest report of AIDIS (2013), 70th round, has belied the expectations of an increase in the share of institutional credit, as the share of institutional credit in ***agriculture*** fell from 66.3% in 1991 to 64% in 2013.

The findings of these surveys warrant an examination of the effectiveness of ***rural*** credit policy. The specific questions that arise are: why has non-institutional finance for ***agricultural*** households not decreased between 2002 and 2012? Is the dependency on non-institutional sources the same across different farm size classes? Who are the major beneficiaries of the revival in ***agricultural*** credit in the 2000s? Are larger farmers becoming more productive and commercial, thus requiring higher levels of credit? Are small farms becoming unviable, making it difficult for banks to finance them? This paper examines these issues empirically at all India level only. The study is based on secondary data compiled from diverse sources. The data on borrowing patterns of farmers and related aspects were compiled from the 59th and 70th rounds of the SAS for farmers and AIDIS conducted by the NSSO . The data on supply of credit to ***agriculture*** through formal institutions were collected from various RBI publications . The analysis in the paper is subject to the limitation of taking into account the social/caste structure of cultivator households due to difficulty in getting data from the secondary sources.

The paper is organized into four sections. The first section outlines the borrowing patterns of the farmers and sources of finance across farm size classes. Section two is devoted to the flow of credit within ***agriculture*** and also by different farm size classes. Section 3 discusses institutional credit and farm size classes. The fourth section brings all these findings together to examine the effectiveness of ***rural*** credit policy and provides concluding observations.

**Borrowing pattern of farmers**

As providing access to institutional credit to farmers has been the main goal of the government’s ***agricultural*** credit policy since independence, we begin our analysis by looking at the extent to which ***agricultural*** households are able to borrow from any source. As per the latest SAS results, in 2012, about 51.9% of ***agricultural*** households were indebted to one agency or the other. Or in other words, about 48% of ***agricultural*** households could not borrow. Compared to this, in 2002, the proportion of ***agricultural*** households who could get credit was 48.6%. Therefore, there was a slight decrease in the proportion of households who could not obtain any loan during a period (between the years 2002 and 2012).4 Most importantly, the data on extent of indebtedness by farm size further reveals that the proportion of borrowing of ***agricultural*** households increases as one moves from small and marginal land holdings (i.e. no more than 2 hectares) to large holdings (i.e. 10 hectares and over) (see Figure 1). For instance, in 2002, ***agricultural*** households with marginal and small farms constituted around 84% of all ***agricultural*** households, however only 46% of them were able to get a loan from one or other source. However more than 65% of ***agricultural*** households with medium and large farms (i.e. farms of more than 4 hectares) were able to borrow.

**Figure 1.**

Proportion of indebted ***agricultural*** households by farm size.

Source: National Sample Survey Organisation, Situation Assessment Survey, 59th and 70th rounds.

Besides these disquieting trends, inequality of excess to credit across farm sizes has also widened between 2002 and 2012. For instance, in 2012, more than 77% of ***agricultural*** households with medium and large farms had obtained credit from one agency or the other, whereas only 48% of households with small and marginal farms could borrow. Therefore, in comparison to 2002, the difference across the farm size classes on the extent of indebtedness has widened in 2012, indicating that policy and institutional ***interventions*** during the period turned out to be more favourable to medium to large farmers compared with small and marginal farmers.

Regarding the source of credit, successive rounds of AIDIS showed that the share of non-institutional credit as a proportion of overall ***agricultural*** credit declined rapidly during the period 1951 to 1981, and more slowly in the next decade. However, the trend seems to have reversed during the period 1991 to 2002 (see Figure 2).

**Figure 2.**

Share of outstanding debt of cultivator households from institutional and non-institutional sources.

Source: All India Debt & Investment Surveys, Various Issues, National Sample Survey Organisation.

The 2002 survey results showed that the institutional agencies provided only 61.1% of the credit available to farmers compared with a peak level of 66.3% in 1991. Although this figure increased to 64% in 2012, it remains below the highest level reached.5 Therefore, efforts to increase the flow of credit to ***agriculture*** through institutional sources have not yielded the desired results.

Non-institutional credit sources were dominant in 1951, accounting for 90% of the outstanding debt of cultivator households, but their share declined rapidly to 79% in 1961, to 68% in 1971, and yet further to 43.8% in 1981. After 1981, the rate of decline slowed down and non-institutional sources accounted for 33.7% of credit in 1991. There was, however, a reversal of this pattern thereafter, with the share of non-institutional debt climbing to 39% in 2002 and dropping again to 36% in 2013. From 2002 to 2013, moneylenders played an increasing role in providing credit, rising from 17.5% in 1991, to 26.8% in 2002 and 29.6% in 2013 (see Table 1).

**Table 1.**

Breakdown of institutional and non-institutional ***agricultural*** credit.

**a**

Other agencies include financial corporations/companies; SHGs linked with banks/NBFC and other institutional agencies.

RRB: Regional ***Rural*** Banks; SHG: Self-help Groups; NBFC: Non Banking Financial Corporations.

Source: All India Debt and Investment Survey, Various Issues, NSSO.

Data from the SAS on the share of different financial sources in outstanding cash dues by farm size (Table 2) show that, the share of cooperatives in outstanding credit declined by about five percentage points at the aggregate level between 2002 and 2012 for all farm sizes except for tiny holdings of less than 0.4 ha, while the share of commercial banks increased by almost seven percentage points overall. For non-institutional sources, although the share of professional moneylenders at the aggregate level remained almost the same between 2002 and 2012, they have become relatively more important for near landless and tiny landholders in 2012, as shopkeepers and traders have lost interest in financing them. Overall, between 2002 and 2012, institutional sources have become the major source of finance for large farmers (more than 10 hectares), meeting around 79% of their credit requirements in 2012. The diversion of institutional funding to large-scale farmers occurred mainly to the cost of the smallest scale farmers, as 85% of their credit requirements are now being met from non-institutional sources. In general, the extent of institutional credit as a proportion of overall ***agricultural*** credit increased as one moves from tiny and small holdings to large holdings. Therefore, one can argue that the period from 2002 and 2012, when policy and institutional ***interventions*** were at their highest level (as discussed), was more favourable to large farmers compared to marginal and small farmers, and adversely affected those with the smallest holdings in terms of their access to institutional credit support.

**Table 2.**

Breakdown of Institutional and Non-Institutional ***Agricultural*** Credit sources by farm size.

Source: National Sample Survey Organisation, Situation Assessment Survey, 2003 and 2014.

Observations from the SAS were further supported by the data provided by RBI on distribution of scheduled commercial banks’ direct finance (outstanding) to farmers (short-term and long-term loans) by size of holdings.6 The analysis shows that there has been an increase in disbursement across all three categories of land holdings7 (under 2.5 acres, over 2.5 to 5 acres and over 5 acres) during the period from 1980-81 to 2011-12 in terms of the total amount disbursed, the number of accounts and the amount disbursed per account. However, the magnitude of such increase turned out to be higher for large farmers compared to marginal farmers. The credit outstanding per account for big cultivators was always higher than for small cultivators, however the gap between these two has further widened over the years. For instance, in 1990/91, the difference in average loan outstanding (i.e. amount disbursed per account) between marginal farmers and medium and large farmers was Rs. 13,876 which further increased to Rs. 30,000 in 1999/2000, and in 2010/11 it was more than Rs. 80,000. Large farmers capture of the benefits from ***agricultural*** credit is also supported by Ramakumar and Chavan (2007), who pointed out that the share of accounts (under direct finance) held by marginal and small cultivators together was about 73–74% in the mid-1990s, declining to 71.4% in 2004/05. On the other hand, the share of loan accounts held by big cultivators rose from about 26–27% in the mid-1990s to 28.6% in 2004/05.

In sum, the analysis shows that between 2002 and 2012, despite the high level of policy and institutional ***interventions***, there was only a slight decrease in the proportion of ***agricultural*** households who could not obtain any loan, and also the proportion of borrowing of ***agricultural*** households increased with the size of land holdings. Unfortunately, compared to 2002, the disparity in the extent of indebtedness by farm size has widened in 2012. Source of credit flow i.e. institutional and non-instituional across the farm size classes clearly pointed out that the institutional ***interventions*** were more favourable to large farmers than to marginal and small farmers.

**Flow of credit within *agriculture***

Credit provided directly to farmers, known as ‘direct finance to ***agriculture***’ by institutional agencies (co-operative banks, commercial banks and regional ***rural*** banks), takes the form of either short-term or long-term credit (investment credit). The short-term loans to ***agriculture*** are also referred as crop loans. The crop loans are provided as cash or in kind, such as the supply of seeds and fertilizers. These loans enable cultivators to procure inputs such as fertilizer and seeds needed for ***agricultural*** operations. These loans are made available against the hypothecation of the crop to be cultivated by the farmer. Short-term credit is also meant to cover the cost of hired labour as well as part of the consumption needs of poorer farmers. The second component of direct ***agriculture*** finance, long-term credit, is meant for investment in fixed assets such as irrigation pumps, tractors, ***agricultural*** machinery, plantations and assets related to dairy farming, fishing and poultry. In addition, substantial lending which goes to the institutions that support ***agricultural*** production rather than directly to cultivators is known as indirect finance to ***agriculture***. The traditional forms of indirect finance to ***agriculture*** are loans to input dealers for their role in the provision of ***agricultural*** inputs, and loans to electricity boards for supplying power to cultivators. From the 1990s onwards, the definition of what constitutes indirect finance to ***agriculture*** has been broadened significantly by the RBI.8

Since the second half of the 1990s, indirect credit to ***agriculture*** has grown faster than direct credit, taking the share of indirect credit in the total ***agricultural*** credit supplied by institutional agencies from about 21.5% in 1993 to 48% by 2008 (see Figure 3). During the second half of the 2000s, i.e., from 2005 onwards, indirect credit even exceeded its prescribed sublimit under the priority sector guidelines by a narrow margin. The rising importance of indirect credit from the 1990s onwards on total bank credit to ***agriculture*** has been analyzed by several scholars (Chavan, 2013; Hoda and Terway, 2015; Ramakumar 2013; Ramakumar and Chavan 2007; Satish, 2007; Subbarao, 2012).

**Figure 3.**

Shares of direct and indirect credit in total ***agricultural*** credit.

Notes: Data refer to ***agricultural*** credit from commercial banks, RRBs and ***rural*** cooperatives taken together.

Data on ***agricultural*** credit from co-operatives are available only up to 2007/08.

Source: Handbook of Statistics on Indian Economy, various issues.

What emerges from these studies is that the rising importance of indirect credit reflects widening of its definition together with growing credit needs for strengthening the supply chain infrastructure. A significant proportion of the increase in total bank credit to ***agriculture*** in the 2000s was accounted for by indirect finance to ***agriculture***. For instance, between 2000 and 2008, about one-third of the total increase in credit supply to ***agriculture*** was indirect. Therefore, without a sharp growth in indirect finance to ***agriculture***, growth in ***agricultural*** credit flow in the 2000s would have been much lower. It is important to note that growth in indirect finance since 2000 did not originate from the traditional components of indirect finance, but was the outcome of a series of definitional changes since the second half of the 1990s as reflected in the phenomenal rise in the levels of ‘other types of indirect finance’ compared to traditional components of indirect finance (Ramakumar 2013).

As well as an increase in the importance of indirect finance in the overall credit supply to ***agriculture***, there has also been a substantial increase in the volume of direct ***agricultural*** credit advanced by institutional agencies. Between 1975/76 and 2011/12, the volume of short-term credit from commercial banks, co-operative banks and Regional ***Rural*** Banks (RRBs) rose from Rs 1,377 crore to Rs 360,127 crore; long-term credit rose from Rs 1,772 crore to Rs 219,540 crore, and total credit rose from Rs 3,148 to Rs 579,667 crore at current prices. However, the growth in direct finance was much more impressive in the 2000s compared to the 1990s. For instance, direct finance grew at the rate of 17.8% per annum from 2000 to 2012 compared to 8.5% per annum in the 1990s. It is pertinent to mention that there has been a fall in the share of long-term credit in total direct ***agricultural*** credit since the early 1990s and the fall has been steep since 2000. Throughout the 1970s and 1980s, the share of long-term ***agricultural*** credit was rising, reaching a high of 66.5% by 1991/92. By 2011/12, it had fallen to 37.9% (see Figure 4). The available evidence also indicates a strong association between investment credit and private sector gross capital formation in ***agriculture*** (Dave, 2014).9 Therefore, the recent sluggish ***performance*** of investment credit is a cause for concern given the slowdown in capital formation in ***agriculture***.

**Figure 4.**

Trend in total direct ***agricultural*** credit (Rs. billion, outstanding) and share of short-term and long-term credit.

Source: Handbook of Statistics on Indian Economy, various issues.

Although the banks have been able to meet the overall ***agricultural*** credit target, they have invariably fallen short of targets set for investment credit. For instance, in 2007/08 banks met around 86% of the investment credit target, falling sharply to 58% in 2012/13 (see Table 3). Banks met 69% in the target in 2013/14, however this was on account of a reduction in the target limit which was reduced to Rs. 2 lakh crore from the previous year.

**Table 3.**

Investment credit target and level achieved (figures in Rs. million).

Source: Government of India (GOI) and National Bank for ***Agriculture*** and ***Rural*** Development (NABARD).

Disquietingly, there has been expansion of credit supplied to large-scale cultivators/farmers. The RBI publishes data on finance to farmers according to size of holdings. On the basis of size of holdings, farmers are categorized as ‘marginal’ (less than 2.5 acres), ‘small’ (between 2.5 to 5 acres) and ‘big’ (over 5 acres). Analysis of the share of loan accounts held by marginal, small and big cultivators under direct finance during 1980/81 to 2011/12 shows a decline in the share of loan accounts held by marginal cultivators in the 1990s, a trend that continued more or less up to 2010. The share of loan accounts held by marginal farmers declined from 43.7% in 1991 to 35% in 2010. On the other hand, the share of loan accounts held by big farmers rose from about 25.4% in 1991 to 30% in 2001 and to 35.9% in 2010 (see Table 4).

**Table 4.**

Distribution of number of loan accounts under direct outstanding finance from scheduled commercial banks. (in percentage)

Source: Handbook of Statistics on Indian Economy, various issues.

A similar trend was reflected in the amount of ***agricultural*** credit outstanding per account by farm size. Figure 5 shows the trend in ***agricultural*** credit outstanding per account by farm size for the period 1980/81 to 2011/12. The credit outstanding per account for big cultivators is consistently higher than that for small and marginal cultivators. Also, the difference in credit outstanding per account between big cultivators and small and marginal cultivators has widened over the years. However, since late 1990s, the credit outstanding per account for big farmers has increased at a much higher rate resulting in increasing divergence between the credit levels of big cultivators and of small and marginal cultivators. The average loan outstanding in 2012 is Rs. 96,618, ranging from Rs. 75,771 for marginal farmers to Rs. 145,759 for big famers. The average loan outstanding is three and a half times greater than that in 2001 (Rs. 26,584).

**Figure 5.**

Amount of direct ***agricultural*** credit per account by land holding; 1980/81 to 2011/12.

Source: Handbook of Statistics on Indian Economy, various issues.

However, the data on average loan outstanding by RBI does not capture loans given by non-institutional sources, which still represent a significant proportion of the outstanding debt of cultivator households in general and marginal farmers in particular. The data provided by RBI are available only for three land size classes. In order to assess the total average loan outstanding for farmer households, we have used the information from the 59th and 70th rounds of the SAS on average loan outstanding in each land size classes possessed. Table 5 shows average amount of outstanding loan per farmer household by farm size at the all India level for 2002 and 2012. The average outstanding loan per farmer household varied widely by farm size. The survey results shows that the average loan outstanding in 2012 is Rs. 47,000, ranging from Rs. 31,100 for farmers with no land to Rs 290,300 for farmers with 10 hectares or above. At aggregate level, the average loan outstanding is more than three and a half times greater than in 2002 (Rs. 12,585). However, near landless farmers showed the highest increase in average loan outstanding, five times greater in 2012 than in 2002in spite of the increase in their dependence on non-institutional sources of finance. The credit outstanding per account for big farmers (more than 10 hectares) increased at a much higher rate compared to near landless and marginal farmers, resulted in increasingdivergence between the credit outstanding per account of big cultivators and that of marginal cultivators in 2012.

**Table 5.**

Average amount of outstanding loan per farmer household by farm size.

Source: Naational Sample Survey Organisation, Situation Assessment Survey, 2003 and 2013.

**Institutional credit and farm size classes**

As discussed, the period between 2002 and 2012, which has seen maximum policy and institutional ***interventions*** and the subsequent reversal of the slowdown in ***agricultural*** credit, was more favourable to large farmers than to marginal and small farmers, and adversely affected near landless farmers in terms of providing institutional credit support. The observed trend needs to be analyzed carefully; in particular, are larger farmers becoming more productive and commercial thus requiring higher levels of credit? Or are small farms becoming unviable, making it difficult for banks to finance them? How have the non-institutional sources been able to retain a large share of outstanding debt despite the fact that the rates of interest charged by them are generally much higher than those charged by institutional sources? Regarding the viability of farming across farm sizes, Chand et al. (2011) in their study on farm size and productivity, argued that small farms are superior in terms of production ***performance***. Crop intensity, which is the main source of growth in ***agriculture*** in India, was found to be highest in marginal holdings, and it declined with an increase in farm size. The study further argues that advances in technology and the scale factor in production did not dilute the superior ***performance*** of smaller holdings. However, small farms turned out to be weak in terms of generating adequate income to meet the consumption requirements (i.e. requirements for medical, education, housing and so on) of a farm family. The contribution of ***agriculture*** in to the total income of smallholders is extremely low. The SAS showed that ***agricultural*** households with less than 0.01 hectares of land were more dependent on waged employment (about 63.6% of their income) than farm business (cultivation and farming of animals) for their income. However, farming of animals generated more income than cultivation in the period from July 2012 toJune 2013 (see Figure 6). ***Agricultural*** households with more than 1 hectare of land reported cultivation/farm business as their principal source of income (contributing more than 50%). Cultivation accounted for most of the average monthly income of ***agricultural*** households with the largest land holdings (around 86%). The proportion of income from non-farm business in the average monthly income decreased as the land holding of ***agricultural*** households increased.

**Figure 6.**

Distribution of income of ***agricultural*** households by each size class of land possessed.

Source: SAS Key ***Indicators***, 70th round.

However, the dependence on non-farm business by the landless and tiny and marginal holders is distress induced and not the real diversification of income in the strict sense as such activities tend to be unskilled and low-paid.

The SAS 59th round on the income, expenditure and productive assets of farmers households provides data on expenditure and the output quantity and value per farmer household for seven farm size categories. Dividing the value of output per household by the average size of holding gives the value of output per hectare for different farm sizes (Chand et al. 2011). The analysis shows an inverse relationship between farm size and land productivity (see Table 6).

**Table 6.**

***Agricultural*** output per household, per hectare and per capita by farm size.

Source: Adapted from Chand et al., 2011.

For instance, the value of crop output per hectare was Rs 25,173 for holdings below 0.4 ha and Rs 18,921 for holdings of size 0.4 to 1 ha. As farm size increases toward 2 ha, productivity declined to less than Rs 17,000 per hectare. On large farms (4 ha to 10 ha), the value of aggregate crop production declined to Rs 13,500 per hectare. Farmers operating on landholdings above 10 ha (the very large size category) were found to have very low productivity (Rs 7,722), about half of the productivity of large holdings and less than one-third of the productivity in the smallest farms. The above results clearly indicate that ***agriculture*** productivity in marginal and small holdings is much higher than the average productivity for all size categories. Therefore, the analysis of survey result does not support the argument that the low viability of small farms makes it difficult for banks to lend to them. In fact, banks are becoming more risk averse and hence reluctant to lend to marginal and small farms, which can be attributed to a misplaced belief that borrowers in the ***agriculture*** sector, particularly small and marginal farmers with low per capita incomes, are risky and hence non-bankable.

The increasing reliance of near landless and marginal farmers on non-institutional sources of finance can be attributed to the growing reluctance of institutional agencies to finance them as reflected in the decline in the share of loan accounts held by them. Therefore, to meet their growing credit requirements, they are becoming more dependent on non-institutional sources. As much as 74% of the outstanding dues from non-institutional sources attracted interest rates of more than 15% in 2012 whereas the corresponding figure for institutional sources was only 10%. Further, outstanding debt at rates above 30% was as much as 34.1% for non-institutional sources and only 1% for institutional sources (see Table 7). It is, however, important to mention that non-institutional agencies also provide interest free loans and these loans account for almost 18% and 18.3% in 2002 and 2012 respectively, of the outstanding debt, which in turn helps them to lure ***rural*** clients.

**Table 7.**

Distribution of loans outstanding by interest rates.

Source: All India Debt & Investment Survey, National Sample Survey Organisation.

Overall, between 2002 and 2013, there has been a general decline in the average interest rate from 18.91% in 2002 to 17.00% in 2012. The decline is higher in the case of institutional loans by 264 basis points from 14.31% in 2002. Interest rate on non-institutional loans declined but only by 114 basis points from 26.34% in 2002. However, analysis of the distribution of outstanding loans to farmer households by the purpose of the loan from 2002 to 2012 throws some light on higher dependence on non-institutional financial sources. In general, farmers have taken loans for a range of purposes such as meeting capital and current expenses for the farm as well as non-farm business, household expenses including education, medical treatment, consumption, weddings, housing and other items. Distribution of loan outstanding according to purpose for the years 2002 and 2012, given in Figure 7(a) and (b), reveals that the share of loans taken for farm business has come down from 58% in 2002 to 28% in 2012, while non-farm business has accounted for a higher share (11.4% in 2012 compared to 6.7% in 2002). Increasingly, loans are taken to meet household expenses, and within that, loans for medical purposes have doubled and have trebled for education over this period. The share of other expenses has increased significantly over the decade.

**Figure 7(a).**

Loan outstanding by purpose of loan, 2002.

Source: All India Debt & Investment Survey, NSSO.

**Figure 7(b).**

Loan outstanding by purpose of loan, 2012.

Source: All India Debt & Investment Survey, NSSO.

Furthermore, in 2002, the distribution of purpose of loan by farm size shows that as farm size increases, loans are more likely to be taken for farm business and less likely to be taken for consumption, marriage and other expenditure. This has important implications for the financing agencies. Since formal agencies offer very few products designed to meet such household expenses, with the exception of a few items like education and housing, farming households with very small land holdings are therefore dependent on informal agencies to meet these credit requirements. This partly explains why the proportion of credit provided by non-institutional agencies has not come down between 2002 and 2012.

**Discussion and conclusion**

The analysis in this paper shows that despite a period of maximum policy and institutional ***interventions***, the financial health of ***agricultural*** households deteriorated between 2002 and 2012.

Notwithstanding the efforts of all concerned, there was only a slight increase in the proportion of ***agricultural*** households who could borrow from any source during this period. Moreover, policy and institutional ***interventions*** turned out to be more favourable to large farmers than to small and marginal farmers, which resulted in further widening of inequality in the extent of indebtedness between small and large farms. Efforts to increase the flow of credit to ***agriculture*** through institutional sources have not yielded the desired results. Although of the proportion of institutional lending to cultivators/farmers had increased to 64% in 2012, it remains below the highest ever reached in early 1990s. Nonetheless, over the years, institutional sources have become the major source of finance for large farms and met around 79% of their credit requirements in 2012. The diversion of institutional credit to large farmers came mainly at the cost of very small-scale farmers, for whom 85% of credit requirements are now being met from non-institutional sources. In general, increment in the share of institutional credit as a proportion of overall ***agricultural*** credit was observed as one move from tiny and small holdings to large holdings.

From the second half of the 1990s, indirect credit to ***agriculture*** grew faster than direct credit. Between 2000 and 2008, about one-third of the total increase in credit supply to ***agriculture*** was indirect, described as ‘other types of indirect finance’ rather than traditional types of indirect finance. There was a sharp fall in the share of long-term credit in total direct ***agricultural*** credit since the early 1990s and the fall has been steep since the 2000s. Banks have invariably fallen short of targets set for investment credit. In 2012/13 banks met only 58% of the investment credit targets. Big cultivators were the major beneficiaries of the increase in direct advances. The share of loan accounts held by marginal farmers declined from 43.7% in 1991 to 35% in 2010. On the other hand, the share of loan accounts held by big farmers rose from about 25.4% in 1991 to 30% in 2001, and to 35.9% in 2010. Also, the difference in credit outstanding per account between big cultivators and small and marginal cultivators has widened over the years.

The total (institutional as well as non-institutional) average loan outstanding for farmer households has increased by 350% between 2002 and 2012. However, the credit outstanding per account for big farmers increased at a much higher rate compared to that for near landless and marginal farmers, resulting in an increase in the gap between the credit outstanding per account of big cultivators and marginal cultivators in 2012.

***Agriculture*** productivity in marginal and smallholdings has turned out to much higher than the average productivity for all farm sizes, which suggests that the low viability of small farms should not be a reason for banks to refuse to lend to them. However, despite having a strong advantage in productivity, the contribution of ***agriculture*** to the total income of smallholders is extremely low, as reflected in theirhigher dependence waged employment for income. The proportion of income from non-farm business decreases in the average monthly income of ***agricultural*** households decreases as the amount of land held increases.

The analysis of distribution of loan outstanding by purpose shows that while the share of loans taken for farm business has decreased from 58% in 2002 to 28% in 2012, there has been an increase to 11.4% in 2012 from 6.7% in 2002 in the share of loans for non-farm business. Very small-scale cultivators borrowed a higher proportion of loans to meet household expenses, especially medical, education and other expenses, whereas farm business accounted for a large proportion of the loans taken by big farmers. Since formal agencies offer very few products to meet such household expenses, small-scale farmers are dependent on informal agencies for credit.

To conclude, the analysis in the paper clearly shows that policy and institutional ***interventions*** during the 2000s turned out to be more favourable to large farmers than to small and marginal farmers.

**Notes**

Author’s NoteThis article contains some overlap with a previously published article: Credit for ***agricultural*** households: Growing inequity, Ashutosh Kumar Tripathi, *FinancialExpress.com*: http://www.financialexpress.com/opinion/credit-for-***agricultural***-households-growing-inequity/125019/, August 25 2015.; Declaration of Conflicting InterestsThe author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.; FundingThe author(s) received no financial support for the research, authorship, and/or publication of this article.; 1.One lakh is equivalent to 0.1 million.; 2.One crore is equivalent to 10 million.; 3.Five major categories of land holding are: marginal (below 1 ha), small (1-2 ha), semi-medium (2-4 ha), medium (4-10 ha), large (10ha and above).; 4.An increase in indebtedness in ***agriculture*** between 2002 and 2012 does not necessarily mean a growth in debt that has debilitated the cultivators. Outstanding loans may not necessarily have a negative connotation as indicated by the term indebtedness. In banking, the availability of loans to households depends upon credit worthiness and the availability of suitable loan products from banks. For a detailed discussion on the subject, please refer to Sangwan (2015).; 5.Growth in institutional credit came mainly from commercial banks. By 2012, there is more or less parity in the standing of these two agencies as far as outstanding loans are concerned.; 6.Please refer to following section of the paper on flow of credit in ***agriculture*** for detailed discussion.; 7.Land size classification used by RBI is different than the classification used in Situation Assessment Survey.; 8.See Ramakumar (2013) for major changes introduced in the definition of indirect finances.; 9.After taking into account the lagged effect of investment credit on gross capital formation, the coefficient of correlation is positive and significant (Dave, 2014).

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**Body**

Brussels: Public Register European Parliament has issued the following document:

1 This action is funded by the European Union ANNEX 2 of the Commission Implementing Decision on the Annual Action Programme 2017 Part II and 2018 Part I Action Document for 'EU-Bhutan Trade Support' 1. Title/basic act/ CRIS number EU-Bhutan Trade Support CRIS number: ACA/2017/039-571 financed under the Development Cooperation Instrument 2. Zone benefiting from the action/location Bhutan (Asia) The action shall be carried out countrywide 3. Programming document Multiannual Regional Indicative Programme for Asia for the period 2014-2020 4. Sector of concentration/ thematic area Focal sector 1 (ASEAN): Connectivity through Sustainable and Inclusive Economic Integration and Trade DEV. Aid: YES 5. Amounts concerned Total estimated cost: EUR 4 000 000 Total amount of EU budget contribution: EUR 4 000 000 6. Aid modality(ies) and implementation modality(ies) Project Modality Indirect management with the International Trade Centre – ITC 7. a) DAC code(s) 33110 – Trade policy and administrative management b) Main delivery Channel 41000 – United Nations agency, fund or commission (UN) – International Trade Centre 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance ☐ ☐ Aid to environment ☐ ☐ Gender equality (including Women In Development) ☐ ☐ Ref.

Ares(2017)3082593 - 20/06/2017 2 Trade Development ☐ ☐ Reproductive, Maternal, New born and child health ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity ☐ ☐ Combat desertification ☐ ☐ Climate change mitigation ☐ ☐ Climate change adaptation ☐ ☐ 9. Global Public Goods and Challenges (GPGC) thematic flagships Trade integration for green and inclusive growth 10. SDGs Main SDG Goal: goal 8 – promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all Secondary SDG Goals: goal 17 – strengthen the means of implementation and revitalize the global partnerships for sustainable development Summary The Royal Government of Bhutan (RGoB) is committed to economic reforms and removing constraints to growth within the concept of Gross National Happiness. The overall Bhutan Vision 2020, the current 11th Five Year Plan (FYP) 2013-2018, as well as the Economic Development Policy (2010, revised in 2016) outline policies on developing trade and investment for sustainable economic growth and poverty reduction. A Diagnostic Trade Integration Study (DTIS) was carried out in 2012 which includes a National Export Strategy, and identifies details on how trade and investment could contribute to the efforts of the RGoB for economic development and poverty reduction. The Multiannual Indicative Programme (MIP) 2014-2020 of the EU for Bhutan focuses on two sectors: (a) ***rural*** development and climate change as well as (b) governance, including local government, public finance management and civil society. The regional Multi-annual Indicative Programme for Asia 2014-2020 foresees complementary support to ensure that the country can benefit from enhanced trade with regional and global markets. The overall objective of the proposed action is to contribute to Bhutan’s economic growth and poverty reduction. The specific objective of the action is to increase export diversification, possibly contributing to and drawing upon the implementation of the “Brand Bhutan” initiative, by improving the capacities of trade and investment policy formulation and implementation, and increasing exports in selected value chains, i.e horticulture and textile handicrafts. 3 The Action will focus on two value chains, horticulture and textile handicrafts, as well as cross-cutting trade policy issues. It is expected to achieve the following outputs:  Enhanced capacity in formulation and implementation of trade and investment policy and regulations;  Increased export of high value horticulture products (including organic);  Increased export of high value handicraft textile products. The value chain approach will benefit in particular woman and youth. These priorities were identified during project identification (June and November 2016) and confirmed during project formulation (January 2017). Broad consultations with the Government of Bhutan, other development partners, and other stakeholders took place to ensure an integrated approach. It is proposed to implement the proposed Action through a project modality with an International Organisation. The International Trade Centre (ITC) has been identified as the preferred organisation to implement the project. 1. CONTEXT 1.1 COUNTRY CONTEXT Bhutan is a small, land-locked and least developed country (LDC) situated between two large neighbours, i.e India and China. The total population is currently about 765,000 persons. Bhutan has a total land area of 38,394 km2 of which 72.5% are covered by forest. According to 2015 national data, the population below the poverty line, i.e with a per capita income below USD 1.25 per day, stands at 12%. Bhutan’s economy is traditionally based on ***agriculture*** and forestry which provide the main livelihood for more than 60% of its population. ***Agriculture*** consists largely of subsistence farming and animal husbandry. Most of the industrial sectors are of the cottage industry type. Rugged mountains dominate the terrain and make it very difficult and expensive to build and maintain transport, energy and other infrastructure. In recent years, Bhutan has embarked upon a peaceful modernization and democratization process. Bhutan has also gradually embraced international trade and investment in order to achieve economic self-reliance and inclusive green socio-economic development. Under the 11th Five Year Plan 2013-2018 (FYP), Bhutan has set up ambitious goals to achieve full employment and graduate from the LDC status by 2020. Bhutan's exports are highly concentrated, with over 70% of exports consisting of only 10 commodities, and India accounting for more than 80% of exports by destination in 2015. The main export products include hydropower-generated electricity and primary products to India. This high degree of concentration leaves Bhutan economically vulnerable and dependent. Furthermore, Bhutan's trade deficit has been consistently large and growing and is currently estimated at 32,808 million Ngultrum (Nu) including electricity, and 44,682 million Nu, excluding 4 electricity in 20151. Bhutan must increase its trade competitiveness and diversify its export markets in order to mitigate the risks associated with concentrated exports and a growing and unsustainable trade deficit. In the last two decades, Bhutan has experienced structural changes to develop its industrial and services sectors. The attempt has, however, yet to result into productive employment opportunities, vibrant private sector growth, and economic and trade diversification. The Bhutanese economy continues to provide very limited employment opportunities for the population, particularly for youth and women. 1.2 PUBLIC POLICY ASSESSMENT AND EU POLICY FRAMEWORK Bhutan has recently gone through the transition from an absolute monarchy to a constitutional democracy. In 2008, the first national assembly elections were held and the Constitution was adopted. Bhutan adopted its Vision 2020 based on the concept of Gross National Happiness, i.e peace, prosperity and happiness. The peaceful modernization and democratization process has yielded results, not only in terms of political stability, but also in economic growth and poverty reduction. Annual average growth was more than 8% in 2008-2014 and the per capita income increased from USD 730 in 2000 to USD 2,068 in 2014. Poverty in the country has been reduced by half from 23% in 2007 to 12% in 2015 (national data). In order to promote trade and investment and reduce poverty, the RGoB has formulated various public policies. These include the Economic Development Policy (EDP) of 2010, updated in June 2016, and the Foreign Direct Investment (FDI) Policy 2010 (amended in 2014). The FDI policy has improved the investment climate in the country, by relaxing the conditions for foreign investment (repatriation of dividends, reduction of the minimum threshold for equity share holding, etc.). A Diagnostic Trade Integration Study (DTIS) carried out in 2012 identified specific opportunities to enhance trade. In line with its efforts to promote trade and investment, Bhutan launched the 'Brand Bhutan' initiative to promote exports in February 2016. The initiative has yet to deliver on its expectations. The EDP is the guiding document for all the ministries and agencies to stimulate economic growth, and to ensure consistency with the current 11th FYP. More specifically, the EDP mentions that trade is an essential contributor to economic growth and employment creation. The policy focuses on creating an improved regulatory and enabling environment for more robust trade by simplifying administrative procedures and deregulating wherever feasible. The 2016 update of the EDP includes further reforms such as implementing a quality assurance program to support export oriented businesses to meet market quality requirements or revising the rules and procedures for imports from third countries by 2017. The promotion of agro-based products through fair and ethical trade in the framework of 'Brand Bhutan' as well as organic certification is also part of the EDP. 1 Bhutan's currency Nu is pegged with the Indian rupee at a 1:1 ratio. 5 The overall goal of the current 11th FYP (2013-2018) is the “self-reliance and inclusive green socio-economic development” with four important pillars, i.e (1) equitable and sustainable socio-economic development; (2) preservation of the environment; (3) preservation and promotion of the Bhutanese culture; and (4) strengthening good governance. The current FYP highlights the important role of trade and investment for economic development and poverty reduction. The RGoB will build on the EDP to develop the 12th FYP (2018-2023). The importance of trade and investment for the economic development of the country are expected to remain at the core of the 12th FYP. In order to maximize the impact and contribution to the development objectives of the RGoB, the EU’s bilateral assistance to Bhutan focuses currently on two ***strategic*** areas: (1) renewable natural resources, including ***rural*** development particularly related to ***agriculture*** and forestry; and (2) good governance, including local government development, public finance management, and support to civil society. In addition, the EU provides support through thematic programmes in the area of climate change. The EU’s regional Multi-annual Indicative Programme for Asia 2014-2020 foresees complementary support to ensure that the country can benefit from enhanced trade with regional and global markets. Overall, Bhutan’s trade sector policy supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance. 1.3 STAKEHOLDER ANALYSIS The following is a summary of the main stakeholders involved in the proposed Action: Gross National Happiness Commission (GNHC): The GNHC is responsible for the overall development planning of the country. GNHC is the interlocutor for development partners to design their support. The Ministry of Economic Affairs (MoEA): The Ministry is responsible for trade and export development in Bhutan. Key departments for the Action are the Department of Trade (DoT), Department of Industry (DoI), the Policy and Planning Division (PPD), and the Department of Cottage and Small Industry (DCSI). The MoEA expressed the need to strengthen trade negotiation skills, carry out export and investment promotion, trade and market research, improve public-private dialogue through the Better Business Council (BBC). The Ministry of ***Agriculture*** and Forests (MoAF): The Ministry aims to develop the Bhutan ***agricultural*** sector, including horticulture, by transforming the sector from subsistence farming to market-oriented commercial farming in line with the objectives of the FYP. MoAF expressed the need for support to better understand ***agricultural*** trade-related issues, and to promote products in international markets. Bhutan Chamber of Commerce and Industry (BCCI): The Chamber is the apex body of the private sector in Bhutan, representing 12 sector associations. Members, particularly SMEs and women entrepreneurs expressed the need for capacity building in the area of market information, compliance with market requirements and quality standards, export marketing and branding. 6 Bhutan Association of Women Entrepreneurs (BAOWE): The association aims to develop a social-consciousness-driven private sector and promote women entrepreneurs at the grassroots level thereby contributing to poverty reduction, self-reliance, and business from a GNH perspective to achieve the economic empowerment of women. Women entrepreneurs need support to enhance their understanding of and access to international markets. Agency for Promotion of Indigenous Crafts (APIC): The agency is responsible for facilitating the equitable growth of the craft sector and its industry by enhancing skills and business knowledge with emphasis on innovation, product development and marketing. APIC would welcome assistance for market studies in the EU or US, design inputs as well as support in training and awareness-raising for artisans on better packaging and pricing. Other stakeholders in relation to expected outputs 1 and 2 of the Action include the Bhutan Standards Bureau, National Statistical Bureau, Royal Institute of Management, and the Royal University of Bhutan. Stakeholders specifically related to Output 3 of the Action include the Handicrafts Association of Bhutan, Tarayana Foundation, the Tourism Council of Bhutan, and the Royal Textile Academy. An additional important stakeholder is the Ministry of Finance for overall management of public finances. Working with these institutions, building on their existing initiatives, and strengthening their skills and services to the private sector throughout the implementation of the Action will contribute to ensure project ownership, maximize results and their sustainability beyond the project span. Table 1: Identification of partner institutions under overall coordination by the GNHC Expected Output Lead institution Other partners 1. Enhanced capacity in trade policy regulations formulation, implementation and investment promotion (cross-cutting support) Ministry of Economic Affairs (MoEA) BCCI and members, BBC and members, Academia including Royal University and Royal Institute of Management 2. Increased capacities to export value added horticulture products Ministry of ***Agriculture*** and Forestry (MoAF) MoEA, BCCI and members, National Statistical Bureau, College of Natural Resources, Bhuntan Standards Board 3. Improved quality and marketing potential of high value Bhutanese handicraft textile products with special focus on youth and women Agency for Promotion of Indigenous Crafts (APIC) MoEA, BCCI, BAOWE and members; Handicraft Association; Royal Textile Academy; Tarayana Foundation; Bhutan Tourism Board 7 1.4 PRIORITY AREAS FOR SUPPORT/PROBLEM ANALYSIS Summary of the economic and trade-related strengths, opportunities, weaknesses and constraints Bhutan benefits from strong natural endowments which, coupled with preferential market access, political stability and a generally educated labour force, offer high opportunities for growth. Below is the summary of Bhutan’s economic and trade-related strengths, opportunities, weaknesses and constraints. Table 2: Bhutan's trade related strengths, weaknesses, opportunities and constraints: Strengths  Political stability  Peace and security  Market access  Educated labour force  Wide use of English language Weaknesses  Narrow export product base and markets  Limited supply-side capacities  Inadequate transport infrastructure / High transportation costs  Lack of capacities in trade policy  Lack of market knowledge Opportunities  Low volume, high value (niche) products, including organic production;  ***Strategic*** geo-economic location with access to regional markets  “Brand Bhutan” initiative  Improvements in existing export initiatives Constraints  Geography/landlocked  Small domestic market Analysis of the weaknesses and identification of related priority areas of support The following are Bhutan’s key weaknesses which the project aims to address.  Narrow export product base and markets: Trade is highly dependent on a few commodities and one trading partner. About 80% of total exports consist of electricity, mineral products and base metal. India absorbs more than 80% of Bhutan’s exports and provides more than 70% of its imports.  The Action will contribute to increase Bhutan’s export diversification by improving the quality, supply capacities and sales to new export markets for selected value chains, be it regionally or beyond, including developed country markets.  Limited supply-side capacities: Trade competitiveness is hampered by limited supply-side capacities while the country benefits from preferential market access, notably to the EU under the GSP's Everything but Arms scheme. About 85% of Bhutanese industries are small and micro industries or artisans, which are constrained by a lack of access to capital, technology, markets and skilled labour resulting in low volume, high cost and inferior quality. Production costs are relatively high in Bhutan – except in the electricity sector – and research and innovation capabilities are limited, resulting in low labour productivity. Small industries do not yet have the full capacity to grasp the benefits of the market access preferences granted by the South Asian Free Trade Area (SAFTA), Bhutan’s free trade agreement with India, as well as 8 duty-free and quota-free access to the EU and to other developed markets, including the United States.  The Action will address supply-side capacity constraints through training and coaching along selected value chains, instilling new production techniques, attracting investment, improving quality management, packaging and labelling, marketing and branding skills.  Inadequate infrastructure and high transportation costs: The small size of the domestic market, being land-locked, and the mountainous terrain mean that building and maintaining infrastructure is expensive and transport costs are higher as compared to other countries. With limited access to income generating opportunities, the ***rural*** areas are much more affected by poverty. Around 98% of the poor are living in ***rural*** areas. Their livelihoods largely depend on ***agriculture*** and traditional crafts.  While the Action will not support transport and infrastructure development and upgrading, it will focus on markets for high value products and products with the highest impact on poverty reduction. While regional markets are important, developed country markets, notably the EU, hold the greatest potential for value-added horticulture and organic products and high-quality authentic handicrafts. This will be well coordinated and complement other programs, e.g in ***rural*** development, climate change, and civil society support.  Lack of capacities in trade policy and regulations formulation, implementation and investment promotion: Overall the public service of Bhutan is very competent and efficient. In the trade and investment areas, there are however many technical issues which are emerging and may lead to inconsistent policies and require constant update of knowledge and skills of government officials. For example, MoEA (and MoAF) officials need trade negotiation skills. They also need to formulate the foreign direct investment promotion strategy, particularly for the new industrial estates. Many government officials involved in trade and investment do not have the international exposure, knowledge, and skills to promote trade and investment outside of the country.  The Action will provide capacity building in trade negotiations, business advocacy and investment promotion, which are strongly required by both the public and private sector across value chains.  Lack of market knowledge: Limited access to market information and understanding of market requirements in the region and beyond are major impediments to Bhutan’s trade development and promotion across sectors.  The Action will provide support to identify trade opportunities, analyse and apply international market requirements and standards, building on the ITC's existing portfolio of projects and tools, notably the Market Access Map and the Standards Map. Selection of the value chains Underpinned by an export diversification and poverty reduction approach, the focus of the Action will be on increasing exports, income and employment along two selected value chains. The selection of value chains has been guided by the following main criteria:  Requests from country stakeholders, 9  Priority value chains in the country’s development plans and strategies and in line with analysis already provided in the Diagnostic Trade Integration Study (DTIS),  Potential for diversification and value addition while preserving traditions and culture,  Impact on poverty reduction and employment for women and youth. Selection has been made following desk research based on existing surveys, sector studies, and extensive consultations with the government, private sector and academia in Bhutan. As a result of the analysis, it was decided to focus on the following two value chains: (1) horticulture, and (2) handicraft textile products. ***Agriculture*** represents 15% of GDP and remains the primary source of livelihood for 60% of the population. Over 95% of the earning women in the country work in the ***agricultural*** sector. Increased support in product and export diversification along ***agricultural*** value chains would lead to significant benefits for a large part of the population, including women in ***rural*** areas. The country has a favourable environment for the production of ***agricultural*** products such as potato, offseason vegetables, medicinal plants, mushroom, which have high value chain enhancement opportunities. Within the ***agricultural*** sector, horticulture holds high potential for value added niche products and markets such as spices, herbal plants and honey. These products significantly contribute to national income and employment among the ***rural*** population. The RGoB is emphasizing the need to diversify ***agricultural*** production from that of a subsistence type of farming to high value cash crops. The textile industry is an integral part of Bhutanese life and culture. Almost half – 47% – of manufacturing employment is in textiles. This sector is especially important for women: 85.7% of all women employed in the manufacturing sector are in the textile sector. In particular, the textile handicraft industry could expand significantly in Bhutan. The Bhutanese Weaver Survey 2010 found that a total of 64,100 women are engaged in weaving activities on a regular basis. This means that at national level one out of five women or one out of three women between the age of 20 and 40 are weaving on a regular basis. Most of the weavers come from families that have a modest income and 10-15% of them are considered poor. Horticulture and textile handicraft have been identified in the FYP and the DTIS as priority sectors for economic growth and with potential for value addition. The reasons for proposing these value chains are as follows: Table 3: Selection of value chains Criteria Horticulture Handicraft textile products Requests from country stakeholders Request from MoEA and MoAF, i.e Bhutan horticulture programme geared towards transforming the sector from subsistence farming to market-oriented commercial farming Request from MoEA/Department of cottage & small industry, APIC, HAB, BAOWE Priority in the country’s development plans and strategies  11th Five Year Plan  DTIS  “Brand Bhutan” / ”Grown in Bhutan”  11th Five Year Plan  DTIS  “Brand Bhutan” / ”Made in Bhutan” 10 Criteria Horticulture Handicraft textile products Potential for diversification and value addition while preserving traditions and the country culture  Potential for improving quality, “organic” production  Potential for processing e.g juices, jam  ***Agriculture***/horticulture are part of the country’s traditional sectors which the Government aims to promote  Potential for improving designs, diversify offer and adjust prices according to market trends and demand  Synergy with the tourism market  Cultural identity impact e.g weaving (Thagzo) is one of the 13 Arts and Crafts and an inherent element of Bhutan’s cultural and creative capital Impact on poverty reduction and employment  Around 98% of the poor are living in ***rural*** areas and are concentrated in ***agriculture*** and traditional crafts  ***Agriculture*** provides the livelihood base for 69% of the population and Horticulture accounts for approximately 13% of ***agriculture***  Source of employment for women and youth  Broad country coverage (potatoes in the whole country, citrus in the subtropical southern regions of the country, apples in the Western part of the country)  Around 98% of the poor are living in ***rural*** areas are engaged in ***agriculture*** and traditional crafts  65% of the population engaged in ***agriculture*** is also engaged in manufacturing handicrafts during the non-cultivation season as a means of sustenance (complementarity between the two value chains)  Source of employment for women in ***rural*** areas  Country wide coverage Selection of the products Specific products with high potential for export diversification and value addition have been identified under each value chain. Within the horticulture sector, the Action will focus on a small number of selected products to ensure an integrated value chain support and to maximise results. Some activities will be common to these products (e.g marketing and branding). Other activities and advisory support will be customized and differentiated (quality standards, price information, identification of buyers, etc.). Indicatively, the horticulture products identified are ginger, honey, garlic and potatoes (recently certified organic locally in Bhutan). They have been indicatively shortlisted for further support according to the following list of criteria:  There should be potential for export diversification and a potential to increase volume within one year;  The product should be non-perishable;  There should be potential for value addition (through quality or semi processed enhancement);  There should be the potential to be competitive on markets beyond India, including the EU and other;  The products should be grown in the same/close geographical areas – for logistics and cost efficiency purposes;  The product should not compete for food security – should be aligned with national policies;  The majority of producers should be women and youth;  There should be complementarities with other projects. 11 Within the textile handicraft sector (ER3), products will include: scarfs, home-use textiles (such as bed covers, table runners, cushion covers), and accessories (such as hand bags). They have been identified according to the following list of criteria:  Supply and weaving capacities should exist;  There should be potential for value addition (through improved quality and designs);  There should be potential demand in import markets including the EU and other;  The majority of producers should be women and youth. A final selection of the exact products to be supported under the two value chains will be confirmed by the project steering committee (see section below section 5.6), based on further analysis in line with the above criteria to be carried out by ITC. 2. RISKS The risks associated to the proposed Action include the following: Table 4: Risks and Mitigating Measures Risk Risk Level Mitigating Measures Lack of sustained commitment of producers, including SMEs and women entrepreneurs to participate in project activities Medium Outreach activities will be included to demonstrate economic benefits and incentives especially to SMEs and women entrepreneurs; Lack of cooperation between the public institutions and private sector stakeholders Medium Close monitoring and involvement of the RGoB in frequent and regular project oversight steering committee meetings. The international organisation implementing the project will work with Bhutanese institutions by providing funding directly (e.g grants) if possible. Lack of sustainability at the end of the Action Medium The objective of the Action is to promote trade and investment, i.e productive sectors that will generate income for the economy. It is therefore assumed that additional income generated as a result of the project’s activities will contribute to the sustainability of the action. An exit strategy will be part of the project’s activities. Key assumptions: (1) It is assumed that expanded trade will lead to poverty reduction through equitable economic growth; (2) It is also assumed that the RGoB will be committed to trade and investment policy implementation. 12 3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES 3.1 LESSONS LEARNT An earlier EU trade project supported Bhutan's possible WTO accession and was implemented by ITC and UNESCAP from 2006 to 2009. The project provided training, information and market research to the Bhutan Export Promotion Centre (BEPC) which is now merged into the Trade Department of the Export Promotion Division within the MEA. Since ITC and UNESCAP did not have resident offices in Bhutan to follow up with the proposed activities, neither the BEPC nor exporters themselves were able to effectively use the information to realise exports. The experiences show that externally provided technical assistance has limits in terms of internalising the support in public policy implementation. A close involvement of beneficiaries in project monitoring (steering committees) is therefore required. It is furthermore essential that the implementing partner has adequate representation in the country. Bhutan is currently re-examining the advantages and disadvantages of joining the WTO and may renew its interest in the WTO membership. The previous EU project primarily focused on research on WTO accession issues rather than long-term capacity building. Discussion about a potential WTO membership is hampered by the absence of a dynamic export production and limited integration into international markets. The approach of the present Action to support specific value chains will therefore contribute to the decision making process for an eventual WTO membership. The proposed action will address the lessons learnt from other projects in Bhutan, particularly projects funded by other development partners such as the World Bank, Asian Development Bank (ADB) and the Japan International Cooperation Agency (JICA). For example, JICA is supporting specific value chains (e.g lemon grass) which has been very successful and offers valuable insights, including how to organise value chains with local producers in ***rural*** areas. Other lessons learned include: (i) support to value chains with small volumes but high value products is more efficient; (ii) a long term approach and support to producers is required to ensure success. 3.2 COMPLEMENTARITY, SYNERGY AND DONOR COORDINATION Currently, there are only a few development partners which are active in providing trade-related assistance to Bhutan. These include Asia Development Bank (ADB), the World Bank/International Finance Corporation (IFC) and the United Nations (UN). ADB is assisting the Ministry of Finance on several transport and trade facilitation projects. It is also assisting Bhutan in building a mini-dry port in the south (Phuntsholing) to facilitate trade with India and other countries. The World Bank and IFC are also building a larger dry port and a road linked to it in an attempt of reducing the congestion in Phuntsholing so that customs claims for containers can be done in the dry port directly. The United Nations Development Programme (UNDP) took the lead to prepare the

DTIS in 2012. ITC, the United Nations Conference on Trade and Development (UNCTAD), and the United Nations Industrial Development Organization (UNIDO) have provided only limited ad-hoc training and technical assistance (TA) activities in Bhutan due to their limited funding capacities. The present Action will be complementary to EU and other donors' support. The Action is coherent with the forthcoming EU support to ***rural*** development and climate change to MoAF. The present Action includes, for instance, support to the horticultural value chain which complements the focus of the MoAF on production techniques, with additional support in the area of quality management for marketing and export development. 13 There will be complementarities and synergy with other projects implemented by the ITC, notably those supported by the EU in Asia and globally. Key projects in this respect are the Market Access Map, Standards Map and the Small Traders Capacity Building Programme2 as well as the ITC Trade-Related Assistance projects in Afghanistan and Sri Lanka. The Action will build on the lessons learned and results achieved by the UNDP handicraft project (2014-2016) which contributed to create women weavers’ groups and facilitate their access to micro credit. This Action will strengthen handicraft producers’ skills, including those groups set-up under the UNDP project, through training and capacity building and link them to markets. Being a member of the One Programme of the United Nations in Bhutan, ITC will also ensure coordination of the Action with the UN work programme and other UN agencies’ projects in Bhutan. In terms of coordination of development partner efforts, UNDP used to be in the lead to coordinate trade and private sector development activities. However, this coordinating mechanism is no longer functional since UNDP does not have a trade project at the moment. Once the present Action is launched, the EU may play an active role in donor coordination for trade-related TA. The present Action will promote further coordination efforts and dialogue between development partners and beneficiaries in order to maximize results and their sustainability. 3.3 CROSS-CUTTING ISSUES The proposed Action intends to integrate cross-cutting issues, particularly women and youth, gender equality and protection of the environment, into the design and implementation of the activities, in line with Bhutan's sector policies. To address unemployment and the rapidly growing youth population is a priority for the RGoB. Women are playing an important role in the production, processing and marketing of products and services. More than 65% of the total workforce and more than 72% of female workforce is engaged in ***agriculture*** in ***rural*** areas in crop and livestock production activities. Many women, also in the younger working-age group, are employed in the crafts and tourism sectors. Women and youth will directly benefit from the support to horticulture and handicrafts of the present Action. The RGoB attaches great importance to gender equality. Ministries and agencies are mainstreaming gender equality into their plans and programmes. For example, the MoEA and MoAF are currently promoting technologies that are particularly women friendly (farm machinery, use of biogas for cooking, women participation in farmer groups and cooperatives). The RGoB is working with women artisans (more than 80% of artisans are women) to promote indigenous arts and handicrafts. Bhutan is known, including through the Gross National Happiness concept, to respect the environment and preserve the nature by emphasizing the “high value - low impact” of its economic activities. The proposed Action closely follows these principles and practices. For 2 [*http://www.macmap.org/*](http://www.macmap.org/),   [*http://www.standardsmap.org/*](http://www.standardsmap.org/), and   [*http://www.intracen.org/layouts/ProjectDetailsTemplate.aspx?pageid=47244640826&id=66545*](http://www.intracen.org/layouts/ProjectDetailsTemplate.aspx?pageid=47244640826&id=66545) respectively 14 example, the proposed support to the horticulture value chain will include capacity building for organic production. 4. DESCRIPTION OF THE ACTION 4.1 OBJECTIVES/RESULTS The overall objective of the proposed action is to contribute to Bhutan’s economic growth and poverty reduction. The specific objective of the action is to increase exports and export diversification, possibly contributing to and drawing upon the implementation of the “Brand Bhutan” initiative, by:  Improving the capacities of trade and investment policy formulation and implementation, and  Increasing exports in selected value chains, i.e horticulture and handicraft textiles. The outputs of the Action are: 1. Enhanced capacities in the formulation and implementation of trade and investment policies and regulations; 2. Improved environment for export of high value horticultural products, including organic products; 3. Improved environment for export of high value handicraft textile products. 4.2 MAIN ACTIVITIES The main activities of the present in relation to the respective result area are: Output 1: Enhanced capacities in the formulation and implementation of trade and investment policies and regulations - Building capacities in Bhutanese public and private institutions to inform trade policy/regulatory/investment policies; - Address policy/regulatory/procedural impediments to business competitiveness along the selected value chains; - Promote investments (foreign and domestic), including investment in the selected value chains (e.g investment into storage facilities, cold chain equipment); - Enhance access to trade and market information; - Strengthen public-private policy dialogue involving the Better Business Council. Output 2: Improved environment for exports of high value horticultural products, including organic products - Develop horticulture value chain analysis and action plan for export diversification and value addition with special focus on youth and women; - Design horticulture market penetration strategy for regional and/or international target markets; - Enhance export and quality management capacities of stakeholders - from farmers to exporters - along the horticulture value chain and improve coordination; 15 - Set-up real-time price information access for producers using digital technology; - Develop marketing and branding strategy for the horticultural sector, possibly contributing to the “Brand Bhutan” initiative; - Establish buyer-seller sustainable linkages. Output 3: Improved environment for exports of high-value handicraft textile products - Develop handicraft textile products value chain analysis with special focus on women and youth and assess market potential in selected target markets; - Improve product quality, enhance supply capacity and innovative designs matching market trends and develop demand; - Develop a sector-specific marketing and branding strategy and build capacities on marketing and branding of handicraft textile sector, possibly contributing to the “Brand Bhutan” initiative; - Establish buyer-seller sustainable linkages. 4.3 ***INTERVENTION*** LOGIC Strategy to address the identified weaknesses and priority areas of support The Action will adopt a two-pronged strategy to address the identified problems and constraints and provide trade-related technical assistance in the priority areas for support: 1. Enhancing national capacities for formulating and implementing trade and investment policies, improve regulatory frameworks, and in support of this: 2. Contributing to developing integrated and market-led value chains, building supply-side capacities to add value to export products, addressing two value chains i.e horticulture and handicraft textile products. The Action will apply the following key principles throughout implementation:  An integrated and market-led value chain development approach: The Action will contribute to improve the coordination along the selected sector value chains, linking artisans and producers to market opportunities, to participate in and benefit from trade. The focus will be on market-led development, starting by identifying market opportunities and analysing the needs along the domestic value chains through market-led analysis, market intelligence and diagnostics, in order to customize capacity building and advisory support.  Supporting the implementation of Bhutan’s policy priority to diversify its exports: The project will directly contribute to export diversification which is one of the main objectives of the Five-Year Plan of the RGoB. The Action has the potential to contribute to the “Brand Bhutan” initiative by strengthening capacities to produce and market quality products “made in” and “grown in” Bhutan along the two value chains supported by the Action (horticulture and textile crafts). It could possibly draw on synergy with Brand Bhutan, depending on the progress of the initiative.  Gender, youth and environment: The Action will integrate gender, youth and environment-related issues (e.g organic production) as cross-cutting issues. Sector value chains have been selected accordingly. 16  The Action will facilitate policy dialogue: The Action will contribute to promote public-private policy dialogue and cooperation (on trade policy, trade information etc.) as a means to support project sustainability and ownership by the country (see below).  The Action will incorporate a strong institutional and capacity building focus: an important feature of the Action will be to work “from within” key partner institutions. The approach will be to work together with partners, emphasizing ‘learning by doing’ through training, coaching and skills development. The Action will enable relevant stakeholders to continue to provide relevant and effective trade support services to the private sector and to replicate the positive results of the project beyond its end date. The Action will use and reinforce local expertise to a maximum extent, working with national experts and conducting training of trainers. 5. IMPLEMENTATION 5.1 FINANCING AGREEMENT In order to implement this Action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2 INDICATIVE IMPLEMENTATION PERIOD The indicative operational implementation period of this Action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 40 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's authorizing officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 IMPLEMENTATION MODALITY 5.3.1 INDIRECT MANAGEMENT WITH AN INTERNATIONAL ORGANISATION This action may be implemented in indirect management with the International Trade Centre (ITC) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails to provide technical assistance for the project details outlined above. ITC will mobilise own staff as well as externally recruited experts and will organise capacity building, training, advisory, and other events. More specifically, it is foreseen that one full time National Project Coordinator based at the Gross National Happiness Commission in Thimphu will be recruited for the project, as well as a part-time trade expert in ITC Headquarter in Geneva for project technical management and implementation across the expected outputs. Other experts such as ITC staff experts in trade policy, ***agriculture***, and other fields, national and international consultants, will be paid under the project as per specific short term assignments. This implementation by indirect management by ITC is justified because ITC is an International Organisation specialised in providing trade-related technical assistance and carries out similar projects worldwide. ITC is the joint agency of the World Trade Organization and the United Nations. Its mandate combines a focus on expanding trade opportunities with the aim of fostering sustainable development. Furthermore, the RGoB is well familiar with the ITC, given the experience with a previous project. 17 The entrusted entity would carry out the following budget-implementation tasks: launching and evaluation of calls for tenders, definition of eligibility, selection and award criteria, acting as contracting authority for concluding and managing contracts, and carrying out payments. The entrusted international organisation is currently undergoing the ex-ante assessment in accordance with Article 6(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management. 5.4 SCOPE OF GEOGRAPHICAL ELIGIBILITY FOR PROCUREMENT AND GRANTS The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult. 5.5 INDICATIVE BUDGET EU contribution (amount in EUR) Indicative third party contribution 1. Indirect Management with an international organisation, i.e ITC 4 000 000 N.A Total 4 000 000 N.A 5.6 ORGANISATIONAL SET-UP AND RESPONSIBILITIES The governance of the Action will be assumed by a Project Steering Committee (PSC) which will be composed of senior representatives of the Gross National Happiness Commission (GNHC), the Ministry of Economic Affairs, the Ministry of ***Agriculture*** and Forestry, the EU Delegation, and the ITC. Representatives from other public and private sector as well as civil society institutions active in the horticulture and handicraft sectors, may participate. The PSC will be co-chaired by the GHNC and the EU Delegation. The involvement of GNHC will ensure ***strategic*** guidance to the project, while facilitating coordination and communication between stakeholders and line ministries. The PSC will ensure that the Action maintains coherence with the national development and trade priorities of Bhutan, and will provide ***strategic*** direction and oversight for its implementation. The Committee will regularly review the progress and ***performance*** of the Action and approve work plans. It will also gather lessons learned, identify possible bottlenecks and risks and propose mitigation actions. The PSC will meet once a year and ITC will ensure the functioning of its Secretariat. 18 ITC will establish a National Project Coordinator who in the initial phase of the project will be located within the premises of the GNHC. S/he will assume day-to-day coordination and ensure ownership of the Action. An important function of the Coordinator will be to maintain constant liaison, information sharing and communication with national partners, as well as outreach and development of working relations with stakeholders in ***rural*** areas. Detailed Terms of Reference (TORs) of the PSC and National Project Coordinator shall be elaborated at the outset of the project by ITC in full coordination with RGoB and EU Delegation. To ensure effective leadership and ownership throughout the implementation of the Action, as well as to facilitate communication, specific partner organizations - including lead partners as country focal points - have been identified for each output of the Action. Hence it will ensure a de facto appropriate level of presence on the ground. These have been discussed and confirmed with country stakeholders during the formulation mission (January 2017). See paragraph 1.1.2 on Stakeholder analysis. 5.7 ***PERFORMANCE*** MONITORING AND REPORTING ***Performance*** monitoring and reporting arrangements will be specified in the Delegation Agreement between the international organisation and the EU. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the log-frame matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.8 EVALUATION A final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that at the end of the project implementation, when RGoB will be starting to prepare its mid-term review of the 12th five year plan under which one of the core component is expected to be trade and investment for the economic development of the country. The lessons learned under the present action should help RGoB in dealing with export diversification in years to come. Additional lessons learned from other ITC projects in the region will be considered. The Commission shall inform the implementing partner at least 45 days in advance of the dates foreseen for the final evaluation mission. The implementing partner shall collaborate efficiently 19 and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation report shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. Indicatively, one contract for evaluation services will be concluded under a framework contract in the final year of implementation and shall be covered by another measure constituting a financing decision. 5.9 AUDIT Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. The financing of the audit shall be covered by another measure constituting a financing decision. 5.10 COMMUNICATION AND VISIBILITY Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. In particular, the reports as presented according to point 5.7 above will include the implementation of communication activities and will highlight how EU visibility and communication on the project are ensured. 1 APPENDIX – INDICATIVE LOGFRAME MATRIX The activities, the expected outputs and all the ***indicators***, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome ***indicators*** whenever it is relevant for monitoring and reporting purposes. Note also that ***indicators*** should be disaggregated by sex whenever relevant. ***Intervention*** logic Sub-Expected Outputs ***Indicators*** Baselines (incl. reference year) Targets Sources and Means of verification Assumptions Overall objective: Impact Contribute to Bhutan’s economic growth and poverty reduction 1)Absolute volume/value of Bhutan’s export flows of horticulture and handicraft textile products 2)Average annual incomes of beneficiary stakeholders – of which women and youth - in the horticulture and handicraft textile sectors 3)Bhutan’s ranking in the specific sub-***indicators*** of the World Bank Doing Business improved based on the addressed issues through the project 1)Volume/value data to be collected as part of the value chain analyses conducted under outputs 2 and 3 (2017/8) 2)Average income to be collected as part of the value chain analyses conducted under Outputs 2 and 3 (2017/8) 3) 73 (2017) 1)15% increase 2)20% increase 3)70 (2021) Country statistics, sales statistics of exporters and associations, project mission reports Sector associations’ reports and data, project surveys and reports World Bank Doing Business Report/data Continuation of national policy focus on trade-related development Overall country economic stability and growth Government commitment in providing necessary resources (human and financial) for achieving project objectives Other countries ranking on the World Bank Doing Business ranking remain stable – as Bhutan might improve its policies but comparatively other countries might do as well Specific objective: Outcome Increased exports and export diversification, possibly contributing to the implementation of the “Brand Bhutan” Initiative 1)Value of sales of: a) horticulture products, b) handicraft textile products 2)Number of horticulture and handicraft textile producers – incl. women and youth – linked to export markets 3)Number of export markets to which new sales of: a) horticulture and b) handicraft textile products have been made 4)Number of new a) horticulture and b) handicraft textile products exported, where possible under “Brand Bhutan” 1)Value data to be collected as part of the value chain analyses conducted under Outputs 2 and 3 (2017/18) 2)Number to be collected as part of the value chain analyses conducted under Outputs 2 and 3 (2017/8) 3)0 4)0 1)20% increase 2)Number to be defined based on the value chain analyses conducted under ERs 2 and 3 3) a)5, b) 4 4) a)2, b) 20 Sales statistics of exporters/producers, project surveys and mission reports, evaluation/feedback forms Value chain analyses, project surveys and mission reports Sales statistics of exporters/producers in the horticulture and handicraft textile sector with reference to export markets (for both ***indicators***), project surveys, mission reports Willingness and ability of Government and key stakeholders to boost trade competitiveness in a concerted effort Availability of resources (human and financial) of target beneficiaries in the horticulture and handicraft textile sectors to engage and follow up Effective participation by the target beneficiaries in the horticulture and handicraft textile sectors (farmers and businesses) in the planned project activities in accordance to the set timeline No climate hazards affecting the horticulture production and/or harvest Infrastructure/road conditions are conducive for the transport of the products to be exported 2 Output 1 1. Enhanced capacities in the formulation and implementation of trade and investment policies and regulations 1.1 Capacities in Bhutanese public and private institutions to inform trade policy/regulatory/investment policies are built 1.2 Policy/regulatory/procedural impediments to business competitiveness addressed along the selected value chains under ERs 2 and 3 1.3 Investments (FDI and domestic) promoted into Bhutan, including investment in the selected value chains under ER 2 and 3 (e.g investment into storage facilities, cold chain equipment) 1.4 Enhanced access to trade and market information 1.5 Better Business Council (BBC) strengthened with a view to promote informed Public-Private Dialogue Output 1 ***Indicator***: 1)Number of policy/regulatory reforms/measures adopted fostering value chain competitiveness and/or business environment 1.1 ***indicators***: 2)Number of trade policy-related workshops held 3)Number of public and private representatives – including women and youth – trained that report increased awareness in relation to policy regulations formulation, implementation and investment promotion 1.2 ***indicators***: 4)Number of value chain analyses focusing on policy/regulatory issues endorsed by MoEA 5)Number of recommendations endorsed through the consultation process 1.3 ***indicators***: 6)Number of investment profiles endorsed by MoEA and sectoral associations 7)Number of investment- related events where the participation of Bhutanese investment promotion officers/private sector representatives was facilitated by the project 1.4 ***indicators***: 8)Status of trade information portal 9)Number of MoEA/BCCI/Exporters association/other business organizations staff – of which women and youth - who reported increased knowledge on how to collect and analyse relevant information to identity markets and market trends 1.5 ***indicators***: 10)Number of BBC technical committees’ positions informed through the project 11)Number of research papers /position papers produced through mentorship 1)0 2)0 3)0 4)0 5)0 6)0 7)0 8)Not operational 9)0 10)0 11)0 1)5 2)8 3)80 4)2 5)10 6)6 7)4 8)Portal online 9)30 10)5 11)9 MoEA reports Workshops reports Evaluation questionnaires Completed value chain analyses endorsed by MoEA Event reports Investment profiles MoEA/private sector participants’ reports Existence of portal Workshop reports, evaluation/feedback forms, survey of trained officers BBC minutes and/or final report informing the technical committee Position papers/research papers Coordination and cooperation among relevant policy-makers and key public and private institutions Existence of sufficient political will and bureaucratic reactivity to implement relevant trade and investment policies Commitment on the part of Bhutanese public and private institutions (i) to nominate suitable staff for training, (ii) to secure tenure of trained staff and (iii) to follow up on trainings and implement actions as required Availability of time and resources of key public and private institutions to engage in analysis, consultations, drafting of relevant documents, training/advisory/information activities, and participation to all required events and activities Beneficiary institutions and private sector organizations have the necessary absorption capacities to apply the skills provided through the project 3 Output 2 2. Improved environment for exports of high-value horticulture products (incl. organic) 2.1 Horticulture value chain analysis and Action Plan produced for export diversification and value addition with special focus on youth and women 2.2 Horticulture market penetration strategy for regional and/or international target markets designed 2.3 Export and quality management capacities of stakeholders - from farmers to exporters - along the horticulture value chain built and coordination improved 2.4 Scheme set-up for farmers to have access to real time price information using digital technology 2.5 Marketing and branding strategy developed for the Bhutan horticultural sector where possibly contributing to the “Brand Bhutan” initiative 2.6 Buyer-seller linkages established Output 2 ***indicator***: 1)Number of farmers/producers – of which women and youth - which put in place new procedures on technical practices and business management to improve product quality or value addition as a result of project support 2.1 ***indicators***: 2)Number of Horticulture Value Chain Action Plans - focusing on the 2 selected products and integrating gender and youth dimension - produced with and validated by country stakeholders 3)Number of institutions coached in conducting value chain analysis 2.2 ***indicator***: 4)Number of Horticulture value chain market penetration strategies - focusing on the 2 selected products and integrating gender and youth dimension, - produced with and validated by country stakeholders 2.3 ***indicators***: 5)Number of training workshops for horticulture export and quality development held 6)Number of horticulture value chain stakeholders – disaggregated by type i.e farmers, exporters, women, youth – trained and reported improved export skills 2.4 ***indicators***: 7)Number of farmers using mobile system providing real time product price information 2.5 ***indicators***: 8)Status of criteria for the 2 selected horticulture products to be able to apply the “Brand Bhutan”/”Grown in Bhutan” logo for exports 2.6 ***indicators***: 9)Number of trade fairs and B2B events where the participation of Bhutanese horticulture exporters was facilitated by the project 10)Number of exporters/producers - of which women and youth - which participated in trade fairs and/or B2B events and identified new potential buyers 1)0 2)0 3)0 4)0 5)0 6)0 7)0 8)No list of criteria 9)0 10)0 1)200 2)2 3)3 4)2 5)50 6)500 7)500 8)List of criteria produced 9)4 10)20 Evaluation tests passed by participants and monitoring report Value chain analyses and Action Plans, event reports Event reports, lists of participants, value chain analysis materials/methodology documents at the disposal of institutions, evaluation/feedback forms from institutions Market strategies, event reports Event reports Event reports, lists of participants, evaluation/feedback forms from participants Mobile platform report on users Existence of list Event reports, photos Event reports, feedback/evaluation forms from participants, list of visitors/buyers met, correspondence with buyers High professionalism and buy-in of key stakeholders in the horticulture sector engaged in the project Availability of time and resources (human and financial) of farmers, businesses, producers and buyers in the horticulture sector to engage in all relevant activities and follow up on recommendations Stakeholders along the horticulture value chain are willing and able to improving existing practices as a result of trainings / advisory workshops / information activities / new technologies Willingness and capacity of selected exporters/producers to cost-share their participation in fairs/B2B events Beneficiary institutions and private sector organizations have the necessary absorption capacities to apply the skills provided through the project 4 Output 3 3. Improved environment for exports of high-value handicraft textile products 3.1 Handicraft textile products value chain analysis undertaken with special focus on women and youth and market potential in selected target markets assessed 3.2 Product quality improved, supply capacity enhanced and innovative designs matching market trends and demand developed 3.3 Develop a sector-specific marketing and branding strategy and build capacities on marketing and branding for the Bhutan handicraft textile sector, in collaboration with the “Brand Bhutan” initiative 3.4 Establish sustainable market linkages with markets Output 3 ***indicator***: 1)Number of handicraft textile producers/exporters – of which women and youth - which improved product quality/design or value addition as a result of project support 3.1 ***indicators***: 2)Status of Handmade Handicraft textile value chain analysis integrating gender and youth dimension 3)Number of institutions and government agencies coached in conducting value chain analysis 3.2 ***indicators***: 4)Number of producers, traders, representatives of institutions and associations - of which number of women and youth - trained on market requirements, product development, pricing & costing 5)Number of new handicraft textile products 3.3 ***indicators***: 6)Status of Marketing and branding strategy for the Bhutan handicraft textile sector produced incl. a set of criteria for the handmade textile sector developed to be able to apply the “Brand Bhutan”/”Made in Bhutan” logo for exports 7)Number of brand books, product catalogues, labels, flyers and other promotional material developed 8)Number of producers, middlemen and traders - of which women and youth - that have increased their knowledge on international market trends, requirements as well as the role of intellectual property in handicraft 3.4 ***indicators*** 9)Number of linkages established with buyers in the EU, US and other markets 10)Number of B2Bs, incl. participation in trade fairs, organized for Bhutanese handicraft textile exporters/producers 1)0 2)Analysis requires updating 3)0 4)0 5)0 6)Strategy does not exist 7)0 8)0 9)0 10)0 1)200 2)Analysis updated 3)4 4)50 5)25 6)Strategy developed 7)15 8)30 9)15 10)7 Evaluation tests passed by participants and monitoring report Value chain analysis document, event reports Event reports, lists of participants, value chain analysis materials/methodology documents at the disposal of institutions, evaluation/feedback forms from institutions Mission and event reports, training attendance sheets Mission and event reports, promotional material Marketing and Branding strategy, list of criteria Promotional materials Event/training workshop reports, attendance sheets, evaluation/feedback forms, Mission reports Event and Mission reports, lists of participants, evaluation/feedback forms, list of visitors/buyers met, correspondence with buyers Event and Mission reports High professionalism and buy-in of key stakeholders in the handicraft textile sector engaged in the project Availability of time and resources (human and financial) of producers in the handicraft textile sector to engage in all relevant activities and follow up on recommendations Stakeholders along the handicraft textile value chain are open to changing existing practices and to engage in higher value production and exports as a result of trainings / advisory workshops / information activities / new technologies Continues supply of raw material including silk yarn and dyes Price structure is flexible and producers and exporters are willing to analyse their structure and – together with ITC – engage in competitive and sustainable prices Adequate support and back-up given to the “Brand Bhutan” initiative Willingness and capacity of selected exporters/producers to cost-share their participation in fairs/B2B events Beneficiary institutions and private sector organizations have the necessary absorption capacities to apply the skills provided through the project

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[***Rural entrepreneurship and transformation: the role of learnerships***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5YJX-P231-DY4C-F0KF-00000-00&context=1516831)

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**Body**

**ABSTRACT**

Purpose

The purpose of this paper is to investigate the lessons that could be learnt from the first year of implementing the Wholesale and Retail Sector Education and Training Authority’s ***Rural*** Development Programme.

Design/methodology/approach

This exploratory, qualitative study involved unemployed people from a ***rural*** location in Mpumalanga Province, South Africa. A focus group and in-depth interviews were held with the current learners, the programme manager, the skills training providers, and the royal custodian of the locality.

Findings

While highlighting the factors that enhance success as well as those that impede development, the study found that the learnership contributed significantly to social transformation through ***rural*** entrepreneurship. It empowers disadvantaged women and youths to gain access and skills which, if the recommended measures to sustain the programme are implemented, could enable them to grow bigger businesses.

Research limitations/implications

Since this was an exploratory, qualitative study, the limitations of a small, convenience sample need to be overcome by a larger, quantitative study, and a more complete collection of accurate secondary data.

Originality/value

Despite the obvious limitations, this study has contributed to the literature on both ***rural*** entrepreneurship and transformation in South Africa. Both are under-researched topics, despite transformation being a socio-political imperative and entrepreneurship, especially in ***rural*** areas, being a key to overcoming South Africa’s high unemployment rate.

**Introduction**

**Background**

South Africa’s wholesale and retail (W&R) sector is considered to be highly competitive. Employing 21 per cent (3.1 million) of the total workforce makes it one of the country’s biggest employers (W&RSETA, 2015). The sector contributes 12.5 per cent to the country’s gross domestic product, making it the fourth largest contributor to the nation’s economy. Small enterprises constitute about 86 per cent, medium 9.5 per cent, and large enterprises 4.5 per cent of the retail sector. In total, 67 per cent of retail employees are in formal employment, and the remaining 33 per cent are informally employed in the sector[[1]](#footnote-2)1. Men constitute 51 per cent and women 49 per cent of sector employees, while the African race dominates employment in the sector at 67 per cent. At 64 per cent white males are, however, overrepresented in top management, as the entire white population is only 8.9 per cent of all South Africans. African males only constitute 4.5 per cent of top management in the sector. People with disabilities are the most underrepresented → African females with disabilities are less than 1 per cent of top management. More than 50 per cent of retail employees have informal skills, and only 6 per cent are highly skilled. In terms of geographic distribution, the provinces of Gauteng, KwaZulu-Natal, and the Western Cape collectively employ 63 per cent of the sector’s workforce, with Gauteng being the most economically active, as 37 per cent of businesses are concentrated in that province (W&RSETA, 2014).

The Wholesale and Retail Sector Education and Training Authority (W&RSETA) aims to facilitate the skills development and capacity building needs of the W&R sector through the implementation of learning programmes, disbursement grants, and monitoring of education and training as outlined in the National Skills Development Strategy (2011/2016). As such, the W&RSETA’s objectives towards the government’s development plans include contributing towards the attainment of equitable opportunities for employment for all the country’s citizens, especially those who were previously excluded by the previous, apartheid, regime, as well as updating the workers in new technologies in the industry. Among the main stakeholders involved in these developmental activities are organised labour, organised employers, government departments, skills development and training providers (both public and private), professional bodies, and bargaining councils.

The Integrated Sustainable ***Rural*** Development Strategy (ISRDS) (Mbeki, 2000) set out the mechanisms by which ***rural*** people and their elected representatives on ***rural*** district councils and municipalities could take charge of the development process in their own geographic areas. Some of the goals of the ISRDS were that by 2020 South Africa’s ***rural*** people will have basic infrastructure (e.g. decent toilets, roads and clinics), food security and freedom from poverty; full and productive employment; greater integration between towns and ***rural*** areas, especially on market days; accessible and democratic local government structures; and a healthy and productive environment. The development and implementation of the ISRDS was based on the principles of integration and partnership, thus assuming that ***rural*** development is the responsibility of government, civil society and business (the private sector). The ISRDS provided a clear distinction between the training of ***rural*** people and skills for ***rural*** development. The former had tended to train ***rural*** people in order for them to migrate to the urban areas, whilst the latter aimed to train ***rural*** people for the development of the ***rural*** areas themselves.

By 2005 reviews of the ISRDS were showing that while some progress was made on the implementation of infrastructure-based projects, very little was accomplished pertaining to the implementation of direct socio-economic projects; consequently more people continued to migrate from ***rural*** communities to urban centres. This therefore led to the conclusion that poverty alleviation would not be achieved under the current ISRDP project plan, as the projects that required long-term effort were not being implemented effectively (Kole, 2005).

Subsequently, the Departments of ***Rural*** Development and Land Affairs joined forces to develop the Department of ***Rural*** Development and Land Reform (2009). The Comprehensive ***Rural*** Development Programme (CRDP) that ensued aimed to achieve social cohesion and the development of ***rural*** areas by ensuring improved access to basic services, enterprise development and village industrialisation. Two of the five policy objectives of the CRDP that are most relevant to this study are mobilising and empowering communities effectively to take control of their own destinies, and stimulating ***rural*** job creation and promoting economic livelihoods.

The key policy findings from the implementation evaluation conducted in 2013 are that there is mixed evidence regarding the various CRDP mechanisms and how well these are working and delivering benefits. Even in this programme most success has been achieved with meeting basic needs, although only limited success has been achieved with community empowerment and job creation; Second, the major challenges in ensuring that meaningful benefits are achieved, centre around improving planning and implementation processes of all three spheres of government (national, provincial and local), and strengthening partnerships with civil society and business, so that the various initiatives are demand driven, and support and complement each other at a site, or local, level[[2]](#footnote-3)2. As a result of that evaluation, targeted activities have been geared towards increasing the economic development of ***rural*** areas so as to reduce poverty levels, strengthen capacity building initiatives, and increase socio-economic improvement. Currently, economic development not only refers to growth in per capita income, but growth plus social change.

It is within this policy framework that the W&RSETA embarked on its Comprehensive ***Rural*** Development Strategy in 2011. From 2014, its mission has been to implement the region-specific projects that contribute to the social and economic growth of ***rural*** areas by enabling education and training of the highest quality in the W&R sector. While the W&RSETA has numerous other programmes to enable people with no previous retail work experience to participate in opportunities meant to transform the sector, this study is limited to the learnership that is rolled out in the ***rural*** development programme.

A learnership is:[…] a structured learning process for gaining theoretical knowledge and practical skills in the workplace leading to a qualification registered on the NQF (National Qualifications Framework). Learners participating in a learnership have to attend classes at a college or training centre to complete classroom-based learning, and they also have to complete on-the-job training in a workplace. The workplace experience must be relevant to the qualification

The learnership under discussion is for the W&RSETA’s National Certificate: Informal Small Business Practice. The minimum requirement for entry is Grade 8, and learners must be either actively involved in the process of starting up a small retail business or currently self-employed in an informal business in the small, micro and medium enterprises (SMME) environment. The learnership enables participants to gain 12 months’ theoretical and practical training. The certificate forms part of a learning pathway in the W&R sector that focusses on the SMME sector. Competencies addressed focus on understanding of retail operational requirements; financial transactions, basic merchandising and stock; safety and security in the business environment; and customer service. The learners thus become retail managers, thereby addressing a scarce skill in the W&R sector. Some of the outcomes are that, at the end of their training, participants should have registered their businesses with the Companies and Intellectual Property Commission (CIPC), the South African Revenue Services (SARS), and the W&RSETA, such that they can employ unemployed youths. The goal is to create new business owners instead of creating more job seekers.

**Socio-economic conditions in KwaNdebele Royal Mgibe II traditional council**

The previous apartheid regime classified areas where Royal Kingdoms and Traditional Councils are based as Bantustans or homelands. The South Africa (2003) recognises the appointment of, and provides guidelines on the responsibilities of, the Traditional Royal Kingdoms and Chieftaincies that were disrupted by apartheid. The inefficiency of the apartheid regime’s spatial arrangements ensured not only that races were separated geographically but also that the poor were pushed to the edge of working systems. In addition, they were separated in administrative, economic, social, service, information and cultural ways. Historical restriction on entrepreneurial development, poor support from government in terms of providing people with training that addresses scarce skills, and the increasing number of retrenchees who have returned to their ***rural*** homes and have no other means of generating income have all added to the high levels of poverty in ***rural*** areas, especially among those households headed by women.

Royal Mgibe II is in the Thembisile Hani Local Municipality (Coordinates: 25° 30′ 0″ S, 28° 55′ 0″ E; Area 2,384 km2), which has a total population of 310,458; an unemployment rate of 37 per cent; a youth unemployment rate (ages 15-34) of 49 per cent; and only 26.1 per cent of its population has completed Grade 12. The average household size is 4.1; and female headed households are 46.1 per cent[[3]](#footnote-4)3. Poor households in ***rural*** villages protect themselves from income risk by diversifying their sources of income. A ***rural*** household is likely to depend on some subsistence ***agricultural*** production, small scale entrepreneurial activities, a remittance from a family member working in a city, and, if at all possible, a pension or other social grant. However, none of these is secure. Current beneficiaries of the W&RSETA’s ***rural*** development programmes are school leavers, youth and unemployed people with a desire to develop their entrepreneurial skills. The learnership is, therefore, meant to provide participants with the necessary skills to make their small enterprises sustainable, so they can generate a secure source of income for themselves and create jobs for others. The learnership has no age restriction and does not exclude participants who are already in other government programmes, e.g. the Extended Public Works Programme, thus making it a vibrant and inclusive programme, which enables the economic participation of a wide range of ***rural*** inhabitants.

**Rationale for undertaking the study**

In light of the CRDP’s aim of increasing socio-economic improvement, the rationale for undertaking the study is to identify to what extent such a learnership contributes to ***rural*** development, through advancing entrepreneurship, in South Africa. The study is intended to estimate how much transformation has been achieved in the first year towards strengthening the economic activity of the majority who were previously excluded from participation, ownership and management in the industry. Increasing the participation of ***rural*** and small town dwellers in the larger economy would be a major achievement demanded by the current political dispensation to create an inclusive and robust economy.

**Research objectives and questions**

In seeking to understand the role that the learnership plays in promoting socio-economic transformation through ***rural*** entrepreneurship development, the questions that this study intends answering to meet this objective are: *RQ1.* What are the main success factors that have contributed to the achievement of socio-economic transformation in this ***rural*** area, if any?*RQ2.* What are the main challenges that hamper such achievement?*RQ3.* How can this ***intervention*** be implemented with more efficiency and effectiveness to ensure sustainability?

**Literature review**

**International trends in *rural* entrepreneurship**

Noting the shortcomings of quantifiable measures, such as regional productivity and population size, in defining the “***rural***”, Henry and McElwee’s (2014) working definition of a ***rural*** enterprise is one that is located in a ***rural*** setting, employs people within a specified travel-to-work area, and contributes to gross value-added. In their conceptualisation of ***rural*** enterprises, Henry and McElwee (2014) posit that the difference between a ***rural*** and an urban enterprise is almost insignificant in terms of the structure, i.e. how the business is organised and managed. There is barely any difference in the characteristics of the individual entrepreneurs either. Rather, the most pronounced difference is the very location itself, meaning the “***rural***” as opposed to the “urban” environment. Therefore, a ***rural*** entrepreneur is essentially an individual who conducts business in a ***rural***, instead of an urban, setting. It is, therefore, how exogenous factors impact on the growth or failure of the enterprise that differentiates the two types (Henry and McElwee, 2014).

Exogenous factors, often outside the control of the individual entrepreneur, include the characteristics of the enterprise itself, characteristics of the village itself, access to markets, transport infrastructure, policies and environmental factors, such as topography (Bosworth *et al.*, 2015). Referring to Defra (2005), Annibal *et al.* (2013) note the following as advantages that ***rural*** areas can demonstrate: lower input costs (e.g. wages, building and rental costs), greater premises for expansion, amicable labour relations and attractive housing. Furthermore, the quality of life associated with living and working in a ***rural*** setting can have a positive impact on competitiveness, as it can attract new businesses that energise the economic, political and cultural life.

Taking the investigation of how ***rural*** entrepreneurship engages with place and space even further, Korsgaard *et al.* (2015) apply concepts from human geography to develop two ideal types of entrepreneurship in ***rural*** areas. The first is entrepreneurship in the ***rural***; the second is ***rural*** entrepreneurship. For these researchers:The former represents entrepreneurial activities with limited embeddedness enacting a profit-oriented and mobile logic of space. The latter represents entrepreneurial activities that leverage local resources to re-connect place to space. While both types contribute to local development, the latter holds the potential for an optimized use of the resources in the ***rural*** area, and these ventures are unlikely to relocate even if economic rationality would suggest it

Despite the many advantages, it is worth noting that, even in developed economies, ***rural*** entrepreneurs can face major challenges. For example, the smallness and remoteness of the ***rural*** area can make it difficult to develop critical mass and economies of scale, thus increasing the cost of goods. The further away the metropolis, the more acute the lack of transportation infrastructure and internet or high-speed broadband access, which are vital to e-commerce development. In addition, ***rural*** entrepreneurs experience more difficulties than their metropolitan counterparts in accessing venture or equity capital, as many funders still consider the risks as much higher. Finally, ***rural*** entrepreneurs often have few qualifications and therefore less technical and managerial expertise than their metropolitan peers, a clear disadvantage in an era when economic development depends more than ever on a highly skilled workforce. Consequently, studies on innovation and entrepreneurship in ***rural*** communities, such as Henderson’s (2002) in the USA or Escalante and Turvey’s (2006) in Canada, have long concluded that a conducive entrepreneurial ecosystem for successful ***rural*** development ought to be based on the following four pillars: entrepreneurship education and training; policies that foster business networks linking entrepreneurs to suppliers; policies that ensure access to capital; and infrastructure and entrepreneurial support.

The development of ***rural*** entrepreneurs is a strategy that has been used since the 1990s in the USA to stem the escalating ***rural*** poverty. It had become evident that ***rural*** poverty levels were approaching those found in the inner cities, due to economic globalisation and the decline of textile industries and farm-based jobs over the past decades. Most of the new jobs being created were in sectors such as business, finance and health services, often scarce in ***rural*** areas. In many non-metro counties lower-paying jobs in services and retail replaced higher-paying work in factories (Wortman, 1996). For instance, by 1997 many of the counties in North and South Carolina were reporting poverty levels of 20 per cent (The ***Rural*** Program, 2001). What subsequently became apparent as policy makers attempted to reverse this trend in the USA, and in European economies, was the need to customise approaches to building ***rural*** social capital according to the specific needs of the entrepreneurs to be served (Lyons, 2002; Stathopoulou *et al.*, 2004). Policies that work best have high levels of local involvement in project formulation and implementation (North and Smallbone, 2006).

So, in developed countries, a large body of work has been published on ***rural*** entrepreneurship, most of it on ***agricultural*** enterprises. In addition to the constant challenges of accessing capital (Zhang and van Auken, 2011), some of the pertinent publications include studies on skill sets required for successful “agripreneurship” (McElwee, 2006); farm diversification in response to local and international trends (McNally, 2001; Jostein and McElwee, 2011); illicit ***rural*** economic activity (Somerville *et al.*, 2015); and the critical role of the internet in creating virtual bridges that expand markets and develop social capital for ***rural*** micro-enterprises (Burke, 2011; Townsend *et al.*, 2016). With the increased participation of women in entrepreneurship, there is also a growing amount of literature on how personal and family responsibility affects ***rural*** female entrepreneurs and how policy and support measures need to accommodate these (Warren-Smith, 2014).

Furthermore, entrepreneurial studies are increasingly being offered by a number of business schools globally. However, Higgins *et al.* (2013), from the UK, posit that traditional pedagogical methods of learning may be inadequate to develop entrepreneurs who can master the complexities of running and creating innovative business opportunities. Traditional approaches that focus on theory rather than practise tend not to address the uncertainties and ambiguities of the entrepreneurial process. In addition, the historical individualist approach to entrepreneurship tends to marginalise the broader social context of the entrepreneur. As a result, Higgins *et al.* (2013) propose that attention should be shifted towards “learning for” instead of “learning about” entrepreneurship. In essence, their study reflects on the role of reflexivity in entrepreneurial education as a means of highlighting the diverse skills and new modes of behaviour required to critique what it means to be an entrepreneur.

***Rural* entrepreneurship in developing countries**

Studies have also been undertaken in developing countries to investigate both the regulation and application of policies on ***rural*** development, especially concerning women and the youth. Cho and Honorati’s (2014) reviews of various entrepreneurship programmes in developing countries, found a wide variation in their effectiveness depending on types of beneficiaries, outcomes and country. To combat the lack of qualifications and skills, many ***rural*** policy makers have introduced entrepreneurial development programmes focussed on improving the skills of the individual. Overall, entrepreneurship programmes had a positive impact on the youth and on increased business knowledge and practice. However, the achievements did not immediately translate into the setting up or expansion of businesses nor did they increase income. They found that promotional packages that combined training and financing were more effective for improving business activities, with financing being more effective in improving business ***performance*** for women and business training being more effective for existing entrepreneurs.

Key findings from Mexico also highlighted the need for entrepreneurial training programmes for ***rural*** producers to improve critical skills, such as marketing, finance, networking and logistics, while also underlining the importance of properly planned policies that enable effective dialogue between the community and the state (Bosworth *et al.*, 2015). Similarly, a study from Iran shows that providing training opportunities for entrepreneurs increases profit (Hosseini *et al.*, 2012). The literature reviewed by Fernando *et al.* (2014) underscores the effectiveness of experiential learning, i.e. learning which occurs in the process of doing instead of following the conventional/formal mode of education. Their literature review also confirms the increasing rate of women entrepreneurs in developing countries, such as, Kenya, Tanzania and Ethiopia → thus acknowledging their contribution to economic growth and social development through job creation and the reduction of poverty and unemployment.

In many instances, however, women are disproportionately challenged by family responsibility, traditional sexual divisions of labour, lack of education (which affects their access to information and knowledge), and by barriers to obtaining credit and financial support. According to the study by Fernando *et al.* (2014) which reports on the experience of entrepreneurial training for female farmers in Uganda, the success of the entrepreneurship programme that the UK researchers were implementing was essentially hampered by these same challenges. The conclusion was that more training schemes (that also include men) will be required to reverse the long-term effects of the barriers above, so as to improve women’s knowledge and skills at all stages of the entrepreneurial process. This conclusion is supported by others who emphasise the importance of imparting technical knowledge, skills training and marketing techniques to women. Without women, economic development cannot take place (Paramanandam and Packirisamy, 2015).

There is a dearth of literature on ***rural*** entrepreneurship in South Africa. While Watters’ (2008) study points to the need to have a holistic approach when implementing ***rural*** ***interventions***, she limits her emphasis to emotional and ongoing support for development. Somewhat relevant for our purposes, however, is a study on the linkages of theory and practise in the W&R sector in South Africa that was conducted by de Mink (2007). She examined the experiences of learners who completed a W&R “learnership”, a programme that combined structured college-based learning, practical work-based learning, as well as the integration of theory and practice. She found that South Africa’s multi-level National Qualifications Framework provides for academic as well as vocational training and promotes a “multi-pronged” skills development strategy. This suggests that the learners had integrated theory and practice, which increased their competency. The study concluded that the structured college-based learning enabled the learners to implement in the workplace what they learnt at the college.

In summary, it seems skills development programmes have a significant role in enabling ***rural*** entrepreneurship to transform the lives of participants. It is also evident that the approach for developing and enhancing ***rural*** entrepreneurship must combine theoretical and practical elements in a manner that conceives of the entire ***intervention*** as a learning process. The approach should, obviously, also take into account the specific needs and geography, while ensuring access to finance as a way of embedding sustainability. As the global economy becomes more digitally advanced, the information technology and physical infrastructure in ***rural*** communities should keep up, or those inhabitants will fall further into poverty.

**Methodology**

The purpose of this exploratory research was to delve into an under-researched area, namely how the application of a retail learnership can contribute to increased entrepreneurship in ***rural*** areas, and how such increased entrepreneurship could contribute to socio-economic and socio-political transformation in the retail sector. A case study design within the interpretive research paradigm was used to focus this research study → the case selected was the W&RSETA’s “Informal Small Business Practice” learnership as it is implemented in KwaNdebele Royal Mgibe II Traditional Council.

The KwaNdebele Royal Mgibe II Traditional Council is one of five ***rural*** areas in which the W&RSETA piloted its “Informal Small Business Practice” learnership in 2015[[4]](#footnote-5)4. A total of 500 learners participated from the five ***rural*** areas, and 255 of them were from Royal Mgibe II Traditional Council. For our purposes, this site was chosen because it has the largest number of learners and being only 90 minutes away, is closest to Pretoria, the W&RSETA head office.

Legislative and policy documents, such as the W&RSETA’S Sector Skills Plans, annual reports, and programme implementation and monitoring documents, were first reviewed. These provided useful information that provided a better understanding of how the W&RSETA has used its mandate to shape its role and responsibilities towards the process of ***rural*** transformation through entrepreneurship development. A review of the literature on international and local practices and the application of entrepreneurship education proved useful in guiding the data collection processes and in focussing the analysis, so that sound recommendations could be made and a viable way forward could be proposed.

Regarding the empirical study, a focus group consisting of eleven ***rural*** learners was held in the KwaNdebele Royal Mgibe II locality. The learners were chosen based on their proximity and availability when the prince (the current “royal custodian” in KwaNdebele) invited at least 15 to come to a focus group discussion. One-on-one, in-depth interviews were subsequently held with four of the learners to solicit their opinions on their experiences of the programme. Two of these four learners were interviewed in even more detail and their experiences are presented below as case studies. Depth interviews were also held with the W&RSETA programme manager, the prince, and the director of the company that provides the training. While some of the interviews were face-to-face, others were telephonic. A carefully designed short questionnaire consisting mainly of open-ended questions was developed from the literature review and was used to guide both the focus group discussion and the depth interviews. This questionnaire sought to elicit participants’ comments on the successes and challenges of the programme, how the learnership enabled their participation in the socio-economic development of their villages, the appropriateness of the training curriculum and recommendations on how the programme could be made more effective.

Interviews and focus group discussions were digitally recorded and then transcribed verbatim. Before analysing the data, all questionnaires, transcripts and field notes were checked for completion. Hard copy transcripts were used to manually analyse the data. Open coding was used to organise the data into categories (Chilisa and Preece, 2005). This is the process of interpreting data by linking a word or a phrase, or by breaking down words or phrases, in the transcripts, into themes or concepts to form a meaningful finding from all the data collected. When similar codes are found throughout the transcripts, a strong case for the credibility of the research findings can be made (Chilisa and Preece, 2005). Transcription and analysis of the data was guided by the following thematic categories: the role that ***rural*** entrepreneurship plays in transformation at both personal and community levels; the contribution of skills development and training to entrepreneurial success; the perceived efficiency and effectiveness of the programme; and advice on what the W&RSETA ought to do to ensure that the its programme becomes sustainable.

Regarding ethical issues, the study received ethics approval from the Cape Peninsula University of Technology’s Research Ethics committee on 25 March 2015 → Clearance Certificate No. 2015 FBREC 260. Consistent with this approval, all participants in the study were informed verbally about the study and their role, and completed an informed consent form, which assured them of confidentiality and anonymity. The purpose and objectives of the study and the importance of their contribution was emphasised.

**Findings**

This section will highlight the findings on how the learnership helps to improve the quality of life of the participants, their families, and their community at large, according to the two main sub-themes of this research, namely, the role of the learnership in socio-economic transformation, and how the learnership contributes to entrepreneurial success.

**Case study 1**

Before the learnership Agnes[[5]](#footnote-6)5 had a catering business, which she had set up after taking a two-week catering and decorating course in Johannesburg. She provided food and décor, mostly for local government functions. Her market research revealed that people in the village would be happy to procure her services. Often working women do not have sufficient time during the week to prepare for a wedding, birthday party or other labour intensive family gatherings. So, Agnes subsequently diversified her clientele to include private households, for which she also bakes scones and makes traditional sorghum beer. As a result of the learnership, she learnt to market her company by getting business cards printed, which she distributes as widely as possible. She has also put flyers on store windows and other ***strategic*** public spaces to help advertise her services. This helped her get more clients, as she could rely on more than word-of-mouth to get more business from the people in the community. She is not shy to talk about her business anymore and has gained a lot of confidence in this regard.

Before the course Agnes used all the profit from her catering business to meet her personal financial commitments and maintain her lifestyle. From the course she learnt that the money belongs to the business and had to be used to grow it. She then started using it to buy more equipment, such as, larger pots, food warmers, stoves and additional décor items. This enabled her to diversify her services, as she was now able to hire equipment out to those villagers who want to cater for their own functions but do not have large pots and multi-cylinder gas stoves.

Moreover, she had to limit herself to a set monthly salary. In addition, while previously she had no books for recording her income and expenditure, the course taught her to file receipts and use basic accounting skills for monitoring the business’ finances. Overall, profit has increase by about 50 per cent in the past year.

Because Agnes’ business is growing, she now often caters for big functions and can employ about 15 people at a time to help with the cooking and décor at each event. Her contribution to job creation also transfers skills to the local villagers where she is catering, i.e., she does not take people from her own village to work with her in another village. Leftover food is given to those who were assisting with the cooking or to poorer people in the village. One of the women, who has worked with her in the past year, has now started offering her own catering services, thus setting up her own small business and generating income for herself. Because her business has grown busier, Agnes has also generated more income for the owner of the van that transports her equipment from place to place for functions.

**Case study 2**

Jane’s house is close to a school. Before the learnership she had a tuck shop, selling cold drinks, snacks, sweets, over-the-counter-medicine (e.g. pain killers and cough mixtures), as well as staples, such as, mashed potato with meat and gravy from her kitchen. She made additional income from braiding people’s hair outside in the shade when business was quiet during the day.

During the learnership, she administered a market research questionnaire to 50 people. She asked what they would like to buy from her shop that would save them time; how much they pay for those goods elsewhere; how much they would be willing to spend on those goods at her shop, etc. Her findings were that about 35 per cent preferred to buy from her and the rest preferred the big retailers, such as, Spar and USave. Other findings were that clients wanted larger quantities of the goods she was selling, for example, 100 instead of ten tea bags in a packet, or 12.5 kg instead of 2 g of maize meal to last for a whole month. Even though she puts on a mark-up, they acknowledged that the tuck shop saves them time and money on transport to the nearest town 15 minutes away. From these findings Jane realised that she had to put on a higher mark-up to make more profit and she had to buy her stock at wholesale instead of retail prices, which would save her money. For instance, if she bought 20 bags of the 12.5 kg mealie meal, the goods would be delivered to her for free. To that delivery she could also add the cold drinks, sweets, etc., further saving on delivery costs. In the learnership she had also been taught how to pack groceries in boxes to maximise space utilisation. Jane’s customer base has increased now that word is spreading that she sells a wider range of groceries. She also saves money by buying cheaper soft drink brands → Kingsley, Tweezer and Refresh → instead of the original Coca Cola.

Jane’s tuck shop now opens at 6:00 a.m., as she has a bakery truck that delivers fresh bread daily. Villagers buy early in the morning to make lunch sandwiches for their children. She closes at 19:30 p.m. to enable customers to buy groceries for dinner. Her 15-year old daughter helps in the tuck shop after school. This has improved her marks in Maths and Economic Management Science. Jane’s husband, who has a full-time job elsewhere, also helps her on weekends and holidays.

The learnership also taught Jane bookkeeping skills and to set a monthly salary for herself. Because she now uses the rest of the profit to grow her business, she has been able to buy more stock. Instead of selling only cooked meat, she bought a second large freezer and now sells frozen packets of chicken wings and drumsticks. With the stipend from the learnership she installed security bars in the kitchen door and additional shelves for tinned goods. She also put a roof on her double garage. Now she is saving to buy the doors and to put in display shelves, as the kitchen is becoming too small for her burgeoning business. Operating from the garage will bring even more customers, as it faces the road, unlike the kitchen at the back of the house. While the tuck shop is rather quiet in the middle of the day, it is very busy all day at month end. Profit has grown by about 100 per cent since Jane started the learnership. Jane no longer braids hair, as she is focussing on growing sufficiently to be able to build a big store in the next five years, so that she can become a wholesale distributor for the small local tuckshops that would be buying from her.

**Role learnership plays in socio-economic transformation, at both personal and community level**

An overwhelming majority of the ***rural*** learners were black women (228) of whom 68 per cent (155) were less than 35 years old. They are among the most disadvantaged in the country. ***Rural*** men tend to obtain jobs in the cities and mines, while women are left behind to tend to the children, the elderly, and the sick. Since this learnership programme helps non-farm entrepreneurial activities to improve the women’s self-sufficiency, and, by extension, food security, it is a good ***indicator*** of a successful transformation initiative.

Second, as the development of the SMME sector is predicted to be the main factor in reducing unemployment, this learnership has the potential to enable the participants to be meaningfully engaged in their municipalities’ local economic growth, in the W&R sector in particular, and in the larger national economy.

In addition, the entrepreneurial skills are spreading indirectly to other members of their families, as they often end up assisting the direct participants. Jane’s family exemplifies this phenomenon well. Essentially, the overall quality of the participants’ lives improves as they ignite the entrepreneurial spirit in their households and become better able to provide for themselves and their families with their profits. In general, since the programme started in 2015, there is an increased level of economic activity, enthusiasm and focus, which was not there before among the educated, but previously unemployed, youth. The learners are taking their businesses seriously, because the W&RSETA has also taken them seriously.

The programme also helped to galvanise Royal Kingdoms and Traditional Councils into becoming more organised and responsible stakeholders. The role of the prince, as an enlightened traditional leader and custodian of the programme, primarily is to ensure the proper implementation of the programme at the local level, i.e. to hold all the stakeholders (the W&RSETA, the training providers, and the learners) responsible for their deliverables, thus making him more involved in the economic development of his locale. For example, the royal incumbent has to call community meetings to publicise the programme, ensure candidates who meet the set criteria are appointed, monitor that all payments are made on time, that learners use their stipends to buy stock and grow their business, and take photos as evidence of work done.

**Contribution of learnership to entrepreneurial success**

This sub-theme highlights how the design and implementation of the learnership enables or limits the success of the learners.

The learnership offers a high quality of education that the learners can be proud of, meaning it is not condescending to the ***rural*** poor by offering them a low quality of education. The majority of the participants have school leaving qualifications. However, while their oral communication might be good, their written communication is not. Therefore, attending the workshops in which manuals are written in English has helped to improve their English comprehension skills, which is important in a country where English is the language of trade. The learners’ improvement in written and oral English language skills renders some to be better able to assist their children with homework. These are spin offs which are not financial but have the potential of improving the children’s confidence and of opening up better opportunities in future (e.g. higher pass rates at school or better prospects of getting a job or owning a business). However, for some the numeracy components remained an obstacle as they had been out of school for a long time; consequently, the Maths module is enjoyed the least. As a result, the facilitators are considering implementing more user friendly examples to assist learners.

Second, the outputs are practical and relevant. For example, the learners have to open bank accounts to receive their stipends. They have learnt to separate their business accounts from their personal savings accounts; to keep records and invoices; manage cash flow; order stock; as well as develop customer service skills. The learners also conduct market research and write business plans. Their market research skills helped them to understand their target markets better. Now, as a result of the market research, during pension pay out days in the ***rural*** areas, some learners go out and sell their products closer to the pay points; this is evidence of knowing their customers and their buying trends. Previously the bulk of the government grants that are paid out on market days would be spent in big retail stores, thus enriching those who are already wealthy. These ***rural*** development initiatives are reversing that pattern, even if on a miniscule scale at present. This is another example of how the learnership has borne tangible results. These results provide the learners with confidence in their ideas, motivate them on the way forward, and also show them how they are progressing. The learners also have to register their businesses with the CIPC and with SARS, meaning that they are now legally trading South Africans. For many these activities alone create a “mind-shift” and transform their self-worth as they begin to see themselves as owning real businesses → not just pursuing hobbies. They thus begin to see themselves as being on a path to financial freedom. By December 2015, 189 learners from KwaNdebele Royal Kingdom were prepared for external moderation, which also demonstrates that the training providers are competent mentors.

All the participants now own tablets, as they were encouraged to buy these to be better able to access the internet for research purposes, e-banking transactions, and general electronic communication, such as CIPC online registration, which saves them from having to go all the way to the City of Pretoria just to register their companies. Sometimes the skills training providers e-mail additional educational resources to help them understand the lesson more thoroughly. For the most part the learners still rely on the two internet stores in the villages for printing, but it is liberating that they can perform most of the functions that require basic IT access from the palms of their hands.

Because the learnership has a strong practical component, those learners who did not have existing businesses have used their stipends to set up businesses from scratch. The range of small businesses that have been set up is quite varied. It includes buying and selling traditional Ndebele arts and crafts with the aim of participating in national expos and exporting to international markets; buying fruit and vegetables from town and selling from a stall; selling airtime from a machine; selling fast food (chips and quarter loaves with relish); and selling cleaning products for cars, domestic use and pit toilets. Many were able to buy stalls, erect shelves and hire a van to buy bulk stock from town.

Furthermore, the learners have also been taught to diversify their businesses so as to improve sustainability. For example, Agnes has also established a catering equipment hiring business instead of relying solely on her cooking services.

The learners are also being encouraged to form co-operatives where possible. For instance, a group of hair stylists joined forces to open a larger hair salon instead of individually competing for the same clients. Another group of learners saved their stipends collectively and now own a successful co-op selling chickens.

All the learners agree that the manner in which the modules are taught, the care that the service providers take to explain concepts (even in the isiZulu and Sesotho languages, where necessary), as well as the practical nature of the exercises, all contribute to meeting their educational needs. Consequently, only one learner out of 255 dropped out in KwaNdebele. The skills training providers have shown immense commitment to the programme. They train four different groups in KwaNdebele, for instance, meaning they are on site every week for four to five days. It is, in fact, a testimony to the commitment of the training providers that the majority of the learners agreed that anyone who participated in the learnership with a serious desire to own a business at the end → which is the main outcome of the Qualification → should be able to do so by the end of the year In turn, the skills training providers have found excellent support from the W&RSETA head office. Their suggestions are implemented where possible, and an enabling relationship has been established.

**Challenges**

This section identifies and describes those factors that have hindered, prevented or limited successful transformation.

While some of the learners found the intense lessons of benefit, forcing them to work hard under pressure, others felt that the modules had too much information to be absorbed during a four or five-day session. They wished for some of the modules to be spread over two training sessions. Moreover, most learners lamented that they did not have mentors who could give them advice. For example, although they had been taught conflict management skills, they sometimes faced challenges that they wished they could discuss with more experienced business owners who could coach them on how to resolve conflicts with clients or suppliers. The absence of practical workplace experience was cause for dissatisfaction for many learners. For instance, they desired workplace experience where they could see how the bookkeeping is actually done on a daily basis, instead of relying only on the theory and practical exercises they did in their manuals in class.

Furthermore, some learners found the large geographic area over which the programme was spread to be an inconvenience, as they had to take two minibus taxis to get to the training workshops. Switching from one taxi to another can cause long delays at the taxi rank, which sometimes made them late for the workshops.

Another challenge is that, because the penetration of foreign immigrants, from nearby Zimbabwe and Mozambique or faraway Nigeria, Somalia and Pakistan, into the ***rural*** areas has increased at an exponential pace, indigenous South Africans now have to compete with people with international entrepreneurship qualifications, which were introduced decades ago in some of the other African countries. In short, foreign immigrants have an advantage over locals, who, due to the legacy of apartheid’s economic and educational policies, are just beginning to learn entrepreneurial skills.

The biggest challenge facing the ***rural*** development programme is that the national annual target for learnerships of 500 is too small. This makes the impact of this transformative ***intervention*** less than it could be.

**Implications**

This section presents some recommendations for improved implementation and administration of the learnership, based on all the findings.

While R2,000 (approximately US$130) per month might suffice for those learners who already own businesses, it is insufficient for those starting from scratch. They need a bigger stipend. The prince should also be provided with running costs to ensure the smooth administration of the project. This would not be money for personal gain but rather to make sure he, as the local administrator, does not have to use his own private funds, or resources from the other activities of the traditional council, to subsidise this entrepreneurship programme.

Second, appropriate business mentors need to be identified. For instance, the learners could participate in the enterprise development programmes of the many big retailers and wholesalers that are registered with the W&RSETA. This, of course, would improve the retailers’ Black Economic Empowerment score cards while also creating truly sustainable small businesses. The W&RSETA should therefore consider offering a further year of mentorship to the students, as the theoretical lessons and portfolios of evidence alone are not sufficient for sustainable entrepreneurial development. Such experiential learning would definitely prove more useful than the more advanced skills development courses that the learners desire, such as a business management learnership. Now that they have set up their small businesses, the learners expressed a desire to learn to manage human resources as their businesses grow. It is very expensive for the learners to register for such courses in private colleges, which are often far from their villages. While online options or more advanced courses currently available among the W&RSETA’s offerings could be delivered, exposure to thriving large retail businesses would prove much more beneficial than more theoretical learning.

Furthermore, the learners had very impressive ideas about how they could truly diversify and improve the local economy if given capital and proper guidance. Instead of being limited to owning taverns, car washes, hair salons, or fast food stalls, they would like to learn upholstery and furniture manufacturing, or plumbing, so they can install pipes and taps for ***rural*** homeowners, as there are a growing number of modern homes replacing the traditional mud structures. Some wish to manufacture diapers, cleaning products, and hair pieces (weaves), or own a fried chicken franchise, or sell gas and petrol across the border into Zimbabwe, where such commodities are bought from private suppliers instead of petrol stations. It is, therefore, strongly recommended that the W&RSETA and relevant stakeholders (e.g. wholesalers, the Department of Trade and Industry, franchise organisations, other SETAs, etc.) rise to the challenge, collaborate and strategise on how to transform these small and micro businesses into diversified, high-growth enterprises. There is, indeed, a pressing need for the W&RSETA to implement a well-structured system for assisting learners to access capital and incubation programmes to help fulfil their true entrepreneurial dreams and ensure the long-term sustainability of the businesses.

Currently the W&RSETA is focussing only on small and micro businesses in the ***rural*** areas. Even these cannot grow fast enough when the majority of villagers are unemployed and therefore cannot support them. In fertile soil such as that found in Mpumalanga Province, large vegetable gardens can employ many people while supplying big retailers. This means more people will have money to support the small businesses and help them grow. Such vegetable gardens would also ensure local food security.

There are fewer males in the learnership as most males seem to prefer ***agriculture*** to any other training. It also seems that some of the males did not believe that this learnership programme would kick off or would be a success. Therefore, more attention needs to be paid to changing their attitude to such developmental programmes.

Furthermore, the W&RSETA should enable Technical Vocational Education and Training Colleges to offer this qualification as some have campuses in ***rural*** areas. The W&RSETA should also increase the number of accredited training providers to be able to deliver the learnership as far and wide and as fast as possible.

It was difficult to get information about the ***rural*** development programmes or ***interventions*** that were implemented before the current manager assumed the role in 2014, thus indicating a lack of continuity and a loss of institutional memory. It is therefore critical that accessible and user friendly data capturing and archiving processes be implemented in order to keep proper records and analyses of the transformation to which the W&RSETA contributes. It is also necessary to track how the businesses fare after the learnership, e.g. how revenue or the number of employees grows, and how to optimise success. Rigorous monitoring and evaluation mechanisms need to be built into the rollout of the programme for the future.

**Discussion**

So, what are the critical lessons learnt? This sections aims to answer this question based on the findings and recommendations above. Our review of international literature indicated that successful ***rural*** entrepreneurship development depends on the agents being flexible enough to view the task as a learning process for all stakeholders. This involves learning to improve effectiveness, efficiency and expansion. This study evaluated the W&RSETA’s role in ***rural*** socio-economic transformation with that approach in mind.

**What are the main success factors that have contributed to the achievement?**

With regard to assessing the role of the learnership in facilitating transformation through enhancing ***rural*** entrepreneurship, it cannot be denied that the programme has immense potential, as it focusses on the ***rural*** poor, especially women. This is a very important success factor, since most learners are young people, who would otherwise be unemployed, as there are few farming or commercial activities in their villages. Another lesson is that for the learnership to be transformative, it must be of high quality and have practical outcomes, e.g. bank accounts, market research, business plans and the diversification of offerings. The third lesson is that such a programme must be facilitated and implemented by committed training providers and programme managers. They should see themselves as the learners’ primary mentors and coaches. They should, most crucially, perceive themselves as transformation agents with a strong interest in the development and success of the learners.

Moreover, that the W&RSETA encourages access to technology is highly commendable, as this will ensure that the learners do not become socially excluded from global opportunities. In a similar vein, it is useful to have a local authority figure overseeing the implementation of the programme. This forces all learners, service providers and head office to be accountable.

Perhaps the most important lesson learnt from the first year of this ***intervention*** is that it is indeed possible to transform the ***rural*** economy without pushing ***rural*** people into towns and cities. There are viable ways of creating jobs and livelihoods for the ***rural*** poor in their own communities.

**What are the main challenges that hamper the achievement?**

With regards to the challenges, the following are noteworthy: the stipend is insufficient, so financial support needs to be reviewed to ensure the continued involvement of participants. Neither the participants nor the royal prince can achieve their best if the budget is insufficient. The need for proper financial structuring cannot be underestimated in rolling out a programme of this nature. The second challenge is that of the small number of participants. In order to have the desired impact on the ***rural*** landscape, the national target must be increased exponentially. It is therefore important to plan for a much larger rollout in the future. The size of the ***intervention*** is therefore an important factor to consider. However, the most pressing challenge is that the learners need exposure to larger retail stores to be able to gain the much desired practical experience. The emphasis on registering the small and micro-enterprises with the appropriate regulatory government authorities takes away the focus and resources that should be on gaining experience in larger retail stores. Combining theory and practice in such a manner will enhance the establishment of sustainable businesses and perhaps even grow some into larger entities over time.

**How can this *intervention* be implemented more efficiently and effectively to ensure sustainability?**

The learners’ vision of the kind of businesses they would like to own differs greatly from the ones they are currently pursuing. They have identified what businesses would adequately address the cultural and socio-economic changes that are taking place in their villages. The programme sponsors need to take this into consideration. For the ***intervention*** to be more effective, learners should be trained in establishing and managing the businesses in which they are actually interested. This might also attract more male participants. The ***intervention*** will be implemented more efficiently if more relevant business choices, access to capital and incubation opportunities are provided for the learners. To this end, the need to assist learners to access wider markets (international or local expos), enterprise development programmes, etc., to grow their businesses and create more jobs is critical. Given the high rate of poverty in the ***rural*** communities, urgent collaboration between a wide range of like-minded organisations needs to occur for meaningful change to happen at the scale at which it ought to be realised.

Finally, while implementing the monitoring and evaluation mechanisms required to maximise efficiency and effectiveness in future, it will also be necessary to encourage some colleges in ***rural*** areas throughout the country to offer this qualification to ensure the scaling up of delivery.

**Limitations and recommendations for further research**

This study was based on a case study of a single ***intervention*** with a relatively small, convenience sample. Therefore, any attempt at generalisation should be done with care. However, it should be remembered that one of the objectives was to understand how such an ***intervention*** can impact of transformation in the socio-development of entrepreneurs in a ***rural*** area. Thus, from an exploratory point of view, the study can be defined as having illustrated successful transformation from the perspective of the respondents. In order to be able to overcome these limitations, and to be able to generalise these findings, a larger, quantitative study (possibly including a longitudinal study with pre- and post-testing of skill sets, business growth, profit, etc.) and a more complete collection of accurate secondary data is recommended.

Furthermore, the sample was biased towards females, so a larger representation of males in future investigations should be sought, although it must be realised that the population of “***rural*** entrepreneurs” does appear to be skewed towards females. As the learnership was piloted in only five royal ***rural*** localities, in future some of the other royal localities should also be researched to identify what differences or similarities exist between the various areas. Further research could also investigate the success and failure rates of the learners’ enterprises to identify the specific circumstances enhancing success and sustainability in the medium to long term.

**Load-Date:** April 2, 2020

**End of Document**



[***Cadogan Petroleum Annual Financial Report -6-***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S68-YJT1-F0CC-S27H-00000-00&context=1516831)

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**Body**

the health and safety initiatives and to report back on progress. Management is

regularly reporting to the Board on HSE and key safety and environmental

issues, which are discussed by the Executive Management. The Health, Safety and

Environment Committee Report can be found in the Annual Report.

Health, safety and environment

The Group has developed an integrated HSE management system. The system aims,

by using a continuous improvement programme, to ensure that a safety and

environmental protection culture is embedded in the organisation and

continuously improved. The HSE management system ensures that both Ukrainian

and international standards are met, with the Ukrainian HSE legislation

requirements taken as an absolute minimum. All the Group's local operating

companies in east and west Ukraine have all the necessary documentation and

systems in place to ensure compliance with Ukrainian legislation and Company's

standards.

A proactive approach to the prevention of incidents has been in place

throughout 2017, which relies on a proper and reliable induction and near-miss

reporting. Staff training on HSE matters and discussion on near miss reporting

are recognised as the key factors to generate continuous improvement. In-house

training is provided to help staff meet international standards and follow best

practice. At present, special attention is being given to training on risk

assessments, emergency response, incident prevention, reporting and

investigation, as well as emergency drills regularly run on operations' sites

and offices, to ensure that international best practices and standards are

maintained to comply with or exceed those required by Ukrainian legislation.

The Board monitors the main Key ***Performance*** ***Indicators*** (lost time incidents,

nearmiss records, mileage driven, training received, CO2 emissions) as business

parameters and entry point to reasonably verify that the procedures in place

are robust. The Board has benchmarked safety ***performance*** against the HSE

***performance*** index measured and published annually by the International

Association of Oil & Gas Producers. In 2017, the Group recorded over 255,000

man-hours worked with no incidents and close worked to 600,000 hours since last

injury in February 2016.

During 2017 the Group continued to monitor the activity's ***performances*** in terms

of greenhouse gas emissions as well as to collect statistical data related to

consumption of electricity and industrial water and fuel consumption by cars,

plants and other work sites, recording a continuous improvement in the

efficiency.

Employees

Wellness and professional development is part of the Company's sustainable

development policy and wherever possible local staff are recruited. The Group

activity in Ukraine is managed by an entirely by local staff. Procedures are in

place to ensure that all recruitments are undertaken on a transparent and fair

basis with no discrimination against applicants. Each operating company has its

own Human Resources staff to ensure that the Group's employment policies are

properly implemented and followed. As required by Ukrainian legislation,

Collective Agreements are in place with the Group's Ukrainian subsidiary

companies, which provide an agreed level of staff benefits and other safeguards

for employees. The Group's Human Resources policy covers key areas such as

equal opportunities, wages, overtime and non-discrimination. All staff are

aware of the Group's grievance procedures.

The cessation of the operational activity in the East of the country and the

need to reduce costs to remain profitable forced the Group to reduce the level

of staffing. The concerned personnel were duly informed and all the necessary

procedures were taken. Qualified local contractors are engaged to supplement

the required expertise when and to the extent it is necessary.

Sufficient level of health insurance is provided by the Group to employees to

ensure they have access to good medical facilities. Each employee's training

needs are assessed on an individual basis to ensure that their skills are

adequate to support the Group's operations, and to help them to develop.

Diversity

The Board recognises the benefits and importance of diversity (gender, ethnic,

age, sex, disability, educational and professional backgrounds, etc.) and

strives to apply diversity values across the business. We endeavour to employ

a skilled workforce that reflects the demographic of the jurisdictions in which

we operate. The board will review the existing policies and further develop a

diversity policy during the 2018 financial year.

Gender diversity

The Board of Directors of the Company comprised seven male Directors throughout

the year to 31 December 2017. The appointment of any new Director is made on

the basis of merit.

As at 31 December 2017, the Company comprised a total of 74 persons, as

follows:

Male Female

Non-executive directors 5 -

Executive directors 1 -

Management, other than 7 2

Executive directors

Other employees 37 22

Total 50 24

Human rights

Cadogan's commitment to the fundamental principles of human rights is embedded

in our HSE polices and throughout our business processes. We promote the core

principles of human rights pronounced in the UN Universal Declaration of Human

Rights. Our support for these principles is embedded throughout our Code of

Conduct, our employment practices and our relationships with suppliers and

partners wherever we do business.

Community

The Group's activities are carried out in ***rural*** areas of Ukraine and the Board

is aware of its responsibilities to the local communities in which it operates

and from which some of the employees are recruited. In our operational sites,

management works with the local councils to ensure that the impact of

operations is as low as practicable by putting in place measures to mitigate

their effect. Projects undertaken include improvement of the road

infrastructure in the area, which provides easier access to the operational

sites while at the same time minimising inconvenience for the local population

and allowing improved road communications in the local communities, especially

during winter season or harsh meteorological conditions. Specific community

activities are undertaken for the direct benefit of local communities. All

activities are followed and supervised by managers who are given specific

responsibility for such tasks.

The Group's local companies see themselves as part of the community and are

involved not only with financial assistance when agreed, but also with

practical help and support. All these activities are run in accordance with our

Working with Integrity policy and procedures. The recruitment of local staff

generates additional income for areas that otherwise are predominantly

dependent on the ***agricultural*** sector.

Approval

The ***Strategic*** Report was approved by the Board of Directors on 25 April 2018

and signed on its behalf by:

Ben Harber

Company Secretary

25 April 2018

Consolidated Income Statement

For the year ended 31 December 2017

Notes

2017 2016

$'000 $'000

CONTINUING OPERATIONS

Revenue 6 15,145 19,692

Cost of sales (13,093) (18,623)

Gross profit 2,052 1,069

Administrative expenses 7 (4,981) (5,603)

Impairment of oil and gas assets 15 (162) (90)

Reversal of impairment/(impairment) of other 8 1,462 (82)

assets

Share of losses in joint venture 16 (2,323) (143)

Net foreign exchange (losses)/gains (116) 38

Other operating income/(loss), net 480 (9)

Operating loss (3,588) (4,820)

Gain on acquisition 17 - 99

Finance income/(costs), net 11 672 (1,087)

Loss before tax (2,916) (5,808)

Tax benefit/(charge) 12 1,332 (110)

Loss for the year (1,584) (5,918)

Attributable to:

Owners of the Company (1,585) (5,912)

Non-controlling interest 1 (6)

(1,584) (5,918)

Loss per Ordinary share cents cents

Basic 13 (0.7) (2.6)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

2017 2016

$'000 $'000

Loss for the year (1,584) (5,918)

Other comprehensive loss

Items that may be reclassified subsequently to

profit or loss:

Unrealised currency translation (671) (987)

differences

Other comprehensive loss (671) (987)

Total comprehensive loss for the year (2,255) (6,905)

Attributable to:

Owners of the Company (2,256) (6,899)

Non-controlling interest 1 (6)

(2,255) (6,905)

Consolidated Balance Sheet

**Load-Date:** April 26, 2018

**End of Document**



[***Register of Commission documents: Challenges for EU cohesion policy: Issues in the forthcoming post-2020 reform Document date: 2018-02-16 EPRS\_BRI(2018)614703 Briefing***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RRR-NPX1-F0YC-N21P-00000-00&context=1516831)

Impact News Service

February 24, 2018 Saturday

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**Length:** 7280 words

**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing February 2018 EPRS | European Parliamentary Research Service Author: Vasilis Margaras Members' Research Service PE 614.703 EN Challenges for EU cohesion policy Issues in the forthcoming post-2020 reform SUMMARY The departure of the United Kingdom from the EU will have a significant impact on the EU budget. The next Multiannual Financial Framework, to be presented in May 2018, could make fewer resources available for cohesion policy in the post-2020 period. At this critical juncture, the discussion amongst policy-makers on the future priorities of cohesion policy is now heating up. Among the topics widely debated are the need to make cohesion funds simpler and more flexible for beneficiaries to use, while also strengthening the contribution of cohesion policy to the EU's economic governance and increasing its added value. One point of the debate relates to the way cohesion policy addresses new or growing challenges such as migration, environment and digitalisation.

Yet another includes finding the most efficient form of support for beneficiaries: should it be grants, financial instruments, or possibly a mix of all of these? Other specific matters raised relate to the urban dimension in cohesion policy and the impact that the policy can have upon growth, jobs and innovation in ***rural*** areas, regions lagging behind, as well as regions with special geographical characteristics. Last but not least, the relationship between cohesion policy and the European Fund for ***Strategic*** Investment is much debated. The European Commission (EC) has published a number of white papers on the future of the EU that provide further ideas for reflection on the priorities of the Union. These reflections also have repercussions for cohesion policy. In addition, the 7th EC Report on Economic, Social and Territorial Cohesion also provides insights into the direction cohesion policy is likely to take. This briefing is an update of an earlier edition, published in September 2017. In this briefing:  Introduction to cohesion policy  The post 2020 multiannual financial framework and possible impact of Brexit  Economic governance and structural reform  Flexibility: focus on new policy challenges  ***Performance*** and simplification  Financial instruments and the European Fund for ***Strategic*** Investment  The urban agenda for the EU – regions lagging behind and areas with special geographic characteristics  Alternative ***indicators*** to gross domestic product  The view of the European Parliament  The view of the Committee of the Regions  Outlook EPRS Challenges for EU cohesion policy Members' Research Service Page 2 of 12 Introduction to cohesion policy Article 174 of the Treaty on the Functioning of the European Union (TFEU) (introduced by the 2009 Lisbon Treaty) states that: 'in order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions'. Cohesion policy covers funds such as the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. Along with the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), they constitute the European Structural and Investment Funds (ESI funds). Funding for regional and cohesion policy in the 2014-2020 period amounts to €351.8 billion and constitutes 32.5 % of the EU budget. It provides support for all European regions. The current programming period ends in 2020 and discussions have already begun about the future of post-2020 cohesion policy. Some of the most prominent policy questions regarding the future of cohesion policy will be analysed below. The post-2020 multiannual financial framework and possible impact of Brexit As the Article 50 procedure has been triggered by the United Kingdom, the budgetary relations between the EU and the UK will need to be settled. The various scenarios evoked range from an exit bill covering outstanding liabilities under the common budget with no further participation in EU activities, to continued participation in a number of activities and associated contributions. Various academic studies provide accounts of the issues raised with the departure of the UK, and sketch out different budgetary scenarios for such a departure.1 Depending on the final scenario, some outcomes from the Brexit process would have a serious impact on the EU budget, whereas others would have a more manageable one. In addition, the 7th Report on economic, social and territorial cohesion (from now on: 7th Cohesion Report) suggests that the levels of national co-financing for cohesion policy could be increased. A 2018 Commission communication on the future MFF provides different scenarios for cohesion policy depending on the state of coverage of EU regions. The first scenario envisages coverage of all EU regions. The second focuses on the more developed and transition regions, which would amount to a reduction of approximately €95 billion over the period, accounting for more than a quarter of current allocations from those funds. Under this scenario, support for regions in Austria, Belgium, Denmark, Finland, mainland France, Germany, Ireland, the Netherlands, Sweden and many regions in Italy and Spain, would be discontinued. With the third scenario, support is limited even further to cohesion countries, and investment for less developed regions in France, Italy and Spain would also need to be discontinued. This would amount to a reduction of approximately €124 billion over the period, accounting for around 33 % of the current allocations. Economic governance and structural reform Since its inception, cohesion policy has been aimed at closing the gap between poor and rich European regions. However, it may be suggested that the focus of discourse on competitiveness – and the policy instruments that this brings – tends to favour already dynamic regions and metropolitan poles of growth.2 In contrast, a discourse on cohesion may take into account various structural problems that regions face, such as high EPRS Challenges for EU cohesion policy Members' Research Service Page 3 of 12 unemployment, social inequalities, geographical location-related handicaps (experienced for instance by mountainous and insular regions) and remoteness from major cities. Although cohesion remains an important element in the regional policy of the EU, the 2014-2020 legislative framework has strengthened links with issues related to economic governance and cohesion policy has been linked more closely with the priorities of the European Semester. The European Semester determines the goals to be pursued in the upcoming year for the whole of the EU, and also delivers a set of country-specific recommendations that address key socio-economic challenges in each Member State. The reflection paper on the future of EU finances also claims that the link with economic governance and the European Semester may need to be strengthened even further. A further linkage with the economic priorities of the EU is provided by Article 23 of the Common Provisions Regulation (CPR), which covers macroeconomic conditionality. It mentions that sanctions such as the suspension of cohesion funds can be used in order to reinforce compliance with excessive debt or budget inconsistencies by the Member States. Suspension of payments can be decided by the Council of the European Union on the basis of a proposal from the European Commission in the event that the Member State concerned fails to take effective action. For instance, in 2016, the Commission proposed to take measures against Spain and Portugal due to those countries' failure to address the excessive government deficit. However, no sanctions were levied and the proposal was shelved in November 2016. The issue of macroeconomic conditionality has proved to be a divisive one as it has brought to the fore tensions between net contributor and net recipient Member States. Poorer Member States suggest that it is essential that the EU does not lose sight of the original role and objectives of cohesion policy and its importance as an instrument for maintaining investment in Europe's regions, particularly in times of economic crisis and instability. The 7th Cohesion Report points out that, in general, the programmes financed through the ESI funds are very closely aligned with the country-specific recommendations made as part of the European Semester process. It states that the provisions linking these funds to sound economic governance, and to Member States responding to the recommendations, have given an incentive for national governments to comply with the budget targets. It also claims that the Commission review of Article 23 suggests that there is no need for any further legislation at this stage. Nevertheless, structural reforms may also be read more widely as reforms in the governance of cohesion policy. For instance, when it comes to 'ownership', Member States could receive more powers in managing funds and projects. Other ideas on the table suggest adopting differentiation management for each EU country that would take into account its own needs and specificities. In this respect, questions regarding the subsidiarity of the ESI funds may emerge. In theory, local and regional actors have seen their role enhanced through the legislation on the partnership agreements. These agreements are negotiated between the Commission and the national authorities, following consultations with various levels of governance, representatives from interest groups, civil society and local and regional representatives. However, various Member States are still not keen to explore this instrument fully. Flexibility: focus on new policy challenges A number of new policy challenges such as immigration may weigh heavily on the future priorities of cohesion policy. The white paper on the future of Europe claims that digital revolution, globalisation, demographic change, social cohesion, economic convergence and climate change are to remain high on the EU agenda. However, a key question is EPRS Challenges for EU cohesion policy Members' Research Service Page 4 of 12 whether any specific amounts will be clearly earmarked for all the above-mentioned challenges in the post-2020 cohesion policy. The 7th Cohesion Report states that an unallocated proportion of funding could make cohesion policy more flexible and able to respond to new challenges more quickly. As happens with any re-allocation of resources, the justification for their scope is not an easy task as it can only be achieved after reaching broad political consensus. Promoting resilient economies in a globalised era through digitalisation and innovation is another EU priority. In 2015, the Commission presented the Digital Single Market strategy, which aims to open up digital opportunities for people and businesses. According to this strategy, regions and cities can explore various ICT initiatives and become active in planning and pursuing their own digital strategies. However, there are still considerable differences in digital ***performance*** amongst EU Member States and regions, with many eastern and southern regions scoring low on the EU's Digital Agenda Scoreboard, which measures connectivity, human capital, use of internet, integration of digital technology and digital public spaces. Related to digital innovation is also smart specialisation, which provides a path for innovation-driven differentiation and economic transformation, building on local assets and comparative strengths. However, although having in place a research and innovation strategy for smart specialisation (RIS3) has become a prerequisite for receiving ERDF funding, not all EU regions have managed to explore smart specialisation opportunities successfully. The EU Regional Innovation Scoreboard suggests that innovation excellence continues to remain concentrated in only a small number of regions. Globalisation has various positive and negative aspects. On the positive side, economic opportunities may emerge. Exports may blossom, companies may find new global customers and trade may flourish, thus stimulating economic growth. However, globalisation may also have disadvantages which have to be addressed. For instance, various industries (e.g the coal, steel, iron, shipbuilding, automotive and textile industries) have been affected by global competition and had to downsize their activities in Europe. Cheap imports of non-EU manufacturing goods have led to the decline of various sectors of EU industries, relocations, closures and redundancies. In addition, globalisation has an environmental, demographic, technological and cultural dimension. The impact of globalisation therefore affects the development of regional and local entities within the EU. In order to address all of these issues, the Commission has presented its reflection paper on harnessing globalisation, which attributes a key role to local and regional authorities. In terms of funding, the European Globalisation Adjustment Fund is the only one that is clearly destined to tackle the negative impact of globalisation directly, although the ESI funds may also contribute to creating resilient regions. Nevertheless, according to a study prepared for the European Parliament, the reconversion of old industrialised areas has slipped down the list of EU policy priorities. The same study also suggests that focus on regional investments has gradually shifted from industrial regions to other areas that may offer more stable growth prospects. When it comes to demographic challenges, there is no specific EU fund that addresses issues of demographic importance. However, the EU's sparsely populated areas may benefit from a special status. Territorial areas that are affected by demographic issues will have to find ways of maintaining their populations and enhancing their opportunities in life. Childcare provisions are important in order to maintain the participation of women in the labour market. Teleworking, promoting work-life balance, and enhancing job opportunities for people with reduced mobility may also help to encourage sections of EPRS Challenges for EU cohesion policy Members' Research Service Page 5 of 12 the population to remain professionally active. In addition, maintaining the younger more vibrant elements of their population may prove challenging unless they offer them new opportunities. In this respect, synergies with the private sector and the adoption of new technologies may help. The integration of migrants in society may be another solution to the problem of demographic ageing and depopulation. Issues of immigration and depopulation may also be of importance to cross-border areas that could explore opportunities for cross-border cooperation with other neighbouring territories. While competencies regarding immigration lie primarily with the Member States, the EU can also support Member States, local authorities and civil society organisations in dealing with such issues. Various EU border and peripheral regions have been severely affected by immigration trends. Therefore, cohesion policy may be an important source of financial support for the effective integration of immigrants, as shown by the implementation of various schemes covering education, employment, housing and non-discrimination activities. The ESF and the ERDF can also provide support. Furthermore, financial support for emergency measures, such as setting up reception centres and mobile hospitals, or providing tents and containers, primarily falls under the scope of the Asylum, Migration and Integration Fund (AMIF) programmes. Coordination mechanisms between funding sources such as the AMIF, the Internal Security Fund (ISF) and the ESI funds can be established in order to reinforce synergies. Social cohesion and economic convergence are very much interlinked with cohesion policy. The 2017 Commission reflection paper on the future of EU finances offers various scenarios for the post-2020 EU budget and refers to cohesion policy. It recognises that the current generation of programmes have incorporated important reforms. It claims that the overall economic, legal and institutional framework for investment has improved. It also recognises that the policy has established a close link between the investment co-financed and the broader economic governance agenda and structural reforms. Nevertheless, it claims that the resulting higher EU budget co-financing rates have reduced the overall investment effort. It also states that there is a need to review how cohesion policy can better prepare and react to unexpected developments, crises and societal changes. When it comes to the environment, the reflection paper on harnessing globalisation emphasises the need: 'to further strengthen the European transition towards a digital, decarbonised and more circular European economy'. The global deterioration of the climate will also have an impact on the number of natural disasters that affect EU territories. Physical disasters management will be an area in which LRAs will be called to assume a more active role. In this respect, the Commission adopted an EU adaptation strategy in April 2013. Adaptation means anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause, or taking advantage of opportunities that may arise. The varying severity and nature of climate impacts between regions in Europe means that most adaptation initiatives will have to be taken at regional or local level. Improving waste management could also deliver positive effects for the economy. As part of a shift towards a circular economy, the Commission has made four legislative proposals introducing new waste management targets regarding reuse, recycling and landfill, strengthening provisions on waste prevention and extended producer responsibility, and streamlining definitions, reporting obligations and calculation EPRS Challenges for EU cohesion policy Members' Research Service Page 6 of 12 methods for targets. Quite a lot of this legislation will affect the way LRAs collect and process waste. Networks of cities and regions can work together in order to learn from each other and to exchange good positive examples. They can form common initiatives, for instance, in order to protect the environment. Linked to the issue of the environment, the Energy Union strategy, which was launched in February 2015, set out the EU's main ambitions in the field of energy, involving a major shift towards renewable energy sources and sustainable energy use, among other things. Cohesion policy also plays a part in this scenario: over the 2014-2020 programming period, €38 billion will be available under the ERDF and the Cohesion Fund to support investment in the low-carbon economy. ERDF rules for the same period require mandatory minimum spending from Member States in this particular field. It remains to be seen whether more ambitious targets will be set in environmental protection through the use of the ESI funds. The 7th Cohesion Report highlights the priorities set out in the reflection paper on EU finances, according to which EU funding needs to focus on areas where the highest EU added value can be achieved. Social inclusion, employment, skills, research and innovation, climate change energy and environmental transition are identified as areas that cohesion policy needs to invest in. Addressing migration and globalisation are also mentioned in these two documents. ***Performance*** and simplification As mentioned by Commissioner Creţu in various speeches, the future of cohesion policy will depend on providing convincing arguments regarding the added value of the policy and its results. Therefore, ***performance*** is a key element in order to convince sceptics, and to safeguard the financial resources that the policy has obtained thus far. However, opinions on what cohesion policy should deliver vary from one policy actor to another. Some Member States would like to see cohesion policy closely linked to issues of economic objectives whereas others tend to emphasise the cohesion aspects of the policy. Already, cohesion policy has quite an ambitious role as it aims at addressing the cohesion gap, to contribute to macroeconomic stability and even to address new policy challenges such as immigration. Nevertheless, multiple conflicting priorities may overburden it. In addition, when it comes to more tangible effects, it is not always easy to measure the impact of cohesion policy on certain domains. The Commission provided figures regarding the positive impact of cohesion policy in various fields regarding the 2007-2013 period. However, few results can yet be reported from the 2014-2020 period due to the usual delay in the start of the programmes in the first programming years. Nevertheless, the 7th Cohesion Report states that investment for the 2007-2013 period is estimated to have increased GDP in the EU-12 by nearly 3 % and by a similar amount for the (now EU-13) in the 2014- 2020 period. Various ideas such as focusing on the quality of implemented projects rather than on absorption of funds, and easing the administrative burden of the policy through simplification may enhance the ***performance*** of cohesion policy. Simplification Thematic concentration was an issue in the previous programming period (2007-2013) and led to the establishment of core thematic objectives that derived from the Europe 2020 strategy and linked to a set of headline targets. It may be the case that efforts to increase concentration in fewer thematic areas will persist in the post-2020 period. However, although thematic concentration may be seen as a way to increase the EPRS Challenges for EU cohesion policy Members' Research Service Page 7 of 12 effectiveness of funds, it also leads to re-allocation of resources, which always requires careful planning. Under the 2007-2013 programming period, separate sets of ***strategic*** guidelines coexisted for cohesion policy, ***rural*** development, and fisheries and maritime policy. Member States tried to simplify procedures by setting up the common ***strategic*** framework for the 2014-2020 period. The common ***strategic*** framework also represents the single European reference frame for better coordination between the European structural and investment funds and other EU instruments. However, receivers and managing authorities of EU funds tend to complain that handling them can be quite complicated as they are tied to burdensome bureaucratic requirements. EU funds are still bound to various EU and Member State rules, which occasionally makes their administration a cumbersome exercise. In order to tackle these issues, in 2015 the Commission set up a high-level group with the main task of advising the Commission on how to simplify and reduce the administrative burden for the beneficiaries of the five ESI funds. The group made recommendations on improving the implementation of simplification measures for the post-2020 period. With the omnibus regulation, the Commission proposes to roll out a single act for making a revision of the general financial rules, accompanied by corresponding changes to the sectorial financial rules set out in different legislative acts concerning multiannual programmes. In simplifying and making EU financial rules more flexible, this proposal paves the way for the preparation of the next post-2020 generation of spending programmes. Financial instruments and the European Fund for ***Strategic*** Investment Regulations provide flexibility for Member States and managing authorities when designing programmes, both to choose between delivering investment through grants and financial instruments (FIs), and to select the most suitable financial instrument. Financial instruments provide support for investment by way of loans, guarantees, equity and other risk-bearing mechanisms, possibly combined with technical support, interestrate subsidies or guarantee-fee subsidies within the same operation. The 7th Cohesion Report states that financial instruments are also important in the context of several strategies or certain specific types of investment, such as improving energy efficiency. Although the Commission is highly supportive of using financial instruments, some academic sources are more reserved when it comes to the benefits they offer. For instance, an EPRC study points to the fact that these instruments can be burdensome and difficult for regional authorities to manage. According to the same study, these instruments are perceived as less useful in small projects and in certain areas (for instance, in sparsely populated areas). Furthermore, the potential of these instruments to leverage private-sector funding is also questioned. An EPRS briefing notes the various bureaucratic hurdles that need to be addressed so that FIs can be explored sufficiently by the Member States. In its reflection paper on the future of EU finances, the Commission suggests that financial instruments can play an important role in allowing the EU to 'do more with less'. It suggests that FIs are only appropriate for revenue-generating projects. It states that grants and subsidies will therefore continue to be needed for projects that do not generate revenues (e.g basic research, certain types of infrastructure, investment in the social domain, or people-based investments such as Erasmus+ or Marie Sklodowska-Curie grants). It recognises that the number of EU-level instruments and the rules applying to them is an obstacle to their efficient use. The 7th Report on economic, EPRS Challenges for EU cohesion policy Members' Research Service Page 8 of 12 social and territorial cohesion also points out that complementarity between financial instruments could be enhanced. The EFSI-ESI fund relationship Another related issue is the functioning of the European Fund for ***Strategic*** Investment (EFSI), which aims to mobilise €315 billion in additional investment in the real economy, and its relationship with the EU's regional policy. EFSI has been one of the main priorities of the Commission which proposed an extension of its duration until 31 December 2020. It provides funding based on a competitive selection procedure and does not have any pre-defined geographical allocations the way cohesion policy does. It is not a cohesion policy funding element, but rather, a Commission initiative for encouraging investment. Certain issues stemming from EFSI may cause a conflictual and competitive relationship with the ESI funds. Although in theory there are synergies between the ESI funds and ESIF, a lot remains to be done in practice to achieve further interoperability and complementarity. So far, the combination of ESI funds with EFSI has been minimal, owing to the technicalities involved, undermining their complementarity. In addition, EFSI's geographical and thematic concentration may run counter to the scope of the ESI funds and to the aim of territorial cohesion. The various priorities that characterise EFSI operations may also contradict the EU's regional policy objectives, as implemented through the ESI funds. In addition, the prioritisation of EFSI, and its high profile on the EU agenda, may further undermine the prestige of EU regional policy. The urban agenda for the EU, regions lagging behind and areas with special geographic characteristics The urban agenda Cities, towns and suburbs are home to more than 70 % of the EU's population, and constitute major hubs of economic growth. For this reason, at least 50 % of the ERDF resources for the 2014-2020 period will be invested in urban areas. Various policy innovations in this programming period also highlight the important role of urban areas for the EU. For instance, Article 7 of the ERDF Regulation provides that at least 5 % of ERDF resources allocated at national level under the investment for jobs and growth goal must be earmarked for integrated actions for sustainable urban development. Certain EU policy targets, such as the Europe 2020 ones for smart, green and inclusive growth, rely heavily on the involvement of urban areas in implementing them. In addition, the 7th Cohesion Report mentions urban areas in many of its policy recommendations. However, as there is no legal basis for urban policy in the EU Treaties, discussions on urban development at EU level have primarily taken place within the framework of intergovernmental cooperation. An agreement between the Member States led to the conclusion of the Pact of Amsterdam on the Urban Agenda for the EU in May 2016. The core objective of the Urban Agenda for the EU will be to improve the implementation of EU and national policies on the ground, by involving cities in the design and implementation of urban-related policies as a way of making them more effective, efficient and inexpensive. Momentum has been gathering for the implementation of such an agenda. The first pilot partnerships between the Commission, Member States, cities and stakeholders have been created as the key delivery mechanism for integrating cities into EU policy-making. The partnerships have to prepare and implement an action plan with concrete actions at EU, national and local level. Bridging the ***rural***-urban divide is also a point of concern for various cohesion policy-makers. EPRS Challenges for EU cohesion policy Members' Research Service Page 9 of 12 Regions lagging behind So far, cohesion policy has benefited all EU regions, while offering additional support to regions with lower-than-EU-average gross domestic product rates. As such, it is a universal policy that covers – albeit to different degrees – all EU citizens. Most EU cohesion funding is addressed to less developed and transition regions. Nevertheless, some EU regions have not been able to fully grasp the advantages of the investment opportunities on account of effects of the economic crisis and structural problems. Regions that are lagging behind or suffering low growth are usually regions from eastern or southern European countries. The latter have lower than EU average GDP, despite benefiting from many years of European and national funding. Many of them have also been hard hit by austerity policies aimed at bringing the economies of their respective countries into shape. While increasing their funding allocations seems like a logical solution, it is not a panacea for all their problems. An analysis by Willem Molle (Erasmus Universiteit Rotterdam) suggests that southern European regions will have sluggish growth on account of a lack of proper governance, or their predominant investment choices (for instance, heavy investment in roads and/or infrastructure). The 7th Cohesion Report also stresses the impact of quality of government as an important determinant of regional growth. It also states that in many regions across the EU, public procurement is open to the risk of corruption. The Commission has launched an initiative to help these less-developed regions catch up. Its aim is to analyse what holds back growth in lessdeveloped regions and to provide recommendations and assistance on how to unlock their growth potential. Regions with special geographic characteristics The geographic characteristics of certain regions may prevent them from competing with other regions on an equal basis. Article 174 TFEU states that: 'among the regions concerned, particular attention shall be paid to ***rural*** areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as northernmost regions with very low population density and island, cross border and mountainous regions'. Some of these regions may thus require additional assistance. The Common Provisions Regulation (1303/2013), which sets out the rules for

the ESI funds, offers these regions various forms of assistance that have either not been put in place or have so far had limited application. Various European territorial associations (such as the CPMR and Euromontana) have criticised the limited provisions that cohesion policy offers these regions. EPRS has produced specialised briefings on the issue of islands of the EU as well as on that of sparsely populated and under-populated areas. Various Parliament resolutions on island territories and mountainous regions have meanwhile taken a positive view on special measures for such regions. In addition, Article 349 TFEU also addresses the issue of the EU's outermost regions, which are mentioned several times in the 7th Cohesion Report. Alternative ***indicators*** to GDP The use of ***indicators*** is of extreme importance as it determines who benefits from cohesion policy funding. Until now, cohesion policy funds have been allocated through a system of calculation of regional GDP per head rather than on the basis of other ***indicators*** capturing social progress. Figure 1 shows the EU NUTS regions according to GDP level. The NUTS classification is used for defining regional boundaries and determining geographic eligibility for structural and investment funds. Regional eligibility for ERDF and ESF funding during the 2014-2020 programming period was calculated on the basis of regional GDP per inhabitant (averaged over the 2007–2009 period). In addition, the EPRS Challenges for EU cohesion policy Members' Research Service Page 10 of 12 Cohesion Fund covers Member States whose gross national income (GNI) per inhabitant is less than 90 % of the EU average.3 NUTS 2 regions were ranked and split into three groups:  less developed regions (where GDP per inhabitant was less than 75 % of the EU-27 average); (yellow on the map)  transition regions (where GDP per inhabitant was between 75 % and 90 % of the EU-27 average); (light blue on the map), and  more developed regions (where GDP per inhabitant was more than 90 % of the EU-27 average (dark blue on the map). Changes in Member States' GDP levels have had a serious impact on the regions, some of which have suffered significantly.4 The recent changes in regional GDP levels may be another incentive to suggest that alternative ***indicators*** are necessary in order to depict the real issues and problems that European regions are facing. Various methods complementary to GDP have been presented. The draft version of the EU regional Social Progress Index (SPI), released in October 2016, aims to measure the social progress of 272 European regions as a complement to traditional measures of economic progress. Similarly, in a speech in February 2016, Commissioner Creţu supported the idea of including new ***indicators*** in cohesion policy, in addition to that of GDP. In particular, she mentioned the Europe 2020 index, the OECD ***indicators*** on wellbeing, those on regional competitiveness, as well as the Human Development Index (HDI). The 7th Cohesion Report also points out that the allocation of funds could be revised by adding criteria linked to the challenges the EU faces, from demographics and unemployment to social inclusion and migration, and from innovation to climate change. The view of the European Parliament In June 2017, the European Parliament adopted a resolution (2016/2326) on building blocks for a post-2020 EU cohesion policy (rapporteur: Kerstin Westphal, S&D, Germany). The Parliament considers it essential that cohesion policy should have an adequate budget and that the consequences of Brexit should not lead to its weakening. It strongly opposes any scenario that would scale down the EU's efforts in relation to cohesion policy. It stresses the importance of shared management under the partnership principle and regrets the late adoption of various operational programmes. It notes that the current European territorial cooperation budget does not match the great challenges facing Interreg programmes, nor does it effectively support cross-border cooperation. Parliament underlines that the current categorisation of regions demonstrates the value of cohesion policy. It considers the creation of a reserve to be an interesting option to address major unforeseen events. The importance of ex-ante conditionalities, such as Figure 1 – NUTS 2 regions by gross domestic product Source: Eurostat regional yearbook, 2015. EPRS Challenges for EU cohesion policy Members' Research Service Page 11 of 12 research and innovation strategies for smart specialisation, is also highlighted. Parliament opposes macro-economic conditionality and highlights that the link between cohesion policy and economic governance processes within the European Semester must be balanced. It mentions the need to simplify cohesion policy's overall management system. The EP believes that grants should remain the basis of the financing of cohesion policy and calls on the Commission to ensure better synergies and communication between and about the ESI funds and other Union funds and programmes, including EFSI. In the resolution, Parliament also states that combating unemployment remains a priority. Cohesion policy should continue to care for the vulnerable and marginalised, addressing growing inequalities and building solidarity through investments in education, training and culture. Partnerships between ***rural*** and urban areas, RIS3 and climate change mitigation are also seen as issues that can be tackled through cohesion policy. The resolution welcomes the Pact of Amsterdam and the recognition accorded to cities in European policy-making. It considers that the reception of migrants and refugees, as well as their social and economic integration, should also be addressed through current and future EU cohesion policy. Lastly, Parliament calls on the Commission to start preparing the new legislative framework in good time so that it can be implemented at the start of the new programming period. Parliament is expected to adopt a resolution on the 7th Report on economic, social and territorial cohesion in 2018 on the basis of an own-initiative report prepared by its Committee on Regional Development (rapporteur: Marc Joulaud, EPP, France). The view of the Committee of the Regions In its 2017 opinion, the Committee of the Regions (CoR) points out that the policy for strengthening economic, social and territorial cohesion is one of the most important and comprehensive EU policies. The basic structure of cohesion policy with its three categories (most developed regions, transition regions and less developed regions) should be retained. It calls for cohesion policy to become more flexible in the next funding period and claims that it is important for it to have adequate funding. Therefore, the percentage share of budget allocated to it should remain the same. The opinion considers it essential to guarantee the functioning of multi-level governance and the bottom-up approach through shared management and in full compliance with the principle of subsidiarity. It calls for increasing the visibility of cohesion policy through appropriate communication tools. In a 2018 resolution, the CoR declared it would go to the European Court of Justice if Commission proposals to offer Member States the possibility to use EU cohesion funds for supporting structural reforms are agreed. The CoR argues that the Commission's plan contravenes the principles of subsidiarity, multi-level governance, co-financing and shared management. Outlook Some of the issues mentioned in this briefing require changes in the technical procedures of cohesion policy, whereas others are of a more political nature and may lead to intensive debates. Already, certain sceptical European actors question the utility of cohesion policy. The post-2020 MFF will show which will be the main priorities in the field of regional policy. For the time being, it is foreseen that cohesion policy will experience budgetary EPRS Challenges for EU cohesion policy Members' Research Service Page 12 of 12 reductions. In addition, the appearance of new political priorities means that further flexibility in funding may be required in cases of emergency – for instance, the adoption of urgent measures to deal with immigration flows that may lead to a quantitative change in the ESI funds. However, possible reallocations of funds through a re-prioritisation of policy targets may open up the debate between net contributing and net receiving Member States, or between different political agents who would like to defend their domains from a possible loss of funds. Furthermore, by allowing transfers of funds, cohesion policy may be seen as a flexible source of money that can easily be re-directed to new issues every time political priorities are altered. The question of simplifying access to funds will be of considerable importance. In addition, the use of new, complementary to GDP ***indicators*** for the allocation of those funds, is also an issue to be followed up. Main references Bachtler J., Mendez C. and Wishlade F., Evolution or revolution? Exploring new ideas for cohesion policy 2020+, EoRPA Paper 16/4, EPRC, 2016. Margaras V., EFSI and ESI funds – Complementarity or contradiction?, EPRS, 2017. McCann P., The Regional and Urban Policy of the European Union, Edward Elgar Publishing, 2015. Molle W., Cohesion and growth: The theory and practice of European policy making, Abingdon, Routledge, 2015. Endnotes 1 See: J. Bachtler, C. Mendez and F. Wishlade, Evolution or revolution? Exploring new ideas for cohesion policy 2020+, EoRPA Paper 16/4, EPRC, 2016 and J. Woolford, Implications of Brexit for UK ESI Fund programming and future regional policy, EStIF, No 3, 2016. 2 See for instance, an analysis by Vasilis Avdikos and Anastassios Chardas, 'European Union cohesion policy post 2014: More (place-based and conditional) growth – less redistribution and cohesion', Territory, Politics, Governance, Vol. 4, No 1, 2016, pp. 97-117. 3 It aims to reduce economic and social disparities and to promote sustainable development and funds projects in the field of transport and environmental infrastructure. The Member States covered by this particular fund are: Bulgaria, the Czech Republic, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. 4 When it comes to cohesion policy, Article 7 of the Multiannual Financial Framework Regulation provided for an adjustment for the years 2017 to 2020, to be based on updated statistical data available in 2016. This led to a rebalancing of funding to the countries deemed to have suffered more from the crisis. Disclaimer and Copyright This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament. 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 RR\1126715EN.docx PE599.838v02-00 EN United in diversity EN European Parliament 2014-2019 Plenary sitting A8-0202/2017 24.5.2017 REPORT on building blocks for a post-2020 EU cohesion policy (2016/2326(INI)) Committee on Regional Development Rapporteur: Kerstin Westphal PE599.838v02-00 2/21 RR\1126715EN.docx EN PR\_INI CONTENTS Page MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION ............................................ 3 EXPLANATORY STATEMENT ............................................................................................ 14 OPINION OF THE COMMITTEE ON BUDGETS ................................................................ 16 INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE ................................ 20 FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE .................................... 21 RR\1126715EN.docx 3/21 PE599.838v02-00 EN MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION on building blocks for a post-2020 EU cohesion policy (2016/2326(INI)) The European Parliament, – having regard to the Treaty on European Union (TEU), in particular Article 3, and the Treaty on the Functioning of the European Union (TFEU), in particular Articles 4, 162, 174 to 178 and 349 thereof, – having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (hereinafter ‘the Common Provisions Regulation’)1, – having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/20062, – having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/20063, – having regard to Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal4, – having regard to Regulation (EU) No 1302/2013 of the European Parliament and of the Council of 17 December 2013 amending Regulation (EC) No 1082/2006 on a European grouping of territorial cooperation (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings5, – having regard to Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/20066, – having regard to Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 1 OJ L 347, 20.12.2013, p. 320. 2 OJ L 347, 20.12.2013, p. 289. 3 OJ L 347, 20.12.2013, p. 470. 4 OJ L 347, 20.12.2013, p. 259. 5 OJ L 347, 20.12.2013, p. 303. 6 OJ L 347, 20.12.2013, p. 281. PE599.838v02-00 4/21 RR\1126715EN.docx EN laying down the multiannual financial framework for the years 2014-20201, – having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/20022, – having regard to the Commission communication of 14 September 2016 entitled ‘Mid-term review/revision of the multiannual financial framework 2014-2020 – An EU budget focused on results’ (COM(2016)0603), – having regard to the Commission communication of 14 December 2015 entitled ‘Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds’ (COM(2015)0639), – having regard to its resolution of 16 February 2017 on investing in jobs and growth – maximising the contribution of European Structural and Investment Funds: an evaluation of the report under Article 16(3) of the CPR3, – having regard to its resolution of 13 September 2016 on European Territorial Cooperation – best practices and innovative measures4, – having regard to its resolution of 11 May 2016 on acceleration of implementation of cohesion policy5, – having regard to its resolution of 21 January 2010 on a European Strategy for the Danube Region6, its resolution of 6 July 2010 on the European Union Strategy for the Baltic Sea Region and the role of macro-regions in the future cohesion policy7, its resolution of 28 October 2015 on an EU strategy for the Adriatic and Ionian region8, and its resolution of 13 September 2016 on an EU Strategy for the Alpine region9, – having regard to its resolution of 6 July 2016 on synergies for innovation: the European Structural and Investment Funds, Horizon 2020 and other European innovation funds and EU programmes10, – having regard to its resolution of 10 May 2016 on new territorial development tools in cohesion policy 2014-2020: Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD)11, – having regard to its resolution of 26 November 2015 on ‘Towards simplification and 1 OJ L 347, 20.12.2013, p. 884. 2 OJ L 298, 26.10.2012, p. 1. 3 Texts adopted, P8\_TA(2017)0053. 4 Texts adopted, P8\_TA(2016)0321. 5 Texts adopted, P8\_TA(2016)0217. 6 Texts adopted, P7\_TA(2010)0008. 7 Texts adopted, P7\_TA(2010)0254. 8 Texts adopted, P8\_TA(2015)0383. 9 Texts adopted, P8\_TA(2016)0336. 10 Texts adopted, P8\_TA(2016)0311. 11 Texts adopted, P8\_TA(2016)0211. RR\1126715EN.docx 5/21 PE599.838v02-00 EN ***performance*** orientation in cohesion policy for 2014-2020’1, – having regard to its resolution of 9 September 2015 on ‘Investment for jobs and growth: promoting economic, social and territorial cohesion in the Union’2, – having regard to its resolution of 9 September 2015 on the urban dimension of EU policies3, – having regard to Commission communications and Parliament resolutions on the outermost regions, in particular its resolution of 18 April 2012 on the role of Cohesion Policy in the outermost regions of the European Union in the context of EU 20204 and that of 26 February 2014 on optimising the potential of outermost regions by creating synergies between the Structural Funds and other European Union programmes5, – having regard to its resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy6, – having regard to the conclusions and recommendations of the ‘High Level Group monitoring simplification for beneficiaries of ESI funds’, – having regard to the Council conclusions on the 2016 European Court of Auditors’ special report n°31, ‘Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but serious risk of falling short’, adopted on 21 March 2017, – having regard to the Court of Justice judgment of 15 December 2015 on the interpretation of Article 349 of the TFEU, – having regard to the European Court of Auditors Special Report no 19/2016: Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period, – having regard to the report of the European Commission of 22 February 2016 on the European Structural and Investment Funds and European Fund for ***Strategic*** Investments complementarities - ensuring coordination, synergies and complementarity, – having regard to Rule 52 of its Rules of Procedure, – having regard to the report of the Committee on Regional Development and the opinion of the Committee on Budgets (A8-0202/2017), A. whereas EU cohesion policy stems from the TEU and the TFEU and expresses the EU’s solidarity as one of the fundamental principles of the Union, by pursuing its Treaty based objective of reducing regional disparities and promoting economic, social and 1 Texts adopted, P8\_TA(2015)0419. 2 Texts adopted, P8\_TA(2015)0308. 3 Texts adopted, P8\_TA(2015)0307. 4 Texts adopted, P7\_TA(2012)0125. 5 Texts adopted, P7\_TA(2014)0133. 6 Texts adopted, P8\_TA(2015)0384. PE599.838v02-00 6/21 RR\1126715EN.docx EN territorial cohesion among all regions across the EU; B. whereas the functioning of the EU as a ‘convergence tool’ stalled after 2008, causing an increase in existing divergences between and within Member States, as well as deepening social and economic inequalities throughout the EU; recalls that cohesion policy at European level is very effective, particularly in promoting various forms of territorial cooperation, and therefore remains – in its economic, social and territorial dimension – an urgently necessary policy which combines the specific needs of a territory with EU priorities and delivers tangible results on the ground for all citizens; C. whereas cohesion policy remains the main, highly successful and valued EU-wide investment and development policy for sustainable job creation and for creating smart, sustainable and inclusive growth and competitiveness after 2020, especially against the backdrop of a sharp decline in public and private investments in many Member States and the implications of globalisation; recalls that cohesion policy has played a vital role and shown significant responsiveness to macroeconomic constraints; D. whereas the last reform of cohesion policy in 2013 was extensive and substantial, shifting the focus of the policy towards a result-oriented approach, thematic concentration, effectiveness and efficiency on the one hand and principles including partnership, multi-level governance, smart specialisation and place-based approaches on the other; E. whereas the renewed cohesion policy resulted in a gradual shift of focus from one based on major infrastructure-related projects towards one based on stimulating the knowledge economy and innovation; F. whereas these principles should be maintained and consolidated after 2020 in order to ensure continuity, visibility, legal certainty, accessibility and transparency of policy implementation; G. whereas in order to render cohesion policy a success post-2020, it is essential to reduce the administrative burden for its beneficiaries and management authorities, to find the right balance between the result orientation of the policy and the level of checks and controls to increase proportionality, to introduce differentiation into the implementation of programmes, and to simplify the rules and procedures, as it is currently often perceived as too complex; H. whereas these elements – combined with the integrated policy approach and the partnership principle – illustrate the added value of cohesion policy; I. whereas the increasing constraints on both the EU and the national budgets and the consequences of Brexit should not lead to EU cohesion policy being weakened; calls, in this context, for the EU/UK negotiators to reflect on the pros and cons of the UK continuing to participate in European Territorial Cooperation programmes; J. whereas cohesion policy already addresses a very wide range of challenges relating to its objectives as laid down in the Treaties and cannot be expected to tackle all new challenges the EU will face post 2020 with the same - or an even smaller - budget, although the impact may be bigger if Member States, regions and cities are allowed RR\1126715EN.docx 7/21 PE599.838v02-00 EN more flexibility to support new political challenges; Added value of EU cohesion policy 1. Strongly opposes any scenario for the EU27 by 2025, as contained in the White Paper on the Future of Europe, which would scale down the EU’s efforts in relation to cohesion policy; invites the Commission, on the contrary, to present a comprehensive legislative proposal for a strong and effective cohesion policy post-2020; 2. Underlines that growth and regional, economic and social convergence cannot be achieved without good governance, cooperation, mutual trust among all stakeholders and the effective involvement of partners at national, regional and local level, as is enshrined in the partnership principle (Article 5 of the Common Provisions Regulation (CPR)); reiterates that the EU cohesion policy’s shared management arrangement provides the EU with a unique tool to directly address the concerns of citizens in relation to internal and external challenges; is of the opinion that shared management, which is based on the partnership principle, multilevel governance and the coordination of different administrative levels, is of significant value in ensuring better ownership and responsibility for policy implementation among all stakeholders; 3. Emphasises the catalyst effects of cohesion policy and the lessons that can be learnt for administrations, beneficiaries and stakeholders; highlights the horizontal and cross-cutting approach of cohesion policy as a smart, sustainable and inclusive policy that provides a framework for mobilising and coordinating national and subnational actors, and for directly engaging them in working together towards reaching EU priorities through co-financed projects; calls in this context for optimal coordination and cooperation between the Commission DG responsible for cohesion policy and other DGs, as well as with national, regional and local authorities; 4. Regrets the late adoption of several operational programmes and the late designation of the managing authorities in some Member States during the current programming period; welcomes the first signs of the accelerated implementation of the operational programmes observed during 2016; urges the Commission to continue with the Task Force for Better Implementation in order to support implementation and to identify the causes of the delays, and to propose practical ways and measures of avoiding such problems at the outset of the next programming period; strongly encourages all actors involved to continue to further improve and accelerate implementation without causing bottlenecks; 5. Notes that the shortcomings of the financial planning and implementation system led to the accumulation of unpaid bills and the build-up of an unprecedented backlog that rolled over from the last MFF to the current one; calls on the Commission to come up with a structured solution to solve such problems before the end of the current MFF and to prevent them from spilling over into the next MFF; underlines that the level of payment appropriations must match past commitments, especially towards the end of the period, when the level of payment claims from the Member States tends to increase significantly; 6. Recognises that in some Member States the partnership principle has led to closer cooperation with regional and local authorities, while there is still room for PE599.838v02-00 8/21 RR\1126715EN.docx EN improvement in order to ensure the real and early involvement of all stakeholders, including from civil society, with a view to ensuring increased accountability and visibility in the implementation of cohesion policy without increasing administrative burdens or causing delays; underlines that stakeholders should continue to be involved in accordance with the multi-level governance approach; is of the opinion that the partnership principle and the code of conduct should be further strengthened in the future by, for example, introducing clear minimum requirements for partnership involvement; 7. Stresses that although cohesion policy has mitigated the impact of the recent economic and financial crisis in the EU, and that of the austerity measures, regional disparities, as well as disparities in competitiveness and social inequalities, remain high; calls for strengthened action to reduce these disparities and prevent the development of new disparities in all types of regions, while maintaining and consolidating support for the regions so as to facilitate ownership of the policy in every type of region and to achieve EU objectives throughout the EU; considers, in this context, that more attention needs to be paid to making regions more resilient to sudden shocks; 8. Points out that territorial cooperation in all its forms, including macro-regional strategies, whose potential is still to be fully exploited, transposes the concept of political cooperation and the coordination of regions and citizens across borders in the EU; underlines the value of cohesion policy in addressing the challenges inherent to islands, cross-border regions and the northernmost sparsely populated regions as provided for in Article 174 of the TFEU, to the outermost regions defined in Articles 349 and 355 of the TFEU which enjoy a special status and whose specific tools and financing should be maintained post-2020, and to peripheral regions; 9. Notes that European Territorial Cooperation (ETC) is one of the important goals of cohesion policy 2014-2020 which adds substantial added value to EU objectives, encourages solidarity between EU regions and with its neighbours and facilitates the exchange of experience and transfer of good practice, e.g via standardised documents; insists on the need to continue pursuing cross-border, transnational and interregional cooperation as part of the aim of strengthening territorial cohesion in line with Article 174 TFEU; considers that it should remain an important instrument post-2020; underlines, however, that the current ETC budget does not match the great challenges facing Interreg programmes nor does it effectively support cross-border cooperation; calls therefore for a substantially increased budget for ETC in the next programming period; 10. Underlines the importance of the current Interreg Europe cooperation programme for European public authorities to facilitate the exchange of experience and transfer of good practice; suggests that the funding possibilities in the next Interreg Europe programme after 2020 be enlarged to enable investment in physical pilot projects and demonstration projects, with the involvement of stakeholders across Europe also being taken into account; Architecture of cohesion policy after 2020 – continuity and areas for improvement 11. Underlines that the current categorisation of regions, the reforms introduced, such as thematic concentration, and the ***performance*** framework have demonstrated the value of RR\1126715EN.docx 9/21 PE599.838v02-00 EN cohesion policy; asks the Commission to present ideas for greater flexibility in the implementation of the EU budget as a whole; considers the creation of a reserve an interesting option in this context to address major unforeseen events during the programming period and to facilitate the re-programming of operational programmes in order to adapt ESIF investments to the changing needs of each region, and also to address the effects of globalisation at regional and local level without, however, negatively affecting cohesion policy investments or impacting on the ***strategic*** orientation, long-term objectives and planning certainty and stability of multi-annual programmes for regional and local authorities; 12. Recognises the value of ex-ante conditionalities, in particular the one on Research and Innovation Strategies for smart specialisation (RIS3), which continue to support the ***strategic*** programming of the ESI Funds and have led to increased ***performance*** orientation; notes that ex-ante conditionalities enable the ESIF to support the Europe post-2020 objectives effectively without prejudice to the cohesion policy objectives, as stipulated in the Treaty; 13. Highlights that there must be a balanced link between cohesion policy and economic governance processes in the European Semester to all actors involved, and that this link should be reciprocal; is of the opinion that a greater recognition of the territorial dimension would be beneficial for the European Semester, i.e economic governance and the cohesion policy objectives of economic, social and territorial cohesion, as well as of sustainable growth, employment and environmental protection, should be considered in a balanced manner; 14. Believes, given that cohesion policy funding is intended to boost investment, growth and employment throughout the EU, that national contributions to the cofunding of projects under that policy in the post-2020 period should not be taken into account in deficit calculations under the Stability and Growth Pact rules; 15. Points out that increasing administrative and institutional capacities – and therefore strengthening national and regional agencies for supporting investments – in the area of the programming, implementation and evaluation of operational programmes, as well as in the quality of professional training, in the Member States and regions is crucial for timely and successful cohesion policy ***performance*** and for bringing about convergence towards higher standards; stresses, in this context, the importance of the Taiex Regio Peer 2 Peer initiative which improves administrative and institutional capacity and produces better results for EU investments; 16. Highlights the need to simplify the cohesion policy’s overall management system at all governance levels, facilitating the programming, management and evaluation of operational programmes, in order to make it more accessible, flexible and effective; emphasises, in this context, the importance of combating gold-plating in the Member States; asks the Commission to increase the possibilities for e-cohesion and specific types of expenditure, such as standard scales of unit costs and flat-rate amounts under CPR, and to introduce a digital platform or one-stop shops for information for applicants and beneficiaries; supports the conclusions and recommendations hitherto adopted by the ‘High Level Group monitoring simplification for beneficiaries of ESI Funds’, and encourages Member States to implement these recommendations; PE599.838v02-00 10/21 RR\1126715EN.docx EN 17. Asks the Commission to reflect on solutions according to proportionality and differentiation in the implementation of programmes, based on risk, objective criteria and positive incentives for programmes, their scale and administrative capacity, especially with regard to the multiple layers of audit, which should focus on combating irregularities, namely fraud and corruption, and the number of controls, to achieve greater harmonisation between cohesion policy, competition policy and other Union policies, in particular state aid rules, which apply to the ESI Funds but not to EFSI or Horizon 2020, as well as with regard to the possibility of a single set of rules for all ESI Funds to make financing more efficient while taking into account the specificities of each Fund; 18. Calls on the Commission, with a view to real simplification, and in agreement with the managing authorities of national and regional programmes, to draw up a feasible plan to extend the simplified cost regime to the ERDF, also in keeping with the provisions of the proposal for a regulation to amend the financial rules applicable to the budget – the so-called Omnibus regulation; 19. Believes that grants should remain the basis of the financing of cohesion policy; notes, however, the increasing role of financial instruments; points out that loans, equity or guarantees can play a complementary role, but they should be used with caution, based on an appropriate ex-ante assessment and grants should be complemented only where such financial instruments demonstrate an added value and could have a leverage effect by attracting additional financial support, taking into account regional disparities and the diversity of practices and experiences; 20. Stresses the importance of assistance by the Commission, EIB and Member States to local and regional authorities on the innovative financial instruments through platforms such as fi-compass or by providing incentives for beneficiaries; recalls that these instruments are not suitable for all types of ***interventions*** under cohesion policy; is of the opinion that all regions, on a voluntary basis, ought to be able to decide on the implementation of financial instruments in line with their needs; opposes, however, binding quantitative targets for the use of financial instruments, and underlines that the increasing use of financial instruments should not lead to a reduction in the EU budget in general; 21. Calls on the Commission to ensure better synergies and communication between and about the ESI Funds and other Union funds and programmes, including EFSI, and to facilitate the implementation of multi-fund operations; stresses that the EFSI should not undermine the ***strategic*** coherence, territorial concentration and long-term perspective of cohesion policy programming and should not replace or crowd out the grants nor aim to replace or reduce the ESIF budget; insists on the real additionality of its resources; calls for the establishment of clear delimitations between the EFSI and cohesion policy, together with the provision of opportunities for their combination and facilitated use without mixing them, which can make the funding structure more attractive, in order to make good use of scarce EU resources; believes that the harmonisation of rules for multi-fund operations is needed, as well as a clear communication strategy on existing funding possibilities; invites the Commission, in this context, to develop a toolbox for beneficiaries; RR\1126715EN.docx 11/21 PE599.838v02-00 EN 22. Invites the Commission to reflect on the development of an additional set of ***indicators*** that complement the GDP ***indicator***, which remains the main legitimate and reliable method for allocating ESI Funds fairly; believes that the Social Progress Index or a demographic ***indicator*** should be evaluated and considered in this context in order to provide a comprehensive picture of regional development; considers that such ***indicators*** could better respond to the new types of inequalities between EU regions that are arising; stresses, furthermore, the relevance of outcome ***indicators*** to strengthen the result and ***performance*** orientation of the policy; 23. Calls on the Commission to consider measures aimed at resolving the issue of national financing of cohesion policy projects in view of the problem faced by local and regional authorities in highly centralised Member States that do not have sufficient fiscal and financial capacities and that experience great difficulties in co-financing projects, and often even in drafting project documentation, due to the lack of available financial resources, which leads to lower utilisation of cohesion policy; 24. Encourages the Commission to consider the possibility of using the NUTS III level as a classification of regions in cohesion policy for some selected priorities; Key policy areas for a modernised cohesion Policy after 2020 25. Stresses the importance of the ESF, the Youth Guarantee and the Youth Employment Initiative, especially in the fight against long-term and youth unemployment in the Union, which are at a historically high level, particularly in less developed regions, in the outermost regions and in regions which have been hit hardest by the crisis; emphasises the key role played by SMEs in job creation – accounting for 80 % of jobs in the Union – in promoting innovative sectors such as the digital and low-carbon economies; 26. Believes that the post-2020 cohesion policy should continue to care for the vulnerable and the marginalised, address growing inequalities and build solidarity; notes the positive impact in terms of the social and employment-related added value of investments in education, training and culture; points, furthermore, to the need to maintain social inclusion, including ESF spending, complemented by ERDF investments in that field; 27. Suggests a better use of ESI Funds in order to tackle demographic change and address its regional and local consequences; is of the opinion that in regions facing challenges such as depopulation ESI Funds should be optimally targeted to create jobs and growth; 28. Notes the increasing importance of the Territorial Agenda and of successful ***rural***-urban partnerships, as well as the exemplary role of smart cities as microcosms and catalysts for innovative solutions to regional and local challenges; 29. Welcomes the Pact of Amsterdam and the better recognition accorded to the role of cities and urban areas in European policy-making and demands an effective implementation of the cooperative working method through the partnerships that the Pact entails; expects the results to be incorporated in future EU policies post-2020; 30. Underlines the enhanced urban dimension of cohesion policy in the form of specific PE599.838v02-00 12/21 RR\1126715EN.docx EN provisions for sustainable urban development and urban innovative actions; considers that this should be further developed and financially strengthened post-2020, and that the sub-delegation of competences to lower levels should be reinforced; encourages the Commission to improve coordination between various measures aimed at cities to enhance the direct support to local governments under cohesion policy by providing financing and tailored instruments for territorial development; emphasises the future role of territorial development tools, such as Community-Led Local Development and the Integrated Territorial Investments; 31. Endorses the EU’s commitments under the Paris climate change agreement; recalls in this context, the goal endorsed by all EU institutions of spending at least 20% of the EU budget on climate change-related action, and underlines that the ESI Funds play a key role in this direction and should continue be used as effectively as possible for climate change mitigation and adaptation, as well as for green economies and renewable energies; considers it necessary to improve the monitoring and tracking system for climate spending; highlights the potential of ETC in this regard, as well as the role of cities and regions in the context of the Urban Agenda; 32. Notes that RIS3 strengthens the regional innovation ecosystems; stresses that research, innovation and technology development should continue to play a prominent role to allow the EU to compete globally; considers that the smart specialisation model should become one of the leading approaches of post-2020 cohesion policy by encouraging cooperation between different regions, urban and ***rural*** areas and bolstering the economic development of the EU, creating synergies between transnational RIS3 and world-class clusters; recalls the existing Stairway to Excellence (S2E) pilot project, which continues to support regions in the development and exploitation of synergies between the ESIF, Horizon 2020 and other EU funding programmes; consequently takes the view that further efforts must be made to maximise synergies in order to further strengthen smart specialisation and innovation post-2020; 33. Underlines that the increased visibility of the cohesion policy is vital to fight against euroscepticism and can contribute to regaining citizens’ confidence and trust; highlights that in order to improve the visibility of ESI Funds, greater focus must be placed on the content and results of their programmes, through a top-down and bottom-up approach allowing participation by stakeholders and recipients who can act as an effective channel through which to disseminate cohesion policy achievements; urges, furthermore, the Commission, Member States, regions and cities to communicate in a more efficient way on the measureable results of cohesion policy which bring added value to the everyday life of EU citizens; urges that communication activities under a specific budget within the technical assistance should continue, if appropriate, until after a project has closed when its results become clearly visible; Outlook 34. Calls for the fostering of economic, social and territorial cohesion and solidarity across the EU and for the steering of EU f

unds towards growth, jobs and competitiveness to be put at the top of the EU agenda; calls also for the fight against regional disparities, poverty and social exclusion, as well as against discrimination, to be maintained; considers that, in addition to the goals enshrined in the Treaties, cohesion policy should RR\1126715EN.docx 13/21 PE599.838v02-00 EN continue to serve as a tool to attain EU political objectives, thus also contributing to a greater awareness of its ***performance*** and remaining the Union’s main investment policy available to all regions; 35. Reiterates that it is high time to prepare the post-2020 EU cohesion policy in order to launch it effectively at the very start of the new programming period; calls therefore for the Commission’s preparation of the new legislative framework to start in due time, namely swiftly after the adoption and translation into the official languages of the next MFF; calls, furthermore, for the timely adoption of all legislative proposals for future cohesion policy, and for guidance on management and control before the start of the new programming period, with no retro-active effect; underlines that the delayed implementation of operational programmes affects the efficiency of cohesion policy; 36. Notes that the core of the current cohesion policy legislative framework should be maintained after 2020 with a refined, strengthened, easily accessible and result-orientated policy and with an added value of the policy which is better communicated to citizens; 37. Stresses in view of the Commission’s proposal 2016/0282(COD) that the reception of migrants and refugees under international protection as well as their social and economic integration requires a coherent transnational approach, which should also be addressed through the current and future EU cohesion policy; 38. Points to the importance of stability in the rules; calls on the Commission, when drawing up the implementation provisions for cohesion policy under the next MFF, to keep changes to a minimum; is convinced of the need for the EU budget share for cohesion policy after 2020 to be maintained at an adequate level, if not increased, in light of the complex internal and external challenges that the policy will have to address in view of its objectives; considers that this policy must not be weakened under any circumstances, Brexit included, and that its share of the total EU budget should not be reduced by siphoning off means for new challenges; underlines, furthermore, the multi-annual nature of cohesion policy and calls for its 7-year programming period to be maintained or for the introduction of a 5+5 years programming period with an obligatory mid-term revision; 39. Calls for the swift allocation of the ***performance*** reserve; notes that the time between ***performance*** and the release of the reserve is too long, thereby reducing the effectiveness of the reserve; urges the Commission to allow Member States to operationalise the use of the ***performance*** reserve as soon as the review has been finalised; 40. Points out in this context that the digital agenda, including the provision of the necessary infrastructure and advanced technological solutions, must be a priority within the framework of cohesion policy, particularly in the next funding period; notes that developments in the telecommunications sector must in any case be accompanied by appropriate training, which should also be supported by cohesion policy; 41. Instructs its President to forward this resolution to the Council and the Commission as well as the Member States and their parliaments and the Committee of the Regions. PE599.838v02-00 14/21 RR\1126715EN.docx EN EXPLANATORY STATEMENT The underlying idea of the European Union is a peaceful cooperation between its different peoples and nations. The Member States have defined common duties and objectives in the Treaty of Lisbon. One of the key objectives of this Union is to promote economic, social and territorial cohesion, and solidarity among its various regions. This objective shall be pursued with European Cohesion Policy, which creates a unique investment instrument for all regions. Cohesion Policy is the main EU-wide investment policy for jobs and growth. The rapporteur fully backs the objective of economic, social and territorial cohesion. For a future Cohesion Policy, it is important to learn from past experiences and to take the challenges of today into account. In the view of the rapporteur, two principles of Cohesion Policy should be consensus: It will be indispensable to have an adequate budget for Cohesion Policy. Constraints of both the EU budget and national budgets as well as consequences of Brexit should not lead to a weakening of EU cohesion policy. Cohesion Policy should reduce disparities and - while in particular addressing less developed regions - strengthen all regions, including transition and more developed regions. These categories should be maintained. After the experiences of the current programming period, it is important to have early preparations and an early start of post 2020 Cohesion Policy, in order to be able to launch the concrete initiatives on the ground in the regions in time. Regarding the architecture of a future Cohesion Policy, the rapporteur thinks it is of utmost importance to simplify the policy. Red tape that burdens regions and citizens should be minimized. Room for improvement could be found in the multiple layers of audit and the quantity of controls, as well as in the use of lump sums or standard costs. The rapporteur also suggests a greater harmonisation between Cohesion Policy and state aid rules. She could also imagine one single set of rules for all ESI funds. Synergies between ESIF and other funds and programs need to be strengthened. In this regard, the rapporteur suggests that the EFSI should not undermine the ***strategic*** coherence and long-term perspective of Cohesion Policy. EFSI resources need to be additional. Furthermore, Cohesion Policy needs to be flexible, in order to be able to handle unforeseen events. While the thematic concentration has proved to be successful, the rapporteur wants the Commission to explore ways of an additional flexibility by, for example, some kind of reserve or an easier re-programming. The rapporteur believes that while setting up Operational Programmes, the voice of regional and local stakeholders needs to be heard. The so-called Partnership Principle, as laid down in the CPR, should be mandatory for national, regional and local authorities. This implies that they must include the input of regional and local level as well as that of the economic and social partners and civil society at all stages of the design, adoption and implementation of the new policy, including the composition of monitoring committees (Art. 5, Art. 48 CPR). This RR\1126715EN.docx 15/21 PE599.838v02-00 EN principle should be further strengthened post 2020. The rapporteur recognizes the need for a higher degree of coordination of Cohesion Policy with macroeconomic policies. Nevertheless, a greater recognition of the territorial dimension would be beneficial for the European Semester. A territorialisation of economic governance could be helpful in order to improve understanding of regional variation in economic, social or institutional development needs and challenges, and to shape the reform proposals accordingly. Any form of macroeconomic conditionality is not helpful. Regarding the financing, grants (being an effective form of support in manifold areas of public ***intervention***) should be maintained as the main tool of Cohesion Policy, especially for smaller beneficiaries. Financial instruments can be additional useful investment tools, for those sectors where they have demonstrated they are more appropriate than grants. However, they should not push aside the traditional support through grants but be used to attract complementary financial support for cohesion. While GDP should continue to be the main eligibility criterion, the rapporteur calls on the Commission to reflect on additional ***indicators*** (taking into account demographic or social developments) as well. When it comes to policy areas, the rapporteur believes the fight against unemployment is (and will continue to be) one of the main issues to address. Other key areas are the fight against climate change and demographic change, as well as the support of innovation and SMEs, integration of migrants, as well as a sustainable underlying infrastructure. A good relation between urban areas and their ***rural*** surrounding is also important. This is why the rapporteur would like to see the recommendations of the “Partnerships” (created by the Pact of Amsterdam) included in the post 2020 Cohesion Policy. PE599.838v02-00 16/21 RR\1126715EN.docx EN 25.4.2017 OPINION OF THE COMMITTEE ON BUDGETS for the Committee on Regional Development on Building blocks for a post-2020 EU cohesion policy (2016/2326(INI)) Rapporteur: Jan Olbrycht SUGGESTIONS The Committee on Budgets calls on the Committee on Regional Development, as the committee responsible, to incorporate the following suggestions into its motion for a resolution: 1. Underlines that cohesion policy is the most visible, tangible and quantifiable expression of European solidarity and fairness and has been instrumental in mitigating the effects of the recent crisis within the EU; stresses that over the last few decades cohesion policy has, as a structural policy, become the main EU investment policy and a tool for attaining the general political objectives of the Union in addition to the specific goals enshrined in the Treaties; is of the opinion that cohesion policy post 2020 should continue to serve this goal, as well as remaining a policy for all Member States and regions; considers that this policy must not be weakened under any circumstances, Brexit included, and that its share in the total EU budget should be maintained in the future and not weakened by siphoning off means to pay for new challenges; 2. Notes the shortcomings of the financial planning and implementation system that led to the accumulation of unpaid bills and the build-up of an unprecedented backlog that rolled over from the last multiannual financial framework (MFF) to the current one; is increasingly concerned about the slow start-up of the implementation of the 2014-2020 operational programmes, which may lead to the same situation in the future and hinder growth; calls on the Commission to come up with a structural solution to solve such problems before the end of the current MFF and to prevent them from spilling over into the next MFF; underlines that the level of payment appropriations must match past commitments, especially towards the end of the period, when the level of payment claims from the Member States increases significantly; 3. Underlines the increasing need for flexibility in the implementation of the EU budget as a whole, including in cohesion policy, in order to address new challenges during a programming period and facilitate reprogramming as and where may be necessary; RR\1126715EN.docx 17/21 PE599.838v02-00 EN encourages the Commission to explore different solutions in this respect; considers the creation of a reserve at EU level an interesting option in this context; believes, however, that efforts in this regard should be made both at EU level and at national and regional levels; calls for more flexibility for Member States and regions, and for the swift allocation of the ***performance*** reserve, while supporting the shared management implementation method; stresses that the success of the shared management system hinges on Member States’ programming and implementation efforts, as well as on the overall management and control system and its proper and sound functioning; 4. Encourages the Commission to reflect on different ***indicators*** beyond GDP which would allow for a fair distribution of funds under cohesion policy, in order to respond to newly emerging types of inequalities between EU regions over and above those relating to economic development; 5. Stresses the importance of espousing a simplified and coherent approach to cohesion policy, so as to streamline the many different sets of rules and make financing more efficient; 6. Notes the increasing role of financial instruments which, by their very nature, provide a complementary means of financial support from the EU budget, as compared to subsidies and grants; encourages the Commission to consider a proper balance between grants and financial instruments under cohesion policy in the next MFF, while stressing that financial instruments are not suitable for all types of ***intervention***, many of which are notably supported under cohesion policy; underlines the fact that the growing use of financial instruments should not lead to a reduction in the Union budget in general; 7. Calls for sufficient auditing and control of programme financing, so as to ensure scrutiny and maximise the visibility of the cohesion policy; 8. Points to the importance of normative stability and maintains that continuity of regulation can do much to ensure that EU funding is used efficiently; calls on the Commission, when drawing up the implementation provisions for cohesion policy under the next MFF, to keep changes to a minimum so as to enable the administrations responsible for implementing and overseeing EU funds to benefit from experience and the lessons that have been learned; 9. Points out, in view of the discussion on the duration of the next MFF, that the multiannual nature of cohesion policy is of crucial importance; calls, therefore, for either the maintenance of its seven-year programming period or the establishment of a programming period of five + five years with an obligatory mid-term revision. PE599.838v02-00 18/21 RR\1126715EN.docx EN INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION Date adopted 24.4.2017 Result of final vote +: –: 0: 26 3 0 Members present for the final vote Lefteris Christoforou, Gérard Deprez, José Manuel Fernandes, Eider Gardiazabal Rubial, Ingeborg Gräßle, Bernd Kölmel, Zbigniew Kuźmiuk, Clare Moody, Siegfried Mureşan, Jan Olbrycht, Paul Rübig, Petri Sarvamaa, Jordi Solé, Patricija Šulin, Monika Vana, Daniele Viotti, Tiemo Wölken, Marco Zanni, Stanisław Żółtek Substitutes present for the final vote Ivana Maletić, Pier Antonio Panzeri, Nils Torvalds, Marco Valli, Derek Vaughan, Rainer Wieland, Tomáš Zdechovský, Nicola Caputo Substitutes under Rule 200(2) present for the final vote Karin Kadenbach, Ramón Luis Valcárcel Siso RR\1126715EN.docx 19/21 PE599.838v02-00 EN FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION 26 + ALDE Gérard Deprez, Nils Torvalds ECR Zbigniew Kuźmiuk EFDD Marco Valli PPE Lefteris Christoforou, José Manuel Fernandes, Ingeborg Gräßle, Ivana Maletić, Siegfried Mureşan, Jan Olbrycht, Paul Rübig, Petri Sarvamaa, Ramón Luis Valcárcel Siso, Rainer Wieland, Tomáš Zdechovský, Patricija Šulin S&D Nicola Caputo, Eider Gardiazabal Rubial, Karin Kadenbach, Clare Moody, Pier Antonio Panzeri, Derek Vaughan, Daniele Viotti, Tiemo Wölken VERTS/ALE Jordi Solé, Monika Vana 3 - ECR Bernd Kölmel ENF Stanisław Żółtek Marco Zanni 0 0 Key to symbols: + : in favour - : against 0 : abstention PE599.838v02-00 20/21 RR\1126715EN.docx EN INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE Date adopted 18.5.2017 Result of final vote +: –: 0: 20 4 13 Members present for the final vote Pascal Arimont, Franc Bogovič, Mercedes Bresso, James Carver, Andrea Cozzolino, Rosa D’Amato, Tamás Deutsch, Raymond Finch, Iratxe García Pérez, Michela Giuffrida, Krzysztof Hetman, Ivan Jakovčić, Marc Joulaud, Constanze Krehl, Sławomir Kłosowski, Louis-Joseph Manscour, Martina Michels, Iskra Mihaylova, Jens Nilsson, Andrey Novakov, Younous Omarjee, Konstantinos Papadakis, Mirosław Piotrowski, Stanislav Polčák, Terry Reintke, Liliana Rodrigues, Fernando Ruas, Monika Smolková, Maria Spyraki, Ramón Luis Valcárcel Siso, Monika Vana, Matthijs van Miltenburg, Lambert van Nistelrooij, Derek Vaughan, Kerstin Westphal, Joachim Zeller Substitutes present for the final vote Viorica Dăncilă RR\1126715EN.docx 21/21 PE599.838v02-00 EN FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE 20 + ALDE Ivan Jakovčić, Iskra Mihaylova, Matthijs van Miltenburg ECR Sławomir Kłosowski, Mirosław Piotrowski EFDD Rosa D'Amato S&D Mercedes Bresso, Andrea Cozzolino, Viorica Dăncilă, Iratxe García Pérez, Michela Giuffrida, Constanze Krehl, Louis-Joseph Manscour, Jens Nilsson, Liliana Rodrigues, Monika Smolková, Derek Vaughan, Kerstin Westphal VERTS/ALE Terry Reintke, Monika Vana 4 - EFDD James Carver, Raymond Finch NI Konstantinos Papadakis PPE Stanislav Polčák 13 0 GUE/NGL Martina Michels, Younous Omarjee PPE Pascal Arimont, Franc Bogovič, Tamás Deutsch, Krzysztof Hetman, Marc Joulaud, Andrey Novakov, Fernando Ruas, Maria Spyraki, Ramón Luis Valcárcel Siso, Joachim Zeller, Lambert van Nistelrooij Key to symbols: + : in favour - : against 0 : abstention

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ANNEX

Annual Action Programme for Montenegro for the year 2017 part 2

* Identification

* Description of theAction Programme

* Sectors selected under this Action Programme

1. Rationale for the selectionof thespecific sectors under this programme:

The Annual Action Programme for Montenegro for the year 2014 contributed to the achievement of the objectives identified in the Indicative Strategy Paper 2014-2020 (ISP) of Montenegro[1] through formulating actions covering six of the eight priorities defined in the ISP. The first sectors initially covered by IPA II funds included Democracy and governance, the Rule of lawand fundamental rights, Environment and Climate Action, Transport, Competitiveness and Innovation, and the ***Agriculture*** and ***rural*** development sector. Following the sector approach the AnnualAction Programme for Montenegro for the year 2015 covered Democracy and governance and the Rule of law and fundamental rights sectors. It also included the first sector budget support programme aimed at supporting the implementation of the Integrated Border Management Strategy.

|  |  |
| --- | --- |
| Beneficiary | Montenegro |
| CRIS/ABAC Commitment references Total cost EU Contribution Budget lines | IPA/2017/ 040-217  EUR 15 000 000  (22.020101) EUR 15 000 000 EUR 15 000 000 22.020101 |
| Management Mode/ Entrusted entities | Direct management by the European Commissionfor all activities with the exception of 2 complementary activities: - Support to upgrade the Single information system for the exchange of data among state registers (SISEDE) and - Support to the elaboration and implementation of a national rightsizing Plan which will be implemented through indirect management by the UNDP |
| Final datefor concluding Financing Agreementswith the IPA IIbeneficiary | At the latest by 31 December 2018 |
| Final date for concluding delegation agreements under indirect management | N/A |
| Final date for concluding procurement and grant contracts | 3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation |
| Final date for operational implementation | 6 years following the date of conclusion of the Financing Agreement. |
| Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed) | 12 years following the conclusion of the Financing Agreement. |
| Programming Unit | DG NEAR Unit D.1 Montenegro |
| Implementing Unit/ EU Delegation | Delegation of the European Union to Montenegro |

In 2015 Montenegro developed a Regional Development Operational Programme 2016-2020 (RDOP) to provide a multiannual framework for IPA programming in Environment, Competitiveness and Transport sectors. Three actions have been prepared in parallel, each covering one of the three sectors identified in the RDOP. Two actions, focusing on economic development and growth by providing assistance to the Environment and Climate Action and Competitiveness and Innovation sectors, were included in the Action Programme for the year 2016. A third action aiming at the improvement and development of the Transport sector was included in part 1 of the Annual Action Programme for Montenegro for the year 2017. In addition to the assistance provided to the Transport sector, the IPA allocation of 2017 funds also continued its support to the EU Integration Facility and to the participation of Montenegro in Union Programmes.

The present Annual Action Programmefor Montenegro for the year 2017 part 2 (AAP 2017 part 2) will strengthen and complement the existing EU support to the Democracy and Governance sector by focusing this time on the area of Public Administration Reform.

A well-functioning public administration is of fundamental importance for successful political and economic reforms and for implementing EU rules and standards. Therefore, public administration reform is considered to be one of the key priorities of the Enlargement Strategy. Similarly, the 2014-2020 Indicative Country Strategy Paper identifies the reform of the public administration as one of the key sectors to be supported.

The reform of public administration is also in line with the objective of South East Europe Strategy 2020, which recognises that the establishment of a transparent, well-functioning and efficient public administration is a cross-cutting component and a prerequisite for the achievement of any other objective of the strategy.

With a total EU contribution of EUR 15 000 000, the AAP 2017 part 2 will bring added value to Montenegro, as well as to the European Union by supporting the government's efforts to createan efficient, service-oriented and more transparent public administration. The 2017 allocation will help the country to modernise its public administration human resources management, transparency mechanisms and improve service delivery as well as to build the necessary capacities within the national institutions to support the negotiation process and the alignment of the national legislation with the EU Acquis.

* Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:

In the Democracy and Governance sector, previous actions under IPA I addressed the reform of the civil service and its legal framework.

The 2014 AAP programme included a number of actions linked to Public Financial Managementand EU acquis alignment with a total EU contribution of EUR 8.97 M. Moreover, the EU Integration Facility supports IPA II implementation and programming as well as the preparation of the negotiation process with a total of EUR 4.6 M (EUIF 2014), EUR 2.45 M (EUIF 2015) and EUR 2.89 M (EUIF 2017, planned).

The PAR Strategy 2016-2020 was adopted by the Government of Montenegro in July 2016. It is based on the results of the 'Analysis of the effects of the implementation of the AURUM'[2] and on the recommendations of SIGMA, as put forward in the 'Baseline Measurement Report Montenegro 2015'. Furthermore, it is consistent with the enlargement objectives and with the priorities described in several national level ***strategic*** documents.[3]

This action has been designed taking into consideration the lessons learned and the experience gained during the preparation and implementation of the first Sector Budget Support operation in the Rule of Law sector (Integrated Border Management – IBM programme). The degree of maturity of the sector strategy, the existence of a credible ***Performance*** Assessment Framework and the importance of continuous policy dialogue were identified as important factors to ensure the effectiveness of such operations.

Complementarity has been ensured with other cooperation partners' existing or planned activities. In particular, the United Nations Development Programme is working on a Public Administration Reform Programme which focuses on transparency, integrity and accountability in the public administration, as well as on e-services and e-government. OECD, through the EU-funded SIGMA programme, is a key partner in the country for the assessment of public governance systems and for strengthening public administration capacities. The World Bank and the International Monetary Fund play an important role in macroeconomic stability and public finance management, especially in the area of tax administration, debt management and fiscal consolidation. The Westminster Foundation has been working on strengthening parliamentary budgetary oversight and the British Embassy on the quality of Regulatory Impact Assessments and on budget transparency (Open Budget Index).

List of Actionsforeseen under the selected Sectors/Priorities:

Democracy and Governance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Indirect Management with the IPA II beneficiary |  | Other implementation arrangements |  |  |
|  |  |  | ' Action 4-  ' EU Support to Public Administration Reform in Montenegro Direct Management and Indirect Management | EUR 15 000 000 |
|  |  |  | TOTAL | 15 000 000 |

* Description and Implementation of the Actions

|  |  |  |  |
| --- | --- | --- | --- |
| SECTOR 1 | Democracy and Governance |  | EUR 15 000 000 |
| Action 4 | EU Support to Public Administration Reform in Montenegro | Direct Management and Indirect Management | EUR 15 000 000 |

Sector Budget Support

a) Eligibility for budget support

* Public policy

A Public Administration Reform Strategy 2016-2020 was adopted by the Government of Montenegro in July 2016. It is based on the results of the 'Analysis of the effects of the implementation of the AURUM' and on the recommendations of SIGMA, as put forward in the 'Baseline Measurement Report Montenegro 2015'. Furthermore, it is consistent with the enlargement objectives and with the priorities described in several national level ***strategic*** documents.  The main objectives of the PAR Strategy are: a) improvement of the competences and organization of civil servants at all level of the administrative system b) reorganization of agencies exercising public powers c) improvement of the process of selection of candidates and of the existing ***performance*** appraisal system d) delivery of administrative services at the highest possible level e) establishment of a comprehensive system of mid-term policy planning f) more functional and more efficient local self-government units.The Strategy has a detailed action plan for the first two years of implementation (2016-2017), which includes ***indicators*** for all specific objectives, with baselines and targets. An action plan for the period 2018-2020 will be approved in 2017, including an update of the total cost.

The Ministry of Public Administration will be responsible for monitoring and reporting on the implementation of the Strategy, while the primary responsibility for the achievement of the objectives will stay with the identified lead entities. A ***Performance*** Assessment Framework has been put in place, with the first progress report to be produced in May 2017.

On the basis of the available information, it can be concluded that a credible and relevant strategy is in place for ***intervention*** in the public administration sector.

* Macroeconomic policy

The current growth model of Montenegro is dominantly based on investments and services, mainly tourism, transport and retail sales. Montenegro experienced modest GDP growth in the period 2014-2016, averaging 2.6%.After a period of weak inflation and decrease of consumer prices, inflation should gradually rise and stabilise around 2% in the period 2016‐2018.[4]

The Government pursues fiscal incentives and public infrastructure projects to promote economic development and connectivity. Although the government’s growth strategy can bring substantial gains, it also carries sizable risks, notably to the public finances, especially if combined with social allowances and public wage hikes. The IMF projects budget deficit percent to increase to 7.5% of GDP in 2017.  High fiscal deficit feeds into increasing general government debt, which is projected to reach 82% of GDP by 2019.[5]

The trade deficit increased in 2016, mostly due to an increase of imports of construction materials and equipment, mainly driven by the infrastructure projects. Employment growth remains modest, despite stronger investment activity, which reflects, inter alia, the non-alignment of education and skills with labour market needs. The banking sector is stable, although low provisioning and weak asset quality remains a concern and could hold back credit growth if not properly dealt with.

Within this framework, the country continues to be vulnerable to fluctuations in external demand and global financial conditions. With shrinking fiscal buffers, and because the economy lacks monetary policy tools, the ability to absorb shocks will depend crucially on the flexibility and competitiveness of the real economy.[6]

The authorities are committed to address vulnerabilities and, with the assistance of the World Bank and the IMF, they are working on a Fiscal Strategy which will complement the Plan for the Correction of the Budget Deficit and Public Debt adopted in December 2016 with medium-term fiscal consolidation measures in order to put public debt on a downward trajectory. The Fiscal Strategy is foreseen to be approved by June 2017. Together with the implementation of the structural reforms as presented in the Economic Reform Programme 2017-2019, it will foster growth, increase resilience and boost competitiveness of the economy.

The adoption of a sound Fiscal Strategy together with medium-term consolidation measures is crucial to pursue a credible and relevant stability-oriented macroeconomic policy.

* Public financial management

Montenegro adopted a multiannual Public Finance Management Reform Programme (2016-2020) in December 2015 which addresses several key weaknesses of the budget system. The objectives of the strategy are twofold: a) strengthen the capacities to identify, prevent and manage fiscal risks, excessive fiscal deficits and harmful macroeconomic imbalances b) Ensure that public spending is structured in a way that maximizes the development impact on the national economy and ensures better quality of life for the citizens.

Montenegro is progressing according to the schedule for many of the PFM sub-systems reforms, although it is having some difficulties in particularly challenging areas, where technical assistance is needed and stronger efforts are necessary to streamline the reforms. In particular, Montenegro will have to focus on the development of a sustainable fiscal framework and on the creation of an efficient system for public expenditures planning and budgeting. This includes multi-annual sector strategies with reliable recurrent and investment expenditures costing, as well as policy based budgeting.

Despite some delays in the implementation, the overall direction of change of the Montenegrin PFM reform remains positive and the PFM strategy continues to be relevant and credible.

* Budget transparency and oversight of the budget

The Government systematically publishes the budget proposal, the enacted budget and the in-year and final budget execution reports. The State Audit Institution reports are also available.

The Executive's budget proposal for 2016 was published on the website of the Government of Montenegro on 14th November 2015. The enacted budget was published on the web site of the Ministry of Finance on 15th January 2016. Therefore, the entry point for the eligibility criterion on budget transparency and oversight can be considered as satisfied.

A transparency roadmap has been integrated in the Public Finance Management Reform programme 2016-2020. Here transparency is organized as a horizontal activity, including the improvement of the presentation and visualisation of the annual budget and of in-year reports (monthly and quarterly) according to the best international practices. Whereas most of the actions are due to start in 2017 and 2018, some progress was shown in the implementation of the activities planned for 2016.

b)    Objectives

The general objective of this Sector Budget Support programme is to contribute to sustainable growth and to improve competitiveness through the creation of a more transparent, efficient and service-oriented public administration. This will be done by supporting the implementation of the Public Administration Reform Strategy 2016-2020.

The programme will support a mix of actions both at policy level and with a clear impact on citizens' life, long-term reforms and quick-win reforms, in order to keep momentum and motivation in the implementation of the reform.

The specific objectives of this Sector Budget Support correspond to the following priorities of the PAR Strategy 2016-2020:

* Optimization of the number of civil servants in the public administration in line with state budget constraints and European integration challenges. This will imply the adoption and implementation of a National Rightsizing Plan and the redistribution and/or reduction of human resources according to the needs of the administration, including meeting the challenges of European integration. In this respect, the update and upgrade of the Central Personnel Records (HRMIS) and its link with the payroll registry will be an essential element, without which any efforts to develop the management and monitoring of public administration are not sustainable. In parallel, it will be necessary to ensure an independent oversight of public administration affairs by strengthening the administrative and technical capacities of the Administrative Inspection Service;

1. Enhancement of human resources management, by giving particular attention to the capacity to plan and to manage new recruitments as well as to the capacity to manage civil servants' and other employees' professional development according to the needs of an efficient, service-oriented and more transparent public administration;
2. Improvement of the quality and accessibility of public service delivery, with a reduction or simplification of administrative procedures for citizens and business operators. In this respect, the establishment of interoperability among key electronic state registers will be the basis for any further improvement in the provision of services;
3. Improvement of the transparency of public services by making the exercise of the right to free access to information more effective, by reducing the number of complaints, in particular for 'administrative silence', and by decreasing the number of decisions on information requests annulled by the Administrative Court.

The programme focuses on the most challenging objectives of the strategy, notably the ones where the previous public administration reform (AURUM) did not achieve the expected results and which are of key importance in the enlargement perspective. The programme also reflects the will to improve the life of citizens in terms of service delivery and increased transparency. In both cases, policy dialogue plays a central role and represents the real added value of the European Commission ***intervention*** in this sector.

The specific objectives are strictly interlinked, which underlines the sectoral approach of this budget support operation. They are also complementary to the ***interventions*** of other donors and will have a structural impact on the Montenegrin public administration system. Moreover, they have been selected in order to ensure sustainability of the results and a positive effect on fiscal consolidation and macroeconomic stability.

The optimization of human resources, in particular, reflects the need to better respond to the citizens' and business' needs, to reduce the increasing weight of annual wages on current expenditures[7] and to free more financial resources for economic growth and competitiveness. At the same time, better resource planning and a more skilled workforce will benefit the quality of public administration, by creating the conditions for a smoother European Integration process.

Finally, the quality, transparency and accessibility of public services are crucial determinants for a more business friendly administration and a more competitive economy, especially if they are translated in simplified and swifter public administrative procedures.Greater predictability in terms of quality and timing also creates trust and economic benefits for the end users of the services.

c)    Expected results

The expected results of this Sector Budget Support programme are the following:

* Public administration human resources are optimized in line with European Integration needs and state budget constraints.

1. Increased accuracy of data on number and career of civil servants.
2. Increased capacity to plan and manage new recruitment.
3. Improved capacity to manage civil servants professional development according to the needs of an efficient, service oriented and more transparent public administration.
4. Simplified and swifter public administrative procedures.
5. Improved access to public information.

d)         Main sector budget support activities

The main activities to implement the budget support package are policy dialogue, financial transfer, ***performance*** assessment, reporting and capacity development.

Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

e)    Complementary actions

With regard to complementary actions, activities will largely focus upon strengthening the institutional and human resource capacities of the principal stakeholders to drive, coordinate and monitor the implementation of the public administration reform. The proposed actions will develop the beneficiaries' capacities to achieve the expected results. The main recipients will be the Human Resources Management Authority, the Administrative Inspection Service, the E-government Directorate and the Agency for the Protection of Personal Data and Free Access to Information. Technical assistance will be provided also to the Statistical Office of Montenegro (MONSTAT) in order to update the methodology for statistics according to EU regulations and to improve the quality of administrative data sources. Additional support will also be provided to the Ministry of Public Administration to manage external and internal communication, which is considered particularly sensitiveand to the Ministry of European Affairs, in order to further reinforcing ***strategic*** planning as functional to the elaboration of credible medium term budgetary frameworks. This latter assistance will mitigate one of the identified PFM risks and will increase state budget credibility. Special support will be provided to developing the capacities of civil society in oversight and control as well as to visibility actions.

The complementary actions are planned to be launched with a suspension clause which will allow for the commencement of the activities early after signature of the Financing Agreement.

Essential elements of the Actionfor direct management:

Procurement:

a) the global budgetary envelope reserved for procurement: EUR 1 000 000

b) the indicative number and type of contracts: 4 service contracts

c) Indicative time frame for launching the procurement procedure:procurement proceduresare expected to  be launched in Q32017.

Grant – Call for proposal – Civil society oversight and awareness activities

* Objectives and foreseen results:

The objective of the grant is to develop the capacity of civil society organisations to perform its oversight role, monitor the evolution and implementation of the reform strategy as well as raise awareness of PAR issues that affect the citizens such as service delivery and accountability of public institutions.

The foreseen result is an increased transparency of the public administration and a strengthenedoversight by the civil society  of the PAR sector.

b)   The essential eligibility criteria are:

* be a legal person and

1. be non-profit-making and
2. be a civil society organisation and
3. be a national of Montenegro or registered in Montenegro[8]

c)   The essential selection criteria are financial and operational capacity of the applicant.

d)   The essential award criteria are relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

e) Maximum rate of EU co-financing

The maximum possible rate of EU co-financing is 90% of the eligible cost of the action.

The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

f) Indicative amount of the call: EUR 50 000

g) Indicative date for launch of the call for proposals: Q 3   2017

Grant – Twinning – Call for proposal: Capacity development for Human Resources Planning, Professional development and Training (TWN 1)

* Objectives and foreseen results:

Objective:To develop the capacity of the Human Resources Management Agency (HRMA).

Result:The HRMA capacity is strengthened regarding human resource planning, professional development and training.

* The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

1. Indicative amount of Twinning contract: 500 000 EUR
2. Indicative date for launching the selection procedure: 2017 Q3

Grant – Twinning – Call for proposal : Capacity Development for the Administrative Inspection Services (TWN 2)

* Objectives and foreseen results:

Objective: To develop the capacity of the Administrative Inspection Services (IAS).

Result: The IAS capacity is strengthened regarding oversight of the legality of human resources management practice

* The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

1. Indicative amount of Twinning contract: 250 000 EUR
2. Indicative date for launching the selection procedure: 2017 Q3

Grant – Twinning – Call for proposal ; Capacity development and awareness for the Agency for the Protection of Personal Data and Free Access to Information (TWN 3)

* Objectives and foreseen results:

Objective:To develop the capacity of the Agency for the Protection of Personal Data and Free Access to Information

Result:The Agency for the Protection of Personal Data and Dree Access to Information is better prepared to manage administrative silence cases and raise awareness about access to information rights.

* The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

1. Indicative amount of Twinning contract: 250 000 EUR
2. Indicative date for launching the selection procedure: 2017 Q3

The essential selection and award criteria for Twinning and Twinning Light:

The essential eligibility criteria: applicants must beEU Member State administrations or mandated bodies.

The essential selection criterion is operational capacity of the applicant.

The essential award criteria are technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

The complementary activities with the purposes to Support to upgrade the Single information system for the exchange of data among state registers (SISEDE)and to

Support to the elaboration and implementation of a national rightsizing Plan will be implemented by indirect management by the UNDP.

Entity entrusted with budget implementation tasks

UNDP has a long-term commitment with the Montenegrin authorities and the European Union Delegation to Montenegro in the area of public administration reform. It has apositive record of working specifically on the local level, in particular by developing a comprehensive functional review of the Human Resources function and management capacities in Montenegrin municipal administrations. Ongoing UNDP projects include a Local Governance programme supporting inter-municipal cooperation and local finance management and the creation of a government service bus for the exchange of data among state registers.. The complementary actions foreseen under the present sector budget support programme would have a leverage effect on cooperation with the beneficiaries, would increase efficiency and reduce transaction costs. They would also benefit from the acquired know-how and the networks already established by UNDP at local level.

A delegation agreement will ensure a complete alignment with the work already undertaken and strengthen complementarities and synergies among the activities implemented by the development partners in the sector.

Short description of the tasks entrusted to the entity

The UNDP, in close cooperation with the beneficiaries, will implement afunctional review of the Human Resources of 25 local self-governments in order to align it to the process that will be carried out at central level. It will also be in charge of the follow up of the implementation of the optimisation plan at local level, of the elaboration of the personnel annual plans as well as the drafting of the ***strategic*** planning for the professional development and training of civil servants at local level.

Additionally, the UNDP will further develop the existing Government Service Bus (Single Information System) in order to connect 7 different state electronic registers (Central Population Register; Register of Business Entities; Register of Tax Payers; Register on Number of Children in Educational Institutions; Criminal Records; Employment Records and Cadastre).

The entrusted entity shall be responsible for carrying out all the tasks relating to the implementation of the action. In particular, the entrusted entity shall be responsible for runningpublic procurements, concluding and managing the resulting contracts, implementation (including executing related payments), information and visibility. It will also be in charge of monitoring, reporting and evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

* Budget

* Indicative budget table - Annual Action Programme for Montenegro for the year 2017 – part 2

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Indirect Management with the IPA II beneficiary | Other implementation arrangements |  |  |  |  |  |  |  |  |
|  |  | where applicable | where applicable | Total expenditure |  | where applicable | where applicable | Total expenditure | MM | Total |
|  | EU Contribution | IPA II beneficiary Co-financing | EU Contribution | IPA II beneficiary Co-financing | programme |  |  |  |  |  |
| Objective 1 | Sector 1 |  |  |  | Sector 1 Democracy and Governance | 15 000 000 |  | 15 000 000 | Mixed | 15 000 000 |
| Action |  |  |  | Action 4 ? 'EU Support to Public Administration Reform in Montenegro' | 15 000 000 |  | 15 000 000 | Direct, IM IO | 15 000 000 |  |
|  | TOTALS |  |  |  |  | 15 000 000 |  | 15 000 000 |  | 15 000 000 |

* Implementation modalities and General rules for procurement and grant award procedures

direct management:

This programme shall be implemented by direct management by Union Delegation to Montenegro in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part Two Title II Chapter 4 of its Rules of Application.

Under the Financial Regulation, Parts One and Three of the Financial Regulation and its Rules of Applicationshall apply to external actions except as otherwise provided in Part Two,  Title IV.

The Commission may also use servicesand supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

Twinning:

Twinning projects shall be set up in the form of a grant agreement, whereby the selected Member State administrations agree to provide the requested public sector expertise against the reimbursement of the expenses thus incurred.

The contract may in particular provide for the long-term secondment of an official assigned to provide full-time advice to the administration of the IPA II beneficiary as resident twinning advisor.

The twinning grant agreement shall be established in accordance with relevant provisions of Part Two Title IV Chapter 4 of the Financial Regulation and Part Two Title II Chapter 4 of its Rules of Application.Parts One and Three of the Financial Regulation and its Rules of Application shall apply to external actions except as otherwise provided in Part Two,  Title IV.

* ***performance*** Monitoring arrangements

As part of its ***performance*** measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation on the basis of pre-defined, clear, transparent measurable ***indicators***. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect ***performance*** data (process, output and outcome ***indicators***) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Country Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Co-ordinators (NIPACs) will collect information on the ***performance*** of the actions and programmes (process, output and outcome ***indicators***) and coordinate the collection and production of ***indicators*** coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by DG Enlargement and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

[1] C(2014)5771 of 18.08.2014 – Commission Implementing Decisionadopting an Indicative Strategy Paper for Montenegro for the period 2014-2020'

[2] Public Administration Reform Strategy 2011-2016 (AURUM)

[3]  Montenegro EU Accession Programme 2016-2018, Montenegro Development Directions 2015-2018, Montenegro Economic Reform Programme 2016-2018, Public Finance Management Programme 2016-2020,                 Strategy for Information and Communications Technologies.

[4]Monstat and Ministry of Finance of Montenegro

[5]  IMF Staff Concluding Statement of the 2017 Article IV mission.

[6] IMF Staff Concluding Statement of the 2015 Article IV mission, available at: [*http://www.imf.org/external/pubs/cat/longres.aspx?sk=43772.0*](http://www.imf.org/external/pubs/cat/longres.aspx?sk=43772.0)

[7]IMF Staff Concluding Statement of the 2017 Article IV mission.

[8] Registered under at least one of the following laws: Law on Non-governmental Organisations (Official Gazette of Montenegro 27/99, 09, 30/02, 39/11), Labour Law (OG of Montenegro 43/03, 79/04, 49/08, 26/08, 88/09, 26/10, 59/11), Law on Representation of Trade Unions (OG of Montenegro 26/2010), the Bylaw on the representation of employers' organisations (OG of Montenegro, 34/05), the Law on the Chamber of Economy of Montenegro (OG of Montenegro, 42/98).

**Load-Date:** October 30, 2017

**End of Document**



[***CocoaAction has brought companies together - but is it making a difference?***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R19-XWR1-JC6M-X29K-00000-00&context=1516831)

ConfectioneryNews.com

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**Length:** 1418 words

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**Body**

CocoaAction’s latest annual report contains only baseline data and it is too early to assess impact, says the World Cocoa Foundation (WCF).

Nine of the leading chocolate and cocoa players including Mars, Nestlé, Ferrero and Mondelēz came together to form [*joint cocoa sustainability platform CocoaAction in 2014.​*](https://www.confectionerynews.com/Article/2014/06/09/CocoaAction-12-confectionery-titans-join-strategy)​

Industry-led body WCF published the [*2016 CocoaAction annual report​*](http://www.worldcocoafoundation.org/wp-content/uploads/2016-CocoaActionReport-English_WEB_10-30.pdf)​ earlier this month.

Among the findings were:

A starting point​

Nira S. Desai, director of Strategy & Learning at WCF, said 2016 was only the first year of ***intervention***.

“This is where we are starting."​

"It's very much meant to be a five-year journey," ​she said. "Our first year of data can be considered our baseline...because we don't have the second year of data we are not able to say 'this' has been achieved yet.”​

Companies aligning ​

But she said the 2016 report marks the first time data from rival companies cocoa sustainability programs has been aggregated together.

"It's the first co-owned, cooperational data set in cocoa sustainability...It's the way we do business now. If you look back to 2014 it was definitely challenging and we spent a lot of time building trust [between companies].​

Is it making a difference?​

CocoaAction aligns company programs such as Mondelēz’s Cocoa Life, Nestlé’s Cocoa Plan and Mars’ Vision for Change against common key ***performance*** ***indicators*** (KPIs).

While 2016 was the first ***intervention*** year for CocoaAction, many company programs have existed for a number of years.

With cocoa prices crashing to [*10-year low​*](https://www.confectionerynews.com/Article/2017/08/29/Cocoa-prices-to-stay-low-even-as-chocolate-markets-strong)​ on the New York market in Q1 this year and studies suggesting Ivorian farmers   [*earn less than $1 a day​*](https://www.confectionerynews.com/Article/2017/02/22/Ivorian-cocoa-farmers-earn-less-than-1-a-day-Barry-Callebaut-study)​ are their efforts having a positive impact?

"Where we see a lot of progress is on the environmental issues,”​ said Desai.

She said WCF and CocoaAction members have worked together with the Ivorian governments for a regional approach on tackling cocoa swollen shoot virus (CSSV).

The disease destroys as much as 15% of global cocoa production each year, said CocoaAction’s report.

Yields: 523 kg per hectare​

CocoaAction’s 2016 annual report shows the starting point for yields of the 147,000 farmers reached so far:

"The 2017 report will show the difference in yields,"​ said Desai.

CocoaAction hopes farmers reached will have annual yields of at least 700 kg per hectare by 2020.

But will 700 kg per hectare on average farm sizes of one to three hectares be enough to lift farmers out of poverty?

"Yields does not equal income. It doesn’t necessarily guarantee direct revenue - there's some many other factors affecting a farmer,”​ said Desai.

Income data​

CocoaAction does not report data on farmer income.

Some companies have individually collected and reported income data, [*such as Barry Callebaut​*](https://www.confectionerynews.com/Article/2017/02/22/Ivorian-cocoa-farmers-earn-less-than-1-a-day-Barry-Callebaut-study)​, but collated data from all CocoaAction companies on income is absent in the annual report.

Desai said income was not among the original metrics for CocoaAction, but said: "We're working on getting there...We always had a plan to do an impact assessment to include income - we're building that process as we speak."​

Richard Scobey, president of WCF, told this site CocoaAction’s main aim is to align companies' sustainability programs.

"CocoaAction is not collecting that kind of detailed income and expenditure studies. That's not what we were set up to do,” ​he said.

How to boost income?​

However, Scobey said a KPI on income may become part of the Cocoa & Forests Initiative, a joint efforts of major companies with the Ghanaian and Ivorian governments to address cocoa-driven deforestation.

"The goal of WCF is to boost the income of cocoa farmers so they are profitable and will stay in cocoa production over time."​

He said industry will work to achieve this by boosting farmer productivity, diversifying farmer income from other crops and training farmers how to protect farms from climate change.

But has the industry focus on productivity created a [*production surplus of almost 400,000 MT for the 2016/17 season​*](https://www.confectionerynews.com/Article/2017/08/29/Cocoa-prices-to-stay-low-even-as-chocolate-markets-strong%20)​ leading to a slump in prices to the detriment of farmers?

"The increase is not due to improved productivity," ​said Scobey. "The increase in production is largely due to the expansion of farming often in illegal areas such as protected forests."​

Adoption rates​

CocoaAction members have agreed on a productivity package for farmers comprised of three elements : Good ***agricultural*** practices (GAP), rehabilitation of farms and fertilizer use.

Only 3,100 of the 147,000 farmers reached by CocoaAction have adopted the full productivity package suggested by the training.

But Scobey said: "I see the results quite positively. ​

"We found good progress with the adoption of GAP. Almost 30% of farmers we reached in the first year had adopted four out of five important ***agricultural*** practices such as improved pruning."​

"What we found less successful was the large scale rehabilitation of aged and diseased farms and adoption of fertilizer,”​ he said.

Improving rehab and replanting rates​

The WCF president said the findings allow CocoaAction members to respond accordingly.

"For the adoption of farm rehabilitation about 15% of farmers we reached in the first year were able to do replanting,” ​said Scobey.

He said farmers were constrained by access to finance that allows them to purchase the resources needed to remove trees, to redesign their farms and to buy new planting material, while covering living costs while the farm is not productive.

Scobey said WCF has this year worked with the newly established $300m [*Impact Investment Fund for Land Degradation Neutrality*](http://www2.unccd.int/actions/impact-investment-fund-land-degradation-neutrality)​​ of the United Nations to provide capital for farmers, helping them to accelerate replanting with improved planting material.

Better access to the right fertilizers​

Scobey said while fertilizer was often subsidized by governments, farmers still have "a low level of income" ​to buy the fertilizer and often cannot find a fertilizer suitable for the soil on their farm.

"Quite frankly farmers are not convinced they have access to the right kinds of fertilizer,"​ he said.

To tackle low uptake of fertilizer, WCF has launched a separate fertilizer research program – the ‘[*CocoaSoils Initiative*](https://www.wur.nl/en/project/Sustainable-intensification-of-cocoa-production.htm)​’ - with Wageningen University and the International Institute for Tropical ***Agriculture***.

The program will assess which fertilizers are most suitable to different types of soil.

WCF has also discussed eliminating Ghana’s fertilizer distribution program with the government, possibly replacing it with a framework promoting private sector delivery of fertilizers with more accessible prices.

The reach​

CocoaAction has so far reached 147,000 farmers. It plans to reach 300,000 by 2020, around 6% of the 5m global cocoa farmers worldwide.

WCF’s members – not all of whom are part of CocoaAction – account for roughly 80% of the global supply.

But Desai said: “Getting 300,000 farmers as a data set and understanding what they are doing is significant…it's a starting point in order for us to scale.”​

‘These are not the low hanging fruit’​

Sako Warren, executive secretary of the World Cocoa Farmers Organization (WCFO) said: "Most of the time these reports do not reflect the reality on the ground…When I talk to my members, especially in ***rural*** areas, nobody tells me they have heard of CocoaAction.”​

He alleged farmers within CocoaAction are often close to urban areas and ports and part of organized groups or cooperatives, which make up a small percentage of the cocoa output.

He said there are around 1m smallholders in Ghana producing 500,000 metric tons (MT) of the 700,000 MT annual crop with only 200,000 MT coming from coops or organized groups.

CocoaAction does not prescribe which farmers companies should work with. It is for companies to decide.

Scobey said: "Our farming population in CocoaAction constitutes a very diverse group of small farmers scattered all over the country."​

"These are not the low hanging fruit or farmers who are most successful and located near urban areas or cocoa markets.”​

"...But by design we want to be investing in the cocoa farmers who have the scope and potential to be profitable and have good capacity."​

He said many of the lower capacity farmers are those who have encroached into protected forests.

"What we need to do is transition those lower capacity farmers growing cocoa in illegal areas out of cocoa into other alternative livelihoods,”​ said the WCF president.

Desai said the 2016 data allows companies to learn from each other about the types of ***interventions*** that are working.

See CocoaAction’s [*five-year roadmap​*](http://www.worldcocoafoundation.org/wp-content/uploads/161026-CocoaAction-Roadmap-v1.0.pdf)​ published in October 2016 for further details.

**Load-Date:** November 23, 2017

**End of Document**



[***Register of Commission documents: Palestine 2017 AAP-AD2: Commission Implementing Decision on the Annual Action Programme 2017 in favour of Palestine to be financed from the general budget of the Union Document date: 2017-09-27 COM-AC\_DR(2017)D053178-01(ANN01) Comitology - Right of scrutiny***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R13-MHW1-JDG9-Y0JN-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

  This action is funded by the European Union

a

Annex 1

of the Commission Implementing Decision on the Annual Action Programme 2017

 for Palestine[1]

to be financed from the general budget of the Union

Action Document 'Towards a democratic and accountable Palestinian State'

Information for Potential Grant Applicants

Work Programme for Grants

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1.2 and 5.3.4.1 and in the following sections concerning grants awarded directly without a call for proposals: 5.3.2.1

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1. Title/basic act/ CRIS number | 'Towards a democratic and accountable Palestinian State' CRIS number: ENI/2017/40195 financed under European Neighbourhood Instrument |  |  |  |  |
|  | 2. Zone benefiting from the action/location | Palestine The action shall be carried out at the following location: West Bank and Gaza Strip |  |  |  |  |
|  | 3. Programming document | European Joint Strategy in Support of Palestine 2017-2020 ? Towards a democratic and accountable Palestinian State |  |  |  |  |
|  | 4. Sector of concentration/ thematic area | Pillar 1 [2]- Governance Reform, Fiscal Consolidation and Policy Reform Pillar 4 - Access to Self-sufficient Water and Energy Pillar 5 - Sustainable Economic Development Complementary support for civil society |  |  |  |  |
|  | 5. Amounts concerned | Total estimated cost: EUR 34,910,000 Third party contribution: EUR 7,310,000 Total amount of EU budget contribution: EUR 27,600,000 This action is co-financed in joint co-financing by: - France and Denmark for an amount of EUR 3,000,000. This action is co-financed in parallel co-financing by: - France (Agence Française de Developpement - AFD) for an amount of EUR 4,000,000. This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 310,000. |  |  |  |  |
|  | 6. Aid modality(ies) and implementation modality(ies) | Project Modality   Governance Reform, Fiscal Consolidation and Policy Reform Indirect Management with the World Bank (WB) Direct Management: call for proposals for twinning projects Access to Self-sufficient Water and Energy Indirect Management with the Palestinian Authority (PA) Indirect Management with the United Nations Office for Project Services (UNOPS) Indirect Management with Member State Agency: AFD Direct Management ? grant direct award with Oxfam   Sustainable Economic Development Indirect Management with Member State Agency: Belgium Technical co-operation (BTC)   Complementary support for civil society Direct Management: Grants ? call for proposal   Direct Management: procurement of services (audit, evaluation, communication and visibility) |  |  |  |  |
|  | 7. DAC code(s) | Governance Reform, Fiscal Consolidation and Policy Reform 15111 - Public finance management 15110 ? Public Sector Policy and Administration Management 15114 ? Domestic Revenue Mobilisation Access to Self-sufficient Water and Energy 14021 - Water supply - large systems, 14030 - Drinking Water Supply - Basic systems; 23210 - Energy generation, renewable sources ? multiple technologies Sustainable Economic Development 32130 ? SME Development Complementary support for civil society 16061 - Culture and recreation |  |  |  |  |
| 8. Markers (from CRIS DAC form) | General policy objective | Not targeted | Significant objective | Main objective |  |  |
| Participation development/good governance | ? | ? |  |  |  |  |
| Aid to environment | ? | ? |  |  |  |  |
| Gender equality (including Women In Development) | ? |  | ? |  |  |  |
| Trade Development | ? |  | ? |  |  |  |
| Reproductive, Maternal, New born and child health |  | ? | ? |  |  |  |
| RIO Convention markers | Not targeted | Significant objective | Main objective |  |  |  |
| Biological diversity |  | ? | ? |  |  |  |
| Combat desertification |  | ? | ? |  |  |  |
| Climate change mitigation | ? |  | ? |  |  |  |
| Climate change adaptation | ? |  | ? |  |  |  |
|  | 9. Global Public Goods and Challenges (GPGC) thematic flagships | Good Governance and Public Administration Environment and Climate Change; Human Development/Health; Sustainable Energy Good Governance and Public Administration + Human development, social justice and culture |  |  |  |  |
|  | 10. Sustainable Development Goals | Sustainable Development Goal 6. Ensure availability and sustainable management of water and sanitation for all Sustainable Development Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all Sustainable Development Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all Sustainable Development Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive |  |  |  |  |
|  |  |  |  |  |  |  |

* Context

1.1 Country and sectors

Palestine has been marked by the ongoing Arab-Israeli conflict and fifty years of occupation, that brought restrictions on the movement of people and goods, limited access to land and natural resources (including water), administrative division of the West Bank (areas A, B and C), expansion of settlements and settlers' violence, and demolitions and displacements in Area C and Jerusalem. Internal division in Palestinian politics since 2007, the continuous blockade of Gaza and the absence of any clear political horizon have led to high level of frustrations, lack of cohesion, reforms' setbacks and de-development, and recurrent waves of violence. The territory remains highly fragmented with growing disparities and divisions between the West Bank, East Jerusalem and the Gaza strip.

Israeli occupation is the primary driver of poverty in Palestine, making complex the delivery of assistance in Palestine. Home to 4.8 million people, Palestine is a lower middle-income country, ranking 114 (out of 188) in terms of the Human Development Index in 2016. According to the World Bank, Palestinians are getting poorer on average for the third year in a row. Gross domestic product (GDP) per capita has been shrinking since 2013 and donor support declined significantly in recent years (budget support in particular has decreased by 40% since 2011). 25% of Palestinians currently live in poverty. Without a political breakthrough (ease of restrictions, lifting of the blockade on Gaza, permanent peace agreement), the Palestinian economy will continue to perform far below its potential.

Due to its limited revenue potential, low tax revenue and limited borrowing capacity, the Palestinian Authority (PA) is still reliant on foreign aid, which represented some 20% of the projected budget in 2016. At the same time, the PA succeeded in reducing its budget deficit to 8.1% of GDP in 2016. While the main factors contributing to this situation relate to broader political issues, the slow progress in the Public Financial Management reform agenda did not encourage confidence in donors. The draft Public Finance Management (PFM) strategy 2017–2022 prepared by the Ministry of Finance and Planning (MoFP) in 2016, if operationalised, would provide the Palestinian Authority (PA) with a framework for reforms and contribute to improving donor confidence, transparency and sustainability of public expenditures and efficiency in the provision of essential public services.

Sustained economic growth depends also on internal factors, such as the dynamism of the private sector and the availability of reliable and affordable services. Insufficient power in Gaza limits the supply of drinkable water to the population. 96% of the aquifer provides water unfit for human consumption, due to salinisation and pollution. 30% of Gazan households are currently supplied with water only for 6-8 hours every 4 days.

The West Bank also suffers from water shortages, affecting Palestinians' health and economic potential (for example, only 6.8% of cultivated land in the West Bank is irrigated). This is mostly due to Israel's appropriation of groundwater resources, which makes necessary the development of an efficient wastewater reuse system for irrigation purposes, as well as for environmental reasons. Currently, there are 5 operational large-scale wastewater treatment plants in the West Bank[3] and only about 60% of the generated wastewater is collected.

Palestine depends 98% on energy import from neighbouring countries, Israel in particular. Energy dependency affects Palestine's water production and pumping. Water service providers are among the biggest energy consumers in the country. Energy insecurity affects the daily operation of water infrastructure. Only the Gaza Strip has some energy generation capacity, whereas renewable energy (13% of consumption in 2015) is the only indigenous source in the West Bank but its significant potential remains largely untapped due to Israeli restrictions. Energy prices are among the highest in the region.

With regards to the Gaza Strip, the 'de-development's trajectory' remains worrying. 38.8% of the population is below the poverty line and the unemployment rate is over 40% (more than double than in the West Bank). The constraints to private sector development in the Strip are manifold. They notably include multiple wars, restrictions on imports, exports and movements, dysfunctional governance and service delivery imposed by the de facto authorities, poor electricity supply and limited access to finance. The blockade continues to hinder recovery and increases investment costs.

Delivery of basic services provided to Palestinians is also deteriorating. Growing governance challenges are developing on the Palestinian side. No progress to date in intra-Palestinian reconciliation and the persisting fiscal crisis faced by the PA, the absence of a national democratic process and the 'suffocation' of civil society have all contributed to undermine the credibility of the Palestinian leadership. This, in turn, was accompanied by a slowdown in the pace of reforms being implemented by the PA (with few exceptions).

Palestine has very rich cultural traditions reflecting the social, economic, religious and geographical diversity of its people. National identify and cultural heritage have been deeply affected by the occupation and fragmentation, which are not only threatening the economic and territorial stability of Palestine, but also attacking its identity and capacity to be creative in the area of culture. 1.1.1 Public Policy Assessment and EU Policy Framework

Since 2008, the EU has been supporting the PA's national reform agenda with ***interventions*** aligned to subsequent planning cycles. In recent years the EU has increased its policy dialogue, notably in the context of the Results Oriented Framework. The European Joint Strategy in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State is closely aligned with the PA National Policy Agenda 2017-2022 Putting Citizens First. The European Joint Strategy identifies PFM reforms, improved access to Water and Energy and Private Sector Development among the main priorities for EU and Member States’ development cooperation.

With regards to public finance management, the last Public Expenditure Financial Assessment (PEFA) was conducted in 2013. Since then, the MoFP improved both the downstream and upstream cycle of the budget. A draft PFM strategy 2017–2022 is being prepared by the MoFP and expected to be approved by the Cabinet in the coming months. Its main objective is to provide an integrated legal and regulatory framework of the PFM system, which operates to collect public resources effectively and equitably, and to manage spending of those resources on a programmes-based budget in line with the Sectoral Strategies and the National Policy Agenda. The EU in Palestine is committed to the PFM sector reform not only for transparency and accountability purposes but also to improve sustainability of service delivery.

With regards to water, the Palestinian Water Authority ***Strategic*** Development Plan 2017-2022 has the following objectives: i) integrated management and sustainable development of water resources, ii) improving quality and reliability of water supply, iii) improving wastewater services and structures iv) development of water sector institutions to reinforce good governance and v) ensuring financial sustainability of water service providers.

In the field of energy, the Renewable Energy and Energy Efficiency Law sets the institutional framework in the renewable energy sector and defines the support mechanisms to be used to develop the sector. The Renewable Energy Strategy sets the vision for the sector, the targets and the means to achieve them. There is an increasing private sector interest on Renewable Energy investments, especially larger ones. The legal and regulatory framework for Energy Efficiency, in particular for investment, needs to be completed.

The Start-up and business incubators action is fully aligned with the National Policy Agenda 2017-2022 and notably its Pillar 3 - Sustainable Development/National priority: “Economic independence” (National Policies: Building Palestine’s Future economy, Creating Job opportunities; Improving Palestine’s Business environment). It is also relevant to the following other national priorities: “Social Justice and Rule of Law” (with regard to Gender and Youth) and “Quality education for all” (from education to employment).

The National Policy Agenda recognises the importance of preserving national identity and cultural heritage. Under this national policy priority the aim is to support cultural innovation and production, preserve and develop Palestine’s cultural heritage, develop traditional handicrafts and promote Palestine as a tourist destination. The Palestinian National ***Strategic*** Plan for Culture defined culture[4], creativity and heritage (intangible) as essential drivers for a democratic, inclusive society that provides equal opportunity for all. 1.1.2 Stakeholder analysis

Governance Reform, Fiscal Consolidation and Policy Reform: the capacity of the MoFP to plan and steer the implementation of PFM reforms is considered moderately sufficient. The implementation of the reforms will require significant skills development on the part of the Ministry and of relevant institutions' staff. To address these shortcomings, the MoFP, with the support of the World Bank, established and trained a ***strategic*** management group at the Directorate General for International Relations, which should lead the PFM reform. The draft PFM strategy suggests the institution of a technical committee, to follow up on the strategy implementation. Main stakeholders on the donor side are the EU, the United Kingdom, France and the World Bank. The International Monetary Fund (IMF) provides policy advice to the PA in tax administration, legislative reform, single treasury account and regularly reviews PFM reforms' progress. Civil society participation and oversight in the sector is limited. The most active Non-Governmental Organisation (NGO), focusing on the prevention of corruption and fostering transparency and integrity is AMAN-Transparency Palestine, which relies on international funding. Oxfam Novib manages a programme that brings together a range of NGOs and civil society organisations CSOs, including AMAN to monitor the budget and tax policies of the PA.

The State Audit and Administrative Control Bureau (SAACB), the MoFP's Customs Department and the General Administration of Borders and Crossings (GABC) will benefit from the twinning instrument with a view to support the implementation of the PFM strategy and fiscal consolidation. Their capacity to engage in the instrument is considered satisfactory. In particular, the MoFP's Customs Department and the GABC are already engaging closely with the European Union Border Assistance Mission at the Rafah Crossing Point (EUBAM).

Access to Self-sufficient Water and Energy: the Palestinian Water Authority (PWA) capacity as entity responsible for strategy, policies, planning and management of water resources is considered as sufficient. The Coastal Municipality Water Unit[5] (CMWU) is considered to be skilled with high level of technical expertise. CMWU's expertise will ensure an appropriate supervision of activities and the technical training of the main stakeholders (private water vendors and local communities). The participation of community-based organisations (CBOs) will be empowered through the development of their capacities in water quality monitoring. The capacity building activities will be developed by Oxfam oPTI which has a long and standing relationship with Gaza Civil Society and proven relevant ***interventions*** with regards to participation enhancement and capacity building. Oxfam oPTI has elaborated in 2016 the proposal related to the brackish desalination plants in the frame of its humanitarian ***intervention***. Main stakeholders on the donor side in the water sector in Gaza are the EU, Germany, Spain, France and the World Bank. The estimated direct beneficiaries from the Non-Revenue Water reduction approach will be around 120,000 inhabitants of the Khan Younis Governorate and part of the 50,000 inhabitants of Rafah Governorate that already benefit of EU-funded desalination projects. For the brackish desalination plants, it is estimated that around 128,000 people could benefit from the ***intervention***. The assistance to the Office of the Quartet (OQ) will be channelled through UNOPS, which has a long and positive ***performance*** record in Palestine and the appropriate administrative capacities to carry out the task. The OQ - in turn - has unique characteristics which positions it ideally to co-ordinate donors' initiatives in the infrastructure sector requiring intense and delicate triangular co-ordination with the Government of Israel.

In the West Bank, technical approach and modalities of the planned ***intervention*** have been discussed at length with the Palestinian Energy and Natural Resources Authority (PENRA), the Palestinian Water Authority (PWA), AFD, the Palestinian Energy & Environment Research Centre (PEC), the Joint Water and Sanitation Service Council (JWSSC), the West Bank Water Department (WBWD) and the Tubas District Electricity Company (TDECO). Co-ordination is advanced both at the donors and institutional level. The Israeli Co-ordinator of Government Activities in the Territories (COGAT) was also consulted with regard to security (import of two +/- 60m high wind mills and turbines) has given its 'in principle' agreement. Consultations with CSOs and the PA in Tubas and Ramallah were undertaken and the Environmental and Social Impact Assessment (ESIA) is currently being implemented. The proposed project will tackle the northern West Bank in particular the Tubas Governorate, with estimated indirect beneficiaries from the action totalling 67,000 (2016 data from PCBS). AFD is one of the most important and active donors and implementing agency in the water and energy sectors in Palestine. AFD (France) is the EU lead donor for energy within the context of the European Joint Strategy 2017-2020[6].

Sustainable Economic Development: The technical and business capacities of Gazan entrepreneurs and their access to finance are limited, especially for women and youth. There are a number of dynamic business incubators/accelerators in the Gaza Strip and there is scope to reinforce their capacities by increasing their exposure to international best practices. The Islamic University of Gaza, notably, has been supported by the on-going EU funded 'Start-up Business Incubators in Palestine' project and proved to be a solid partner. This new action would continue to work with the University and support additional incubators in the Gaza Strip. The Ministry of National Economy (MoNE)’s capacity to influence the situation in the Gaza Strip is currently limited due to the control of the de facto Government. However, the Ministry will be involved in the overall monitoring of the action. The project team will closely co-ordinate with civil society organisations (business development organisations, trade unions and employers' organisations, chambers of commerce, women and youth support organisations), relevant projects, universities, Technical and Vocational Education and Training (TVET) institutions, the Palestinian Fund for Employment and Social Protection as well as with financial institutions and investors. The Belgium Technical Co-operation (BTC) is a frequent and reliable implementing partner of the EUREP, with assignments going beyond the currently on-going above mentioned Start-up Business Incubators project.

Complementary support for society: Key civil society organisations have been essential in activating the sector, but culture remains the domain of a limited number of interested groups and there is still a need to reach out to areas outside city centres. The main national stakeholders are the Ministry of Culture (MoC) with some relevant competences also in other Ministries, a broad range of cultural Civil Society Organisations (CSOs), cultural institutions, and Community Based Organisations (CBOs). As the market value of culture and public funding for the cultural sector are very low, international donor organisations both governmental and non-governmental (mainly private foundations) play an important role in supporting cultural initiatives and artistic productions. 1.1.3 Priority areas for support/problem analysis

Governance Reform, Fiscal Consolidation and Policy Reform: the main problems the proposed ***intervention*** aims to address include (i) poor expenditure management and control at MoFP and line Ministries undermining service delivery to citizens, (ii) insufficient PFM accountability that restricts civil society oversight over the PA activity and has reduced donors’ budget support, and (iii) lack of transparency and efficiency in the procurement sphere allowing corruption. Twinning projects will address identified capacity building needs in PA institutions in charge of auditing expenditure and of collecting and accounting for custom duties.

Access to Self-sufficient Water and Energy: throughout Palestine, energy and water scarcity and the competing demand for these assets require the introduction of technologies and methods minimising energy cost and increasing efficiency. Investing on renewable energy solutions and enhancing the capacity of the waste water treatment plants by increasing households' connections to the sewage network align to this approach. About a third of the water supply of the West Bank is provided by the Israeli water company, the other two thirds are ground water extracted through water pumps[7] powered via the grid or, in case of power cuts, through a system of power generators. The electricity bill is the highest running cost for Palestinian businesses, households and service providers with Israel still providing 95% of the power. Power demand for water infrastructure accounts for 1,200Mwh/year and is expected to double in the coming years, while overall imports from Israel are 13,000 MWh/year. The increasing demand for power will result in an increased stress of the electricity grid and higher dependency on Israel power supply. In the Gaza Strip, the improvement of the water supply and the reduction of non-revenue water are essential to meet basic human needs and to maximise the effect of existing infrastructure (from wells to desalination plants). It is also necessary to improve the system's efficiency with the formalisation of illegal connections, the reduction of leakages and the upgrading of existing community-based infrastructures (brackish desalination plants contribute significantly to the improvement of water supply to the population). The current energy crisis in Gaza (decrease of power supply to less than 4 hours per day) has a strong impact on water infrastructure and water distribution). Most of CMWU facilities are equipped with back-up generators that allow running the facilities at minimum level and the Gaza network could be managed by segment. Therefore, drinkable water is provided per geographical sector and per time slot with beforehand information by radio spot.

Sustainable Economic Development: in Gaza, the private sector suffered from several conflicts over the last ten years of Hamas rule and from the blockade imposed by Israel. More than 40% of the population is unemployed (65% in the case of women). The creation of sustainable micro, small and medium sized businesses (MSMEs) is crucial in this dire context. However, entrepreneurs in the Gaza Strip lack key technical and business skills and sufficient access to finance. In addition, the business development environment in Gaza needs to be improved. The main constraints towards the project objectives will be the obstacles faced by the private sector in Gaza (restrictions on movement and access, access to electricity, political instability). The main asset for the project is the dynamism of business incubators and accelerators and of entrepreneurs in Gaza.

Complementary support for civil society: the Palestinian identity is deeply affected and threatened by the Israeli occupation. The EU intends to support Palestinian creativity and freedom of expression as a tool for Palestinian people – especially the youth – to express themselves, have a positive image of their culture and promote their identity in the world.

Particular attention will however be paid to prevent that EU-supported Palestinian civil society organisations are also engaged in online and offline activities inciting to hatred and/or violence against the State of Israel, its citizens and/or Jews.  Eligibility conditions of the calls for proposals to be launched under this action will include strict compliance with the EU Framework Directive on racism and xenophobia.

* Risks and Assumptions

Governance Reform, Fiscal Consolidation and Policy Reform

|  |  |  |
| --- | --- | --- |
| Risks | Risk level (H/M/L) | Mitigating measures |
| Uncertain PA's ability to exercise authority in Gaza, limiting the implementation of PFM reforms to the West Bank | H | Close monitoring of political developments; provision of parallel EU support to facilitate the reintegration of Gaza civil servants on stand-by under FA ENI/2015/038-315 |
| Overlapping of donors' ***interventions*** | M | Regular meetings among donors and with the PA; active participation in the PFM working group. |
| Insufficient understanding of the newly introduced Twinning concept by selected Ministries and agencies | M | Systematic interaction ensured throughout the implementation of the programme (e.g through twinning steering committees) |
| Assumptions |  |  |
| - The PA remains committed to implementing the PFM strategy and related reforms |  |  |

Access to Self-sufficient Water and Energy

|  |  |  |
| --- | --- | --- |
| Risks | Risk level (H/M/L) | Mitigating measures |
| Unpredictable political situation in conjunction with poor implementing capacity of the PA in the Gaza strip | H | The project will use decentralized implementation with ***interventions*** at local level (including CSOs) where possible. |
| Poor capacity from the private vendors and local communities to operate the brackish desalination plants and monitor the water quality | M | Capacity building and training developed under a job creation approach |
| Tubas grid model, network ***performance*** and load flow do not allow operations of the new systems | L | AFD pre-feasibility study indicates that the operation of the two RE systems is adapted to the requirements of each water system and the system is complementary to the existing grid. |
| Israeli restrictions for the import of wind energy technology into West Bank. | H | Co-ordination with COGAT to obtain the authorisation to enter materials into West Bank. |
| Delays in importing wind energy technology affecting the contractor's schedule with risk of financial repercussions and/or withdraw from the project. | M | A plan B for a staged approach allowing reallocation to photovoltaic (PV) systems of unspent funds for wind mills shall be developed. |
| Assumptions |  |  |
| - All relevant stakeholders remain committed to the action's objectives and results; - The Gaza Reconstruction Mechanism (GRM) remains functional. - The electricity supply in Gaza is sufficiently stable or improves from its current level. |  |  |

Sustainable Economic Development

|  |  |  |
| --- | --- | --- |
| Risks | Risk level (H/M/L) | Mitigating measures |
| Unpredictable political situation impacting the Gazan economy and the project | H | The project implementation will remain sufficiently flexible to adapt to the changing environment in Gaza |
| Difficulties to reach all relevant target groups in Gaza | H | Adjust outreach strategy to the different type of beneficiaries targeted |
| Assumptions |  |  |
| - Project stakeholders remain engaged |  |  |

Complementary support for civil society

|  |  |  |
| --- | --- | --- |
| Risks | Risk level (H/M/L) | Mitigating measures |
| Projects? implementation is hampered by the unpredictable political situation in the region | H | Systemic mitigation measures will be developed at the launching of each project to ensure projects? continuity |
| Poor capacity of smaller CSOs to access EU funding | H | Development of sub-granting schemes allowing small organisations, especially in remote areas, to access to EU funding |
| Project implementers are involved in online and offline activities inciting to hatred and/or violence against the State of Israel, its citizens and/or Jews. | M | Online and offline checks will be carried out during the selection phase of projects |
| Assumptions |  |  |
| - Cultural stakeholders continue to consider the EU as a reliable partner; - All relevant stakeholders remain committed to the action's objectives and results. |  |  |

* LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1         Lessons learnt

Governance Reform, Fiscal Consolidation and Policy Reform

– Identify critical PFM problems or entry points that the MoFP, at senior level, is motivated to address on a priority basis with line Ministries (incentive approach).

– Provide tailor-made capacity building and training ***interventions***, identified together with the MoFP, with the aim to enable staff to implement the medium term reforms.

– Improve co-ordination with other development partners and joint monitoring in view of leveraging activities and enhance policy dialogue.

– The twinning instrument is introduced in Palestine for the first time and therefore there is no previous Palestine specific experience in this area. Selection of sectors proposed for implementation via twinning has been done based on twinning criteria developed from lessons learnt from twinning elsewhere.

Access to Self-sufficient Water and Energy

– Need to ensure the quality of the design for the technical parameters are adapted to the needs and restriction of entry of material into Gaza.

– Need to reflect the value-added tax (VAT) exemption applicable for private company established in Gaza in the administrative clause of tenders.

– Need to develop local skills to ensure operation, maintenance and monitoring of the EU funded infrastructure, incorporating CBO's monitoring.

– Importance of close follow-up with COGAT for the authorisation for the shipment of supplies from abroad and on the entry of materials, based on a detailed list of items.

– Crucial importance of the water-energy nexus in Palestine and need to factor the energy dimension early in the planning of water projects.

Sustainable Economic Development

– Managerial and technical capacities of entrepreneurs need to be reinforced.

– Start-up enterprises need seed funding and linkage to investors.

– Further co-operation is needed to improve synergies between different stakeholders of the entrepreneurship environment in Gaza.

– The potential of international outsourcing opportunities needs to be unlocked.

– The role and capacity of trade unions and employers' organisations need to be strengthened.

Complementary support for civil society

– Need for a ***strategic*** approach in supporting civil society in the field of culture, focusing on integrated, long-term cultural sector development plan rather than short-term projects.

– There is the need to involve the relevant Palestinian Ministries (especially the Ministry of Culture) during the design and implementation phase of ***interventions*** in the field of culture. 3.2         Complementarity, synergy and donor co-ordination

Governance Reform, Fiscal Consolidation and Policy Reform

In the Public Finance Management (PFM) sector, the engagements of various donors (mainly The Department for International Development (DFID), World Bank and EU but also IMF, France and recently Denmark) have been stable over last years. The World Bank has supported the downstream budget process since 2013 with new tools and procedures put in place, while the upstream budget cycle or taxation is supported by DfID and the IMF. Since 2006, the EU has supported the State Audit and Administrative Control Bureau (SAACB) by reinforcing its management and staff capacity and its institutional, legal and regulatory framework. Furthermore, through the PEGASE Direct Financial Support mechanism, the EU and Member States provide direct financial support to the recurrent expenditure of the Palestinian Authority.

Through the Local Aid Co-ordination Secretariat (LACS) PFM donor group, donors are in the process of reviewing their engagement, with a view to enhance synergy and co-ordination of their future support for the implementation of the PFM reform strategy.

The European Union Border Assistance Mission at the Rafah Crossing Point (EUBAM) works closely with the Global Alliance for Buildings and construction (GABC) as well as with the Customs Department of the Ministry of Finance and Planning (MoFP).

Access to Self-sufficient Water and Energy

Water is a focal sector of EU support to Palestine with a total of EUR 118 million invested from 2006 to 2016. EUR 77 million has been committed between 2012 and 2016 alone, including 41 million for Gaza. The current proposals are a follow up and completion of previous phases funded respectively under the Instrument for Stability (IfS) and under various Annual Action Programmes (AAP) respectively in 2011, 2012, 2015 and 2016. In Gaza, the project for the reduction of Non-Revenue Water will complement the Short-Term Low Volume Desalination Plant (Phase I, II and III) and the Non-Revenue Water component initiated in Rafah and Khan Younis Governorates (AAP 2012). The ***intervention*** on the Brackish Desalination Plant is considered as a short-term measure to tackle the lack of quality water in Gaza while the Gaza Central Desalination Plant (GCDP) is still in the design process.

EU and AFD investments in the water and energy infrastructure of Tubas Governorate will be consolidated by the renewable energy (RE) supply system using solar and wind resources; the expansion of the households' connections to the sewage network is aimed at increasing the productivity of the EU-funded wastewater treatment plant under construction (AAP 2011). Since 2015 a SUDEP[8] grant is supporting Tubas Municipalities to cut 10% of the energy consumption. The EU and Member States approach is as well co-ordinated through dedicated informal energy and water working groups as well as through the LACS structure.

The Office of the Quartet (OQ) is playing an important role to facilitate large scale projects in the field of water and energy in Gaza through dialogue with the PA and the Government of Israel. They have been asked by the PA to lead the Task Force on Gas for Gaza and the GCDP.

Sustainable Economic Development

This action is a follow-up of the project “Start-up Business Incubators in Palestine” (ENPI/2014/350-744), implemented by the BTC and ending in December 2018. The new action will build on the results of this project and focus on Gaza entrepreneurs. The action is also complementary to other EU-funded initiatives, including the Palestinian Market Development Programme (PMDP), the TVET Programme and the support to the European Palestinian Credit Guarantee Foundation (EPCGF). The initiative will also be co-ordinated with BTC programmes focusing on young professionals and MSMEs skills development. Synergies will also be sought with relevant regional programmes, including notably the 'Enhancement of the Business Environment in the Southern Mediterranean' (EBESM), the SANAD Fund for MSMEs and the Next Society project (that aims at strengthening innovation ecosystems and supporting innovators). The project will also take into account the approach that is being developed by the Commission to support innovative eco-systems.

Complementary support for civil society

The EU has been so far one of the main supporter of the cultural sector in Palestine. Among other donors, the mission and mandate of the European cultural institutes operating in Palestine is mainly focused on the promotion of their national culture and language. As such, they contribute on an ad hoc basis to build the capacities of Palestinian civil society active in the field of culture by providing the opportunity to collaborate with European cultural operators/trainers. The UNESCO is also active in Palestine, mainly in the preservation of the cultural heritage. 3.3         Cross-cutting issues

Governance Reform, Fiscal Consolidation and Policy Reform

Civil society: in compliance with PEFA standards, the eight Budget documents (as well as a Citizen budget) are published on the MoFP website. The MoFP conducted a public hearing with civil society and private sector in January 2017 to discuss the 2016 budget execution and to present the proposed 2017 budget which was approved on 31 January 2017. The proposed project will follow up on previous Open Government Partnership towards fiscal transparency, fight against corruption, access to information and citizen engagement.

Gender equality: the PA has officially engaged in gender responsive planning and budgeting, with the adoption of a Cabinet decision on mainstreaming gender in budgetary processes in 2009. In 2012, the Palestinian Cabinet passed a resolution forming the National Committee for Gender Responsive Budgeting. Gender units were created in 35 Ministries and institutions and the budget department adopted a new requirement for all Ministries to consider gender in their budgets. However, the draft PFM strategy does not yet fully address gender mainstreaming.

In the preparation and implementation of twinning projects, special attention will be paid to ensure gender equality, good governance/anti-corruption measures and human rights safeguards through in-built trainings and adapted ***indicators***.

Access to Self-sufficient Water and Energy

Gender equality will be promoted including through dedicated awareness campaigns. The involvement of CBOs in the monitoring will ensure a fair representation of women.

Environmental sustainability and protection are addressed together with health risk mitigation, as the actions are aiming at reducing risks from the supply of unmonitored water, unfit for human consumption. The rehabilitation works of the water network will reduce losses and favour the optimal use of available resources in a highly constrained water context.

Good governance principles: the use of local systems and empowerment of local stakeholders are embedded in the design of the activities. The capacity of the water service provider will be strengthened through the action.

Climate Change: the establishment of renewable energy infrastructure will reduce by 80% the fossil fuels and electricity required to operate Joint Service Councils' (JSC) wells and pumping stations.

Sustainable Economic Development

Gender equality: access of women to the job market in Gaza is very limited. 78% of women aged 15 years and above do not participate in the labour force. The action will promote the participation of women in the project activities.

Youth: youth are also marginalised with regards to access to economic opportunities. The action will promote the participation of the youth in the project activities.

Social partners (trade unions and employers' organisations) will be mobilised to contribute to the success of the action. Communication and outreach plan will be designed to promote the participation of youth and women. The project team will also directly co-ordinate with and support Youth and Women Associations and programmes. Data and ***indicators*** will be disaggregated by age and gender.

Environmental sustainability and protection: the action will prioritise beneficiaries whose projects have a positive impact on the environment.

Complementary support for civil society

Gender equality and youth: past support to the cultural sector in Palestine has shown that it can integrate all sections of the population, including the ones whose voice is usually not heard. Culture is an accessible vehicle for women and for minorities to express themselves. The action will focus on youth participation.

* Description of the action

4.1         Objectives/results and options

The main Overall Objective is to contribute to a more effective and efficient provision of services within an increasingly innovative and inclusive Palestinian society.

The Specific Objectives are:

* To improve the PA's Public Financial Management and fiscal position;

1. To achieve sufficient, equitable, affordable and sustainable access to energy, safe water and sanitation services;
2. To enhance MSMEs' competitiveness in the Gaza Strip;
3. To enhance Palestinian culture and the Palestinian identity and to better promote it, including abroad.

The Expected Results are:

Result 1.1:     Strengthened MoFP's capacity to steer and monitor the implementation of the PFM strategy;

Result 1.2:     Improved capacities of PA institutions in charge of auditing expenditures and of and accounting for custom duties.

Result 2.1:     Increased water supply in Gaza;

Result 2.2:     Improved quality and sustainability of water and energy services in Tubas Governorate.

Result 3:        Strengthened capacity of Gazan entrepreneurs and of the Gaza business environment.

Result 4:        Reinforced Palestinian identity and improved recognition of Palestinian culture especially in Europe. 4.2         Main activities

Governance Reform, Fiscal Consolidation and Policy Reform

Result 1.1:     Strengthened MoFP's capacity to steer and monitor the implementation of the PFM strategy

1.1.1 Support to the MoFP for implementation of the PFM strategy

* Technical advice, training and monitoring for the budget execution and control at central and selected sector levels (e.g medical referrals, wage bill);

1. Technical support to advance the alignment of the accounting and reporting with international standards;
2. Technical support on the procurement policy and frameworks;
3. Implementation of Public Expenditure and Financial Accountability assessment (PEFA) and similar internationally recognised diagnostic tools, jointly with other donors;
4. Preparation of an Organic Budget Law;
5. Support to strengthen civil society engagement for oversight activities, in particular follow up on the Open Government Partnership.

Result 1.2:     Improved capacities of PA institutions in charge of auditing revenues/expenditures and of collecting and accounting for custom duties.

1.2.1 Support to the State Audit and Administrative Control Bureau (SAACB) via twinning

* Peer-to-peer training to strengthen the capacity of SAACB staff to carry out effective audits, perform ***strategic*** planning, improve management and train their own staff;

1. Reinforce SAACB's institutional, legal and regulatory framework, so that it can operate in accordance with INTOSAI standards and best professional practices.

1.2.2 Support to Customs Department (MoFP) and the General Administration for Border and Crossing/Customs Service via twinning

* Preliminary assessments of legal and procedural conditions in place;

1. Procedural training to conduct adequate border control;
2. Reinforce the institutional capacities to conduct increased activity in fighting frauds, tax evasion and tax avoidance;
3. Training to improve professional ***performance*** of the GABC/MoFP;
4. Analysis of best practices and establishing of a system tracking corruption cases.

Access to Self-sufficient Water and Energy

Result 2.1:     Increased water supply in Gaza

2.1.1 Non-Revenue Water (NRW) in Gaza

The action will be composed of 4 main activities that will improve the supply of water and the Non-revenue water in the Southern Governorates (Rafah and Khan Younis).

* Improving the Water Distribution System including:

– Upgrade, rehabilitation and configuration of water distribution networks, in order to reduce the NRW;

– Expansion of water networks to accommodate the transfer of water produced by the STLV Desalination plant;

– Construction of a water reservoir (estimated to 4,000 m³) in Rafah city associated with booster stations and transmission lines;

– Implementation of a leak detection campaign to enhance the NRW management plan (including metering management and networks maintenance scheduling) and upgrade of the hydraulic modelling for pressure monitoring.

* Control Commercial Losses (through the provision of meters including bulk meters);

1. Awareness campaign on the water rights and obligations;
2. Support CMWU on new tariff approach.

2.1.2 Rehabilitation of brackish desalination plants

* Support to the rehabilitation/upgrade of Public Brackish Water Desalination Plants refurbish, upgrade and repair up to 16 existing Reverse Osmosis (RO) brackish water desalination plants operated by CMWU with daily production capacities ranging from 50m3 to 1000m3;

1. Consolidate energy autonomy, introducing renewable energy solutions to ensure a minimal operation of the plants in situations of power disruption in Gaza;
2. Strengthening water vendors’ capacity to provide safe and affordable drinking water;
3. Training and Capacity Building with a focus on Community Engagement and Involvement;
4. Support for the establishment of an optimal financial management system for operational and maintenance costs to ensure sustainability, including affordability to pay.

2.1.3 Assistance to the Office of the Quartet in its facilitation role between the Palestinian Authority (PA) and the Government of Israel (GoI) in the water and energy sectors in Gaza

* Assist in the development of an adequate dialogue (bilateral and trilateral meetings, task forces) together with the relevant stakeholders with a focus on Gaza Central Desalination Plant (GCDP) and the new 161 Kv line.

1. Develop mitigation measures that could support the dialogue between the parties.

Result 2.2:     Improved quality and sustainability of water and energy services in Tubas Governorate

EU funding is earmarked to the below activities within the 'Nexus' Programme co-financed by AFD:

* Supply, instalment and operations of a hybrid symbiotic renewable energy system, composed of 2 wind turbines, 1 PV plant and 4 smaller PV structures;

1. Establishment of house connections for sewage network (500).

AFD will finance further upgrades of the network and institutional capacity development in Tubas, Tammoun and Aqqaba.

Sustainable Economic Development

Result 3:        Strengthened capacity of Gazan entrepreneurs and of the Gaza business environment.

* Provide training/coaching to entrepreneurs;

1. Provide seed funding to start-up enterprises/early growth stage companies; encourage self-employment and job creation;
2. Link start-up enterprises to existing sources of financing.
3. Reinforce the capacities of business incubators/accelerators;
4. Develop links between MSMEs, Incubators and training providers;
5. Develop partnerships between incubators and business membership organisations to identify international outsourcing opportunities.

Complementary support for civil society

Result 4:        Reinforced Palestinian identity and improved recognition of Palestinian culture worldwide.

* Strengthen the managerial and financial capacity of cultural organisations;

1. Provide flexible small-scale support to cultural activities (through sub-granting scheme).

4.3         ***Intervention*** logic

Governance Reform, Fiscal Consolidation and Policy Reform

In line with the ***strategic*** objectives of the co-operation between the Palestinian Authority and the EU, the overarching rationale of the proposed ***intervention*** is to maintain the viability of the two-state solution and to support the Palestinian Authority's state-building activities. Specifically, the project responds to institution building efforts undertaken by the MoFP to implement the PFM strategy and related reforms in particular to: (i) make better use of national resources and ensure more effective and transparent implementation of policy decisions through the budget; (ii) better support service delivery to the public; and (iii) restore confidence of the development partners to mitigate the risk of continued aid decline, in particular through budget support. In this context, it is of utmost importance for the PA's accountability to improve its PFM system. The PFM system in the West Bank and Gaza has to improve in terms of mechanisms and transparency of national resources’ allocation and service delivery to the public. It has to be noted that, although the project addresses the entire territory, its implementation may initially be limited to the West Bank, given the PA's current lack of authority over the Gaza Strip. The ***intervention*** logic of twinning projects is to improve PA's institutions' capacity, at their request, on a pre-identified subject through peer-to-peer support provided by EU Member State public officials to their counterparts.

Access to Self-sufficient Water and Energy

Without the supply of additional water resources, the Gaza aquifer could be irremediably damaged by 2020 and citizens are at risks of lack of drinking water. The upgrade of brackish desalination plants, along with the development of renewable energy, and the improvement of water supply (with a target on leakages and Non-Revenue Water) are some of the solutions for a short-term mitigation before the construction of bigger infrastructure (GCDP) or agreements on additional water supply from Israel. The impact of the ***interventions*** will be an improvement of the health and socio-economic levels of the population in the southern Gaza governorates and will contribute to a better access to drinkable water. The components linked to capacity building and awareness campaign should increase respectively the water supply with limitation of losses on the networks, the adequate operation and management of the brackish desalination plants, the involvement of CBOs in the monitoring of water quality and supply and the sensitisation of citizens (with a strong focus on women) to water cycle and water rights & obligations.

The reform of the Palestinian electricity sector started in 2009 with the endorsement of the Electricity Law, to pass later through the milestones of the creation of the Palestinian transmission Company (PETL) in 2014. However, so far the Palestinian electricity regulator is not empowered to license any of the Palestinian market operators wanting to produce power in Palestine and PETL has not signed its first PPA for the import of bulk 161 kv from Israel under the terms of the 2016 Memorandum of Understanding between the PA and the Government of Israel. Palestinian Distribution Companies (DISCOs) - and those municipalities not yet merged in a DISCO - struggle to keep up with the level of service required and to control the rate of non-payments. Overall, the stress of the competing demand for energy heavily affects the DISCOs ***performance***. Accordingly, Tubas JWSSC, WBWD, TDECO, and the North West Bank electricity distribution company, intend to develop a synergic response to their needs, also taking advantage of the recently endorsed Renewable Energy Law (2015).

Sustainable Economic Development

In Gaza, entrepreneurs’ competitiveness is hampered by weak capacities and an inadequate business development ecosystem. The action will reinforce the capacities of entrepreneurs through the provision of training/coaching, seed funding, as well as through linking them to investors. It will improve the business development ecosystem in Gaza by reinforcing the capacities of business incubators/accelerators in line with international best practices; developing links and synergies between MSMEs, incubators and training providers (such as TVET institutions and Universities) as well as developing partnerships between incubators and business membership organisations to identify international outsourcing opportunities.

Complementary support for civil society

A dedicated EU-funded programme to protect and promote Palestinian identity would contribute to human development in Palestine by involving the main institutional stakeholders and reinforcing the role of the civil society organisations. It will also contribute to developing the capacities of cultural CSOs especially in the management of cultural operations. As this action focuses mainly on support to civil society development, it will be undertaken through projects directly implemented by CSOs.

* Implementation

5.1         Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2         Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3         Implementation modalities 5.3.1    Governance Reform, Fiscal Consolidation and Policy Reform 5.3.1.1 Indirect management with an international organisation

A part of this action will be implemented in indirect management with the World Bank in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation relates to the achievement of result 1.1 under section 4.1 and entails supporting the MoFP and other concerned Ministries and institutions to operationalise and advance the PFM strategy and related reforms. It will be done through a Multi-Donor Trust Fund (MDTF) with France and Denmark as co-donors. The MDTF will have both a Bank Executed and Recipient Executed component. In addition, the World Bank will implement a complementary parallel recipient executed project through their Investment Project Financing (IPF) Lending Instrument. This implementation is justified by the World Bank being one of the lead institutions in the PFM sector. It has been engaged in the sector since 2013 and has developed a specific know-how and a trust relation with the MoFP. Locally, EU and the World Bank have managed to build a long-term institutional relation through regular bilateral co-ordination meetings and through the PFM sector Working Group. The entrusted entity would carry out the following budget-implementation tasks: contractual arrangement with MoFP for the recipient executed activities will be made by the World Bank. 5.3.1.2 Grants: Calls for proposals on twinning projects (direct management)

(a) Objectives of the grant, fields of ***intervention***, priorities of the year and expected results

Calls for proposals will be launched to implement proposed twinning projects related to the achievement of result 1.2 under section 4.2 above. Indicatively two twinning projects are foreseen for an amount of EUR 2,500,000. The exact size of each grant will be decided based on the type of sector identified, needs of the beneficiary administration, duration of the project, and typology of costs in the specific field of the project. Discussions with the PA show proposed twinning projects fall under the pillar of governance reform, fiscal consolidation and policy reform.

Specific objectives of the two projects to be financed under the decision, in their specific field, will be:

– To improve capacities of PA institutions in charge of auditing expenditures and of collecting and accounting for custom duties.

– To strengthen the dialogue between the EU and the PA regarding PFM implementation and financial accountability for public funds.

The expected results is the reinforcement of the administrative capacity of respective institutions benefiting from twinning support through partnership co-operation between Palestinian public administrations and those of EU Member States. Twinning projects will be implemented in accordance with the applicable Twinning Manual.

(b) Eligibility conditions

In line with Article 4(10)b of Regulation (EU) No 236/2014, participation in twinning calls for proposals is limited to public administrations of EU Member States being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State. Specific eligibility conditions of the calls for proposals to be launched under this action will include strict compliance with the EU Framework Directive on racism and xenophobia.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant. The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

Grants will finance 100% of the Twinning Budget[9].

(e) Indicative trimester to launch the call

The Call for Proposals should be launched in the first trimester following the signature of the relevant Financing Agreement – tentatively in the second trimester of 2018.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing has been approved by Commission decision C(2017)1122 of 21 February 2017. 5.3.2    Access to Self-sufficient Water and Energy 5.3.2.1 Grant: direct award 'Rehabilitation of brackish desalination plants' (direct management)

(a) Objectives of the grant, fields of ***intervention***, priorities of the year and expected results

The objective of the grant is to provide sustainable and practical contributions to enhance safe, sustainable, and affordable drinking water for the population of the Gaza Strip. The ***interventions*** relate to the achievement of result 2.1 under section 4.1 and will be linked to the rehabilitation of brackish desalination plants, the improvement of the technical capacities of the operators and the creation of community based owned monitoring mechanisms. The expected results are better water quality delivery, reinforcement of capacities for all stakeholders and job creation.

(b) Justification of a direct grant

Under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to Oxfam Opti. The recourse to an award of a grant without a call for proposals is justified because:

– the country is in a crisis situation referred to in Article 190(2) RAP

– the emergency situation of the water sector in Gaza and the importance to develop alternative solution to the water crisis as short-term measure before the construction of the Gaza Central Desalination Plant;

– the extensive field knowledge of Oxfam Opti;

– the pilot nature of the action, aimed at developing a model for further reproduction.

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call, design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.  Specific eligibility conditions of the calls for proposals to be launched under this action will include strict compliance with the EU Framework Directive on racism and xenophobia.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 90%. In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement: 1st trimester of 2018. 5.3.2.2 Indirect management with an international organisation, UNOPS (Support to the Office of the Quartet)

A part of this action may be implemented in indirect management with UNOPS in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. The aim (as outlined in result 2.1 under section 4.1 above) is to facilitate the dialogue between the Palestinian Authority (PA) and the Government of Israel (GoI) to positively develop the water and energy sector in particular in Gaza. It will be done through a Delegation Agreement with UNOPS with the objective to reinforce the capacity of the Office of the Quartet. This implementation is justified because: i) the staffing of the Office of the Quartet (OoQ) is managed through UNOPS; ii) the OoQ's mandate includes to support Palestinian economic development and is the most appropriate vehicle to develop a solid dialogue between the PA and Government of Israel. The entrusted entity would carry out the following budget-implementation tasks: general implementation and monitoring of activities; procurement, contracting and paying technical staff; reporting; monitoring and evaluation for the activities aiming to develop dialogue between the PA and the Government of Israel. 5.3.2.3 Indirect management with the Palestinian Authority (Non-Revenue Water)

A part of this action (related to the achievement of result 2.1 under section 4.1) with the objective of improving the supply of water in the Southern Governorates (Rafah and Khan Younis) – Non Revenue water in Gaza may be implemented in indirect management with the Palestinian Authority in accordance with Article 58(1)(c)(vi) of Regulation (EU, Euratom) No 966/2012 according to the following modalities:

– The Palestinian Authority will act as the contracting authority for the procurement and grant procedures. The Commission will control ex-ante all the procurement and grant procedures.

– Payments are executed by the Commission.

In accordance with Article 190(2)(b) of Regulation (EU, Euratom) No 966/2012 and Article 262(3) of Delegated Regulation (EU) No 1268/2012, the Palestinian Authority shall apply procurement rules of Chapter 3 of Title IV of Part Two of Regulation (EU, Euratom) No 966/2012. These rules, as well as rules on grant procedures in accordance with Article 193 of Regulation (EU, Euratom) No 966/2012, will be laid down in the financing agreement concluded with the Palestinian Authority. 5.3.2.4 Indirect management with a Member State

A part of this action may be implemented in indirect management with Agence Française de Developpement (AFD) in accordance with Article 58(1)(c)(v) of Regulation (EU, Euratom) No 966/2012. This implementation relates to the achievement of result 2.2 under section 4.1 and entails the support towards strengthened water and energy services in the north of the West Bank. This implementation modality is justified in the light of the close co-operation between the EU and the AFD in the water and energy sector in general and in particular in Tubas in the latest years. AFD has substantial experience in implementing water projects in Palestine and specifically in the north of the West Bank together with experience in the energy efficiency sector. The entrusted entity would carry out, amongst others, the following budget-implementation tasks: monitoring of the project activities and co-ordination with the PA, procurement i.e ex-ante control, paying, reporting, monitoring and evaluation, visibility. 5.3.3    Sustainable Economic Development 5.3.3.1 Indirect management with a Member State

A part of this action may be implemented in indirect management with the Belgium Technical Co-operation (BTC) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation relates to the achievement of result 3 under section 4.1 and entails the support to entrepreneurship, business incubators and business environment in Gaza. This implementation is justified because this action is a follow-up to the project “Start-up Business Incubators in Palestine” (ENPI/2014/350-744) currently being implemented by BTC. In addition to implementing this project, BTC has large experience in local economic development and TVET in Palestine. The entrusted entity would carry out the following budget-implementation tasks: general implementation and monitoring of activities, procurement and award of grants, contracting, paying, reporting, monitoring and evaluation. 5.3.4 Complementary support for civil society 5.3.4.1 Grants: call for proposals 'Preserve and reinforce Palestinian culture as part of fostering national identity' (direct management).

This implementation modality relates to the achievement of result 4 under section 4.1 The awarded grants will support Palestinian cultural operators (especially cultural CSOs) in developing their capacities and shall contribute to reinforce the Palestinian cultural sector inside and outside Palestine.

(a) Objectives of the grants, fields of ***intervention***, priorities of the year and expected results

Objectives:

– Support Palestinian cultural operators, especially civil society organisations in developing their capacities.

– Contribute to reinforcing the Palestinian cultural sector inside and outside Palestine.

Fields of ***intervention***:

– Strengthening of the organisational, managerial and financial capacities of cultural sector organisations (develop the capacities of the major cultural operators especially in cultural management, fund raising, etc.).

– Promotion of the Palestinian culture abroad and especially in Europe.

– Support to small cultural projects, especially for organisations based in remote and ***rural*** areas (through sub-granting scheme).

Priorities:

– Actions that promote values of tolerance and respect for diversity.

– Actions that promote respect for human rights and fundamental freedoms.

– Actions that reinforce the sense of community among Palestinian people through overcoming territorial fragmentation.

– Actions that support the Palestinian narrative.

Expected Results:

– Improved management capacity of cultural operators in Palestine.

– Accessible opportunities to Palestinian youth and women for creativity and self-expression through cultural means.

– Enhanced engagement of Palestinian audience in remote and ***rural*** areas.

– Increased participation of Palestinian artists in European festivals and competitions.

– Improved public awareness in Europe about the Palestinian culture and narrative.

(b) Eligibility conditions[10]

To be eligible for a grant, the applicant must be a legal person, be non-profit-making and; be a specific type of organisation such as NGOs, educational institutes, networks, cultural operators, etc and not acting as an intermediary. The applicant may act with co-applicant(s). Priority will be given to projects where a Palestinian organisation is the lead applicant. Subject to the information to be published in the call for proposal, the indicative amount of the EU contribution per grant will range between EUR 100,000 to EUR 400,000 and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (co-ordinator and co-beneficiaries). The indicative duration of the grant implementation period is 12-36 months. Specific eligibility conditions of the calls for proposals to be launched under this action will include strict compliance with the EU Framework Directive on racism and xenophobia.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 90% due to the low auto-financing capacity of the targeted beneficiaries. In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The eisationssentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call: 2nd trimester of 2018. 5.3.5 Procurement (direct management)

Services contracts will be concluded for audit, evaluation, communication and visibility in line with points 5.8, 5.9 and 5.10 5.3.6 Changes from indirect to direct management mode due to exceptional circumstances

If the indirect management mode cannot be implemented due to circumstances outside of the Commission’s control, the alternative implementation modality is the direct management mode.

|  |  |  |  |
| --- | --- | --- | --- |
| Procurement (direct management) | Type (works, supplies, services) | Indicative number of contracts | Indicative trimester of launch of the procedure |
| Public Finance Management reform | Services | 1 | 4th Trimester 2018 |
| Non-Revenue Water in Gaza | Works | 2 | 4th Trimester 2018 |
| Non-Revenue Water in Gaza | Services | 2 | 2nd Trimester 2018 and 2019 |
| Procurement of the RE infrastructure (PVs and Wind Turbines) | Supplies and Works | 2 | 4th Trimester 2018 |
| Procurement of the HHs connections to the sewage network | Direct award to T-JWSSC | 1 | 2nd Trimester 2019 |
| Sustainable Economic Development | Services | 1 | 4th Trimester 2018 |

5.4     Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Budget Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.   5.5     Indicative budget

|  |  |  |
| --- | --- | --- |
|  | EU contribution (EUR) | Indicative third party contribution(EUR) |
| 5.3.1 Governance Reform, Fiscal Consolidation and Policy Reform | 4,500,000 |  |
| 5.3.1.1 Indirect management with the World Bank | 2,000,000 | 3,000,000 |
| 5.3.1.2 Grants: Twinning (direct management) | 2,500,000 |  |
| 5.3.2 Access to Self-sufficient Water and Energy | 18,250,000 |  |
| 5.3.2.1 ? Direct grant to OXFAM (direct management) | 1,500,000 | 150,000 |
| 5.3.2.2 ? Indirect management with UNOPS | 500,000 |  |
| 5.3.2.3 ? Indirect management with the Palestinian Authority | 8,500,000 |  |
| 5.3.2.4 ? Indirect management with AFD | 7,750,000 | 4,000,000 |
| 5.3.3 Sustainable Economic Development | 1,650,000 |  |
| 5.3.3.1 Indirect management with BTC | 1,650,000 |  |
| 5.3.4 Complementary support for civil society | 2,000,000 |  |
| 5.3.4.1 Grants: Call for proposals (direct management) | 2,000,000 | 160,000 |
| 5.8 Evaluation and 5.9 Audit | 350,000 |  |
| 5.10 Communication and visibility | 450,000 |  |
| Contingencies | 400,000 |  |
| Total | 27,600,000 | 7,310,000 |

5.6     Organisational set-up and responsibilities

Governance Reform, Fiscal Consolidation and Policy Reform:

The World Bank Multi-Donor Trust Fund foresees a governance structure to monitor the programme. A Joint PA-Donor Steering Committee will be set up with specific Terms of Reference describing roles and responsibilities of members. Steering committees will also be organised with twinning partners in line with the applicable Twinning Manual.

Access to Self-sufficient Water and Energy:

With regards to the Non-Revenue Water component in the Southern Governorates, a Steering Committee will be set up with all relevant stakeholders (including civil society) and should intervene at three key stages of the project implementation: 1) approval of the design and location of the works, 2) approval of the awareness campaign concept and 3) discussion and approval of the water tariff. For a transparent and effective implementation of the project, a Project Management Committee will also be established. Its main mandate is to ensure technical standards, provide technical inputs and review project progress in bi-monthly meetings. A Steering Committee will also be set with regards to the rehabilitation of brackish desalination plants by OXFAM. The Steering Committee should meet regularly to select targeted areas, monitor scheme with Community Based Organisations and accountability of the activities, and approve capacity building scheme.

With regards to the support to the Office of the Quartet (OQ) for the establishment of appropriate dialogue between the Palestinian Authority and the Government of Israel (via UNOPS), the activities will be monitored through a Steering Committee composed by EUREP, UNOPS, OQ, PWA and PENRA. The Steering Committee should meet regularly to give guidance, to determine the short-term expected outputs and to monitor the activities implemented by the OQ.

Direct implementation from the local operators, in compliance to the 2014 Water Law, and with the support of TDECO with regard to the energy component, is foreseen for the Nexus Programme. AFD will sign a financial agreement with the MoFP and a delegation agreement with the EU. The PWA jointly with PENRA will co-lead the project through a Steering Committee (SC) composed of all relevant actors.

Sustainable Economic Development

A Steering Committee will be set up by BTC with the participation of the Ministry of National Economy and the EU. Close co-ordination will be maintained with all relevant stakeholders in the Gaza Strip.

Complementary support for civil society

A Steering Committee will be established, involving the main stakeholders (MoC, Ministry of Tourism and Antiquities (MoTA), main private foundations, local authorities, networks of CSOs, etc.) with the main objective to oversee the various phases of the project implementation and monitoring. Close co-ordination will be maintained with all the other donors, especially EU Member States and their national cultural centres. 5.7     ***Performance*** monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the log frame matrix (for project modality) or the list of result ***indicators*** (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.8     Evaluation

Having regard to the nature of the action, different evaluations will be carried out for this action or its components via independent consultants contracted by the Commission and via an implementing partner. A mid-term evaluation may be carried out in particular with respect to the Access to Self-sufficient Water and Energy component. Furthermore, final evaluations may be carried out for the different components of the action, contracted by the Commission. They will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the specificity of the action components.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, 1 contract for evaluation services shall be concluded under a framework contract or competitive negotiated procedure in the middle of the operational implementation and 5 contracts for evaluation services shall be concluded through framework contracts or competitive negotiated procedure in the end of the operational implementation. 5.9     Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Indicatively, 3 or more contracts for audit services might be concluded under a framework contract or competitive negotiated procedure during the operational implementation period or the closure phase of this action. 5.10   Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Indicatively, one or two contracts for visibility and communication activities might be concluded under negotiated competitive procedure during the operational implementation period of this action.

Communication and visibility foreseen under this action document will cover needs in a transversal approach in line with a more holistic and comprehensive approach to visibility and communication.

  APPENDIX - Indicative Logframe matrix (for project modality) [11]

The activities, the expected outputs and all the ***indicators***, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing Decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by ***indicators***.

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| --- | --- | --- | --- | --- | --- | --- |
|  | Results Chain | ***Indicators*** | Baselines (incl. reference year) | Targets (incl. reference year) | Sources and means of verification | Assumptions |
| Overall objective: Impact | Contribute to a more effective and efficient provision of services within an increasingly innovative and inclusive Palestinian society. | Sustainable Development Goals ***indicators***:   6.1.1: Proportion of population using safely managed drinking water services   7. .1.1 Proportion of population with access to electricity   8.2.1 Annual growth rate of real GDP per employed person   16.6.1 Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar). |  |  | SDG Reports   Palestinian Central Bureau of Statistics (PCBS)   PA fiscal reporting, World Bank and IMF reports | The political situation does not deteriorate further.   The political rift between West Bank and Gaza does not escalate further. |

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| --- | --- | --- | --- | --- | --- | --- |
| Specific objective(s): Outcome(s) | 1) To improve the PA's Public Financial Management and fiscal position ;                 2) Sufficient, equitable, affordable and sustainable access to energy, safe water and sanitation services;                                                 3) MSMEs' competitiveness enhanced in the Gaza Strip;                   4) Palestinian cultural sector enhanced and accessible to all; and Palestinian identity better promoted, including abroad. | N.B To be refined during the project proposal preparation 1.1 Reports issued to a committee for decisions on the quarterly allotments for budget execution. 1.2 E-referrals and CCS serve as a guide for in-year budget execution of MoH 1.3 Citizen budget issued every year     2.1 # of inhabitants accessing safe and adequate quantity of water for drinking and domestic purposes.\* and \*\*   2.2 % of new connections meeting the PA and WHO water quality standards. \*     2.3. Share of renewable energy for operating the water infrastructures;     2.4 Cost saving in energy for the T-JWSSC                   3.1 Number of Gazan entrepreneurs reporting enhanced competitiveness and access to markets         4.1 Number of cultural operators in Palestine that increase their cultural management capacity   4.2 Number of Palestinian artists who take part in European competitions / festivals     4.3% of people participating to cultural activities in remote and ***rural*** areas | 2013 PEFA assessment                           1. 2016: 430,000 inhabitants have access to water through networks in the area.   2. 2017: 0 new connection     3 ? 2016: no share of renewable energy   4 ? 2016: 0 NIS/year                     3. At the beginning of the project                       1. Survey at the launching of the programme (total # of cultural organisations in Palestine in 2016: 612)   2. Survey at the launching of the programme (info not available yet)   3. 2016: 10% of the cultural audience are in remote and ***rural*** areas (estimated data) | Intermediate: 2018 PEFA                       1. 2020: 500,000 inhabitants are connected to the new and upgraded water supply systems   2. More than 90% of the new connections and upgraded desal. plants meet the PA and WHO water quality standards   3 - 2020: Energy produced by the RE hybrid solar&wind installation provides for 5600MWh/year (20% comes from the grid&power generators)   4. Cost savings on energy for water infrastructure with the project and jointly for the T-JWSSC, WBWD and TEDCo jointly reach 3M NIS /year       100               1. At least 5% have increased their capacities in cultural management (30 cultural operators)       2. Increase of at least 5% in the total number of Palestinian artists who take part in European competitions/festivals       3. By: 2020: 20% of cultural audience in remote and ***rural*** areas | IFMIS Decisions of the quarterly cash committee Next PEFA report IMF reports World Bank reports                 - PWA reports - CMWU reports - Project monitoring reports - Number of customers registered in the utility/council registry - External evaluation reports                                 Project progress reports             Project progress reports   External evaluation reports   Annual reports of the Ministry of Culture   Annual reports of the Ministry of Tourism and Antiquities   PCBS annual statistics | The PA remains committed to implementing the PFM strategy and related reforms             No significant deterioration of the current political and security context;   Rift between Gaza and the West Bank does not escalate further and PA retains a presence in Gaza;   Stakeholders remain committed to the project's objective and results.                   The situation in Gaza does not deteriorate further |
| Outputs | 1.1 Strengthened MoFP's capacity to steer and monitor the implementation of the PFM strategy                                     1.2 Improved capacities of PA institutions in charge of auditing revenues/expenditures and of collecting and accounting for custom duties. | 1.1.1 A referral Committee is in place and operating efficiently     1.1.2 Payroll and HR systems connection in place and tested in a pilot ministry (Education) 1.1.3 The accounting and reporting is aligned with GFS and IPSAS and allow fair and timely picture of the PA accounts. 1.1.4 Framework agreements in the Portal are in place 1.1.5 Regular PEFA assessment are carried out 1.1.6 Reduction of timeline for the Financial Statement 2017     1.2.1 Trained institutions consistently apply revised procedures 1.2.2% of frauds, tax evasion/avoidance detected 1.2.3 INTOSAI standards and equivalent best professional practices are met by SAACB | TBC                       2017: 0     February 2017: 65%   2017: 0 | TBC                     2020: 3 counterpart institutions applying revised procedures 2020:% detection of frauds, tax evasion/avoidance increased to over 70% (to be validated after inception report) 2020: INTOSAI or equivalent best professional certificates are awarded to SAACB | E-referrals database and FMIS       Payroll IT system at MoFP and HR IT system at GPC).   Monthly financial reports and financial statements   Procurement Portal   PEFA report   OGP meetings' minutes           MoFP / GABC / SAACB reports     Palestinian Customs Department / MoFP reports |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Outputs | 2.1 Increased water supply in Gaza | 2.1.1 Number of inhabitants covered by water networks and receiving water with less than 10% of service disruption   2.1.2% of infrastructure energy needs covered by renewable energy   2.1.3% of reduction of Non-revenue Water \*   2.1.4% of the bills collected based on an appropriate tariff   2.1.5 Number of citizens (gender disaggregated data's) aware of water rights and obligations   2.1.6 Number of CBOs fully operational in monitoring the water quality   2.1.7 ? Number of regular meetings between PWA and GoI   2.1.8 Number of agreements (formal/informal) on dual use and staff material movement initiated by OQ and signed | 2.1.1 2016: 430,000       2.1.2 2016 ? 0%       2.1.3 2016: 35%     2.1.4 2016: 50%     2.1.5 -2017 ? 150,000       2.1.6 ? 2017 - 0 CBO's     2.1.7 0 regular meetings facilitated by OQ   2.1.8 ? 2017 - 0 agreements (formal/informal) signed | 2.1.1 2020: 500,000       2.1.2 - 2020: 30%       2.1.3 2020: 30%   2.1.4 2019: 90%     2.1.5 -2020 ? 500,000       2.1.6 ? 2020 ? minimum 16 CBO's   2.1.7 2018: Trimestral regular meetings   2.1.8 ? 2018 ? minimum 2 agreements (formal/informal) signed | PWA reports   CMWU reports   Project monitoring reports   CMWU Registry and Books   Specific reports on the awareness campaigns                                   Project reports | Availability of funds   Quality of the work provided by the contractors   Delays in approval from COGAT for the entry of materials in Gaza   Appropriate staff recruited for the project)   Willingness of the citizens to change behaviour                   Willingness of PA and GoI to collaborate |
|  | 2.2 Improved quality and sustainability of water and energy services in Tubas Governorate | 2.2.1 ? No. of kms of water network rehabilitated or extended   2.2.2 ? No. of prepaid meters installed   2.2.3 ? leakage detection and water quality system tools installed   2.2.4 ? No. HHs connections to the sewage network   2.2.5 ? No. MW installed capacity of wind turbines   2.2.6 ? No. MW installed capacity of PV plant   2.2.7 ? No. MW installed capacity of PV on structure | 2.2.1 ? 2016: 0   2.2.2 - 2016: 0   2.2.3 - 2016: 0   2.2.4 - 2016: 0   2.2.5 - 2016: 0   2.2.6 - 2016: 0   2.2.7 - 2016: 0 | 2.2.1 ? 2020: 80 kms   2.2.2 2020: 2 SCADA systems installed   2.2.3 ? 2020: leakage detection and water quality management tools are operational   2.2.4 ? 2020: 500   2.2.5 ? 2020: 1,7 MW     2.2.6 ? 2020: 1,7   2.2.7 ? 2020: 0.3 MW | Project monitoring reports   Steering Committees' Minutes   Ad hoc reports   T-JWSSC, WBWD, TEDCo records   PWC and PENRA reporting | Availability of funds   Quality of the work provided by the contractors   Quality of the technical and management capacity at T-JWSSC level   Delays in approval from COGAT for the entry of materials in West Bank   Appropriate staff recruited for the project |
|  | 3. Strengthened capacity of Gazan entrepreneurs and of the Gaza business environment | 3.1 Number of entrepreneurs trained by the project.     3.2 Number of start-up enterprises benefitting from seed funding   3.3 Number of start-up enterprises for which additional funding is secured.     3.4 Number of incubators and accelerators supported     3.5 Number of partnerships developed     3.6 Number of outsourcing opportunities developed | 0       0       0         0       0       0 | 400       100       5         2 or more       4 or more       3 or more | Project progress reports     Project progress reports     Project progress reports       Project progress reports     Project progress reports     Project progress reports | No significant deterioration of the current political and security context;   Stakeholders remain committed to the project's objective and results. |
|  | 4. Reinforced Palestinian identity and improved recognition of Palestinian culture especially in Europe | 4.1 Number of cultural organisations trained in cultural management   4.2 Number of small cultural organisations in remote and ***rural*** areas benefitting from an EU Grant | 0           0 | 60           60 | Project progress reports       Project progress reports | Stakeholders remain committed to the project   Sub-grants are allocated upon clear and transparent rules |

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[1].              This designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

[2].                     These are the relevant pillars of the European Joint Strategy (EJS) in Support of Palestine 2017-2020 – Towards a democratic and accountable Palestinian State.

[3].                     Located in Al-Bireh, Ramallah, Jenin, West Nablus, Jericho and Tulkarem (Wastewater Pre-Treatment Plant).

[4].              Culture is defined as cultural heritage (cultural property, antiquities and museums, folklore, manuscripts); literature (fiction, poetry, literary studies, screenplays, theatre plays); libraries, performing arts, cultural industries etc.

[5].              CMWU is the autonomous regional water and wastewater utility in Gaza.

[6]               C(2017) not yet adopted

[7].              According to the National Water and Wastewater Strategy of the Palestinian Authority (NWWSPA): 'The Palestinian water allocation according to the Oslo Agreement is 118 million m3. 51 million m3 out of 100 million m3 is annually consumed in irrigating 115,000 dunums, while 49 million m3 is annually consumed for domestic and industrial uses; […] Unaccounted for Water (UfW) is more than 35% and there is about 51 million m3 of purchased water from the Israeli water company Mekorot (4 million m3 for ***agricultural*** purposes and 47 million m3 for drinking). This brings the total Palestinian consumption of water to 151 million m3'.

[8].              Sustainable Urban Demonstration Projects (SUDEP) - South Support Mechanism.

[9].              As provided for in the twinning manual.

[10].            With regard to Israeli entities: follow Guidelines on the eligibility of Israeli entities and their activities in the territories occupied by Israel since June 1967 for grants, prizes and financial instruments funded by the EU from 2014 onwards (OJ C 205, 19.7.2013, p. 9).

[11].                   Mark ***indicators*** aligned with the relevant programming document mark with '\*' and ***indicators*** aligned to the EU Results Framework with '\*\*'.

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[***Council of the European Union: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 99/2013 on the European statistical programme 2013-17, by extending it to 2020 PE 29 2017 INIT***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PXR-N021-F0YC-N3MF-00000-00&context=1516831)

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**Body**

Brussels: Council of the European Union has issued the following document:

PE-CONS 29/17 ZB/JU/vm DGG 1A EN EUROPEAN UNION THE EUROPEAN PARLIAMENT THE COUNCIL Brussels, 20 September 2017 (OR. en) 2016/0265 (COD) PE-CONS 29/17 ECOFIN 535 IA 145 STATIS 33 CODEC 1042 LEGISLATIVE ACTS AND OTHER INSTRUMENTS Subject: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 99/2013 on the European statistical programme 2013-17, by extending it to 2020 PE-CONS 29/17 ZB/JU/vm 1 DGG 1A EN REGULATION (EU) 2017/… OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of … amending Regulation (EU) No 99/2013 on the European statistical programme 2013-17, by extending it to 2020 (Text with relevance for the EEA and for Switzerland) THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION, Having regard to the Treaty on the Functioning of the European Union, and in particular Article 338(1) thereof, Having regard to the proposal from the European Commission, After transmission of the draft legislative act to the national parliaments, Having regard to the opinion of the European Economic and Social Committee1, After consulting the Committee of the Regions, Acting in accordance with the ordinary legislative procedure2, 1 OJ C 75, 10.3.2017, p. 53. 2 Position of the European Parliament of 14 September 2017 (not yet published in the Official Journal) and decision of the Council of …. PE-CONS 29/17 ZB/JU/vm 2 DGG 1A EN Whereas: (1) Reliable, relevant evidence based on timely and publicly available European statistics that can be used for policy-making is essential for measuring the progress of and evaluating the efficiency of the Union’s policies and programmes, especially in the context of the Europe 2020 Strategy set out in the Commission Communication of 3 March 2010 entitled ‘Europe 2020: A strategy for smart, sustainable and inclusive growth’ (Europe 2020) and the Commission’s Agenda for Jobs, Growth, Fairness and Democratic Change.

(2) European statistics should take a comprehensive Union-wide approach that provides accurate data to assist further integration processes in the Union. (3) The availability of reliable, comprehensive European statistics is an important public good that benefits decision-makers, researchers and the public. (4) A good balance between economic and social goals in the European Semester is particularly important for the sustainability and legitimacy of the Economic and Monetary Union. Accordingly, social and employment goals have become more prominent in the European Semester, with both country reports and country-specific recommendations assessing social and employment challenges and promoting policy reforms based on best practice. To that end, social statistics are of particular importance. PE-CONS 29/17 ZB/JU/vm 3 DGG 1A EN (5) Under Regulation (EC) No 223/2009 of the European Parliament and of the Council1, the European statistical programme (the ‘programme’) is to provide the framework for the development, production and dissemination of high-quality European statistics, setting out the main fields and objectives of the actions envisaged for a period corresponding to that of the multiannual financial framework. The programme should be implemented by individual statistical actions in accordance with Article 14 of Regulation (EC) No 223/2009. Annual work programmes should be based on the programme. (6) Regulation (EU) No 99/2013 of the European Parliament and of the Council2 only covers the period from 2013 to 2017, whereas the current multiannual financial framework extends to 2020. That Regulation should therefore be amended without delay to extend the programme to 2020 and to fill statistical gaps where urgently required. (7) In the context of the Commission’s Better Regulation Agenda, Union policies should increasingly be designed and monitored on the basis of reliable evidence that has a solid statistical basis. European statistics have a distinct role to play in that respect, and can make a real difference, especially in policy areas where analytical value based on reliable data and responsiveness are key for policies to be successful. 1 Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164). 2 Regulation (EU) No 99/2013 of the European Parliament and of the Council of 15 January 2013 on the European statistical programme 2013-17 (OJ L 39, 9.2.2013, p. 12). PE-CONS 29/17 ZB/JU/vm 4 DGG 1A EN (8) High-quality statistics are therefore crucial to achieving better results and to contributing to a better Europe. Greater efforts should be made to boost investment in official statistics at both the European and national level. The programme should also provide guidance on priority policy areas, capacity-building and the ongoing reprioritisation. Furthermore, in order to ensure a harmonised approach to achieving the objectives of this Regulation, cooperation with international organisations should be strengthened. (9) Action should be taken to tackle the most urgent statistical gaps, to increase timeliness and to support political priorities and economic policy coordination throughout the European Semester. The Commission (Eurostat) should also provide new population projections in close cooperation with national statistical institutes, including as regards migration flows, in order to update the analyses of the social, economic and budgetary implications of population ageing and of economic inequalities. (10) To support efficient policy-making, ***indicators*** should be published in a timely manner. In accordance with Article 12 of Regulation (EC) No 223/2009, the Commission (Eurostat) should communicate publicly on timeliness, including the provision of relevant information in respect of any insufficient timeliness that might occur, as an aspect of the statistical quality. (11) Experimental ecosystem accounts and climate change statistics, including those relevant to climate change adaptation and ‘footprints’, should be further developed using existing data. The European Energy Union and the 2030 climate and energy framework, which aim to make the Union’s economy and energy system more competitive, efficient, secure and sustainable, will require new statistics on energy consumption, energy efficiency, renewable energy sources, energy dependence and security of supply, as well as new statistics on the circular economy. PE-CONS 29/17 ZB/JU/vm 5 DGG 1A EN (12) High-quality statistics developed, produced and disseminated under the programme, in particular statistics on innovation, research and development, social statistics, environmental statistics as well as energy and transport statistics should allow the monitoring of objectives and targets of the United Nations 2030 Agenda for Sustainable Development that are to be set at the Union and Member State level and, in that way, contribute to the achievement of those objectives and targets. (13) Progress should be made in improving qualitative and quantitative information that contributes to the exhaustiveness of national accounts and thus allows for better estimates of the tax gap and tax avoidance. (14) The extension of the programme is an opportunity that should be taken to make adaptations and reflect the new orientations, in particular in line with the European Statistical System (ESS) Vision 2020, to complement the existing objectives, ongoing prioritisation and the availability of data in a context where the Union is facing important challenges in terms of economic development and social cohesion. It should ensure continued cooperation between the Commission (Eurostat) and the national statistical institutes, and should ensure regular dialogues with the European Statistical Advisory Committee established by Decision No 234/2008/EC of the European Parliament and of the Council1 (ESAC). It should also ensure the coordination between the ESS and the European System of Central Banks. The Commission (Eurostat) should monitor Member States’ compliance with the European Statistics Code of Practice (Code of Practice). 1 Decision No 234/2008/EC of the European Parliament and of the Council of 11 March 2008 establishing the European Statistical Advisory Committee and repealing Council Decision 91/116/EEC (OJ L 73, 15.3.2008, p. 13). PE-CONS 29/17 ZB/JU/vm 6 DGG 1A EN (15) It is particularly important to measure pockets of high unemployment, including youth unemployment in cross-border regions. (16) An appropriate increase in the budget for statistics at Union level should support the changes to the programme and the ongoing efficiency work of the ESS by bringing significant added value and results for the improvement of the quality of data through large scale projects, structural leverage effects and economies of scale that can improve statistical systems across Member States. (17) This Regulation lays down a financial envelope for the extension of the programme to cover the period from 2018 to 2020, which is to constitute the prime reference amount, within the meaning of point 17 of the Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management1, for the European Parliament and the Council during the annual budgetary procedure. (18) In extending the programme, the Commission (Eurostat) should give particular consideration to the consequences of the withdrawal of a Member State from the Union. (19) Since the objective of this Regulation, namely to extend the programme to cover the period from 2018 to 2020, cannot be sufficiently achieved by the Member States but can rather, by reason of the scale and effects of the action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve that objective. 1 OJ C 373, 20.12.2013, p. 1. PE-CONS 29/17 ZB/JU/vm 7 DGG 1A EN (20) In accordance with Regulation (EC) No 223/2009, the draft proposal for an extension of the programme to cover the period from 2018 to 2020 has been submitted for prior examination to the European Statistical System Committee (ESSC), the ESAC and the Committee on Monetary, Financial and Balance of Payments Statistics established by Council Decision 2006/856/EC1. (21) Regulation (EU) No 99/2013 should be amended accordingly, HAVE ADOPTED THIS REGULATION: 1 Council Decision 2006/856/EC of 13 November 2006 establishing a Committee on monetary, financial and balance of payments statistics (OJ L 332, 30.11.2006, p. 21). PE-CONS 29/17 ZB/JU/vm 8 DGG 1A EN Article 1 Regulation (EU) No 99/2013 is amended as follows: (1) in Article 1, the following paragraph is added: ‘The programme shall be extended to cover the period from 2018 to 2020.’; (2) Article 3 is replaced by the following: ‘Article 3 Scope This Regulation provides the programming framework for the development, production and dissemination of European statistics, the main fields and the objectives of the actions envisaged for the period from 2013 to 2020, in accordance with Articles 13 and 14 of Regulation (EC) No 223/2009.’; (3) in Article 7(1), the following subparagraph is added: ‘The financial envelope for the implementation of the programme for 2018 to 2020 shall be EUR 218,1 million, covered by the programming period 2014 to 2020.’; PE-CONS 29/17 ZB/JU/vm 9 DGG 1A EN (4) Article 9 is replaced by the following: ‘Article 9 Annual work programmes In order to implement the programme, the Commission shall adopt annual work programmes which shall satisfy the requirements laid down in Article 17 of Regulation (EC) No 223/2009 and which shall set out the objectives pursued and the expected results, in accordance with the general and specific objectives referred to in Article 4(1) and (2) of this Regulation. The Commission shall ensure that an appropriate emphasis is placed on actions aimed at promoting compliance with the Code of Practice. Each annual work programme shall be communicated to the European Parliament for information purposes.’; (5) Article 13 is replaced by the following: ‘Article 13 Protection of the financial interests of the Union 1. The Commission shall take appropriate measures to ensure that, when activities financed under this Regulation are implemented, the financial interests of the Union are protected by the application of preventive measures against fraud, corruption and any other illegal activities, by effective checks, and if irregularities are detected, by the recovery of the amounts wrongly paid and, where appropriate, by effective, proportionate and dissuasive administrative and financial penalties. PE-CONS 29/17 ZB/JU/vm 10 DGG 1A EN 2. The Commission or its representatives and the Court of Auditors shall have the power of audit, on the basis of documents and of on-the-spot inspections, over all grant beneficiaries, contractors and subcontractors who have received Union funds under the programme. 3. The European Anti-Fraud Office (OLAF) may carry out investigations, including on-the-spot checks and inspections, in accordance with the provisions and procedures laid down in Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council\* and Council Regulation (Euratom, EC) No 2185/96\*\*, with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union in connection with a grant agreement or grant decision or a contract funded under the programme. 4. Without prejudice to paragraphs 1, 2 and 3, cooperation agreements with third countries and with international organisations, and contracts, grant agreements and grant decisions resulting from the implementation of this Regulation, shall contain provisions expressly empowering the Commission, the Court of Auditors and OLAF to conduct such audits and investigations, in accordance with their respective competence. PE-CONS 29/17 ZB/JU/vm 11 DGG 1A EN 5. Without prejudice to paragraphs 1, 2 and 3, where the implementation of an action is outsourced or sub-delegated, in whole or in part, or where it requires the award of a procurement contract or financial support to be given to a third party, the contract, grant agreement or grant decision shall include the contractor’s or beneficiary’s obligation to impose on any third party involved the explicit acceptance of those powers of the Commission, the Court of Auditors and OLAF. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \* Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1). \*\* Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities’ financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).’; (6) Article 15 is amended as follows: (a) the following paragraph is inserted: ‘2a. By 31 December 2019, the Commission (Eurostat) shall submit a progress report on the implementation of the programme to the ESSC. That report shall detail the Commission’s (Eurostat) view on the outlook for the programme within the multiannual financial framework starting in 2021. That report shall also be submitted to the European Parliament and to the Council.’; PE-CONS 29/17 ZB/JU/vm 12 DGG 1A EN (b) paragraph 3 is replaced by the following: ‘3. By 31 December 2021, the Commission shall, after consulting the ESSC and the ESAC, submit a final evaluation report on the implementation of the programme to the European Parliament and to the Council. The report shall in particular evaluate: (a) the outcome of the reprioritisation and cost evaluation of statistical products; (b) the actions taken by the ESS to reduce the implementation and production costs for Member States and to limit the overall burden stemming from the statistical projects and fields covered by the programme; (c) the progress on rendering access to official statistics easier and more user-friendly, including the provision of data on the Eurostat website; and (d) the progress on the improvement of data availability, including on social economy activities and on the Europe 2020 ***indicators***.’; (7) the Annex to Regulation (EU) No 99/2013 is amended in accordance with the Annex to this Regulation. PE-CONS 29/17 ZB/JU/vm 13 DGG 1A EN Article 2 This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union. It shall apply from 1 January 2018. This Regulation shall be binding in its entirety and directly applicable in all Member States. Done at …, For the European Parliament For the Council The President The President PE-CONS 29/17 ZB/JU/vm 1 ANNEX DGG 1A EN ANNEX The Annex to Regulation (EU) No 99/2013 is amended as follows: (1) the title of the Annex is replaced by the following: ‘Statistical infrastructure and objectives of the European statistical programme 2013 to 2020’; (2) the introduction is amended as follows: (a) the first and second paragraphs are replaced by the following: ‘The implementation of Union policies requires high-quality, comparable and reliable statistical information about the economic, social, territorial and environmental situation in the Union and its components at national and regional level. European statistics are also indispensable for the Union, allowing the general public and European citizens to understand and to participate in the democratic process and debate about the present state and future of the Union. The programme provides for the legislative framework for the development, production and dissemination of European statistics over the period from 2013 to 2020.’; PE-CONS 29/17 ZB/JU/vm 2 ANNEX DGG 1A EN (b) the fourth paragraph is replaced by the following: ‘Statistics developed, produced and disseminated under the programme contribute to the implementation of the Union’s policies as reflected in the TFEU and Europe 2020 and its respective flagship initiatives, as well as other policies set out in the Commission’s ***strategic*** priorities.’; (3) in Objectives, objective 1 is replaced by the following: ‘— Objective 1: provide statistical information in a timely and cost-effective manner, without unnecessary duplication of effort, to support the development, monitoring and evaluation of the policies of the Union properly reflecting priorities, while keeping a balance between economic, social, territorial and environmental fields and serving the needs of the wide range of users of European statistics, including other decision-makers, researchers, businesses and European citizens in general;’; PE-CONS 29/17 ZB/JU/vm 3 ANNEX DGG 1A EN (4) part I. Statistical Outputs is amended as follows: (a) in point 1.1 Europe 2020, the first paragraph is replaced by the following: ‘Endorsement of Europe 2020 has to a large extent shaped the ***strategic*** agenda for Union and national policies in the years ahead. Within that agenda, a number of targets and initiatives for which statistical ***indicators*** have to be delivered by the ESS have been agreed in a number of areas, such as: improving the conditions for innovation; research and development; promoting decent jobs; promoting gender equality; meeting Union climate change and energy objectives; resource efficiency; improving education levels, including reducing early school leaving; increasing lifelong vocational training and learning mobility; healthy and active ageing; promoting social inclusion; and reducing poverty. Where appropriate, gender-disaggregated statistics are needed in order to understand what gender-based discrimination involves, with a focus on gender-based violence.’; (b) objective 1.1.1 is amended as follows: (i) the first paragraph is replaced by the following: ‘Provide high-quality statistical information, which shall be made available in a timely manner for the European Semester, to monitor the implementation of Europe 2020. New ***indicators*** shall, to the extent possible, be based on available statistical data.’; PE-CONS 29/17 ZB/JU/vm 4 ANNEX DGG 1A EN (ii) the fourth indent of the second paragraph is replaced by the following: ‘— employment ***indicators*** distinguishing between part-time and full-time employment and between fixed-term contracts and permanent contracts, as well as ***indicators*** on unemployment that take into account people in activation policies such as training. These ***indicators*** should also include data on gender divides.’; (c) in objective 1.2.1, the second indent of the second paragraph is replaced by the following: ‘— providing statistical input for an enhanced Stability and Growth Pact specifically aimed at the production and provision of high-quality statistics on government deficit and debt; — providing statistical input for efficiently monitoring economic inequalities.’; (d) objective 1.3.1 is amended as follows: (i) the first paragraph is replaced by the following: ‘Enhance the ***indicators*** and statistical information available on economic globalisation and global value chains for Union decision-makers and for the public. That information should make for a better understanding of the economic, social and environmental impact of globalisation.’; PE-CONS 29/17 ZB/JU/vm 5 ANNEX DGG 1A EN (ii) the third indent of the second paragraph is replaced by the following: ‘— the provision of data that allow for an analysis of the positive and negative consequences for the Union market, in particular the Union labour market; — the analysis of the global value chains, possibly through appropriate input/output tables, and foreign trade and business statistics, including micro-data linking; and the coordination of outputs of this analysis with the international initiatives of Union interest; and’; PE-CONS 29/17 ZB/JU/vm 6 ANNEX DGG 1A EN (e) point 2. Accounting frameworks is replaced by the following: ‘2. Accounting frameworks The Commission Communication of 20 August 2009 entitled “GDP and beyond: Measuring progress in a changing world” (“GDP and beyond”), and the publication of the Stiglitz-Sen-Fitoussi Report on the Measurement of Economic ***Performance*** and Social Progress, have given new impetus to the key challenge for the ESS, namely how to achieve better statistics on cross-cutting issues and more integrated statistics to describe complex social, environmental and economic phenomena beyond the traditional measures of economic output. Work on GDP and beyond within the ESS focuses on three priority areas: statistics on the household sector and statistics measuring the distribution of income, consumption and wealth; measuring quality of life in a multidimensional way; and measuring environmental sustainability. The new worldwide Sustainable Development Goals adopted in 2015 provide further impetus. The European System of National and Regional Accounts (ESA) offers an integrated and consistent framework for all economic statistics that should be complemented by other ***indicators*** in order to provide more comprehensive information for policy- and decision-making. Full implementation of the ESA 2010 will be supported by regular quality and compliance assessments, taking into account the progressive expiry of derogations until 2020, leading to further improvements in the timeliness and availability of ***indicators***.’; PE-CONS 29/17 ZB/JU/vm 7 ANNEX DGG 1A EN (f) point 2.1 Economic and social ***performance*** is replaced by the following: ‘2.1 Economic and social ***performance*** The economic crisis has reinforced the need to have high-quality macroeconomic ***indicators*** in order to better understand and analyse economic fluctuations as well as to better understand and analyse the evolution of economic inequalities and their effects on society, thereby facilitating the decision-making process. Increasingly globalised production makes it necessary to develop a consistent framework that facilitates the interpretation and integration of statistics from different areas.’; (g) in objective 2.1.1, the second paragraph is amended as follows: (i) the second indent is replaced by the following: ‘— the production of ***indicators*** on income, consumption and wealth distribution across households, and the reconciliation of national accounts aggregates with household survey data or administrative data;’; (ii) the fourth indent is replaced by the following: ‘— the reinforcement of links with national accounts in the areas of social protection, health and education; — the development of a framework for measuring quality of life, reinforcing the household perspective in national accounts; PE-CONS 29/17 ZB/JU/vm 8 ANNEX DGG 1A EN — the development of GDP and beyond related ***indicators*** measuring environmental sustainability and external effects with a national account perspective;’; (iii) the following indents are inserted after the fifth indent: ‘— the further development of timely social ***indicators***, including advanced techniques for nowcasting and flash estimates; — the support for international data sharing for macroeconomic data to reduce the burden for data producers and improve the availability of comparable and consistent data to users; — the development and fine-tuning of aggregated ***indicators*** of income and aspects of wealth inequality; — the measurement and analysis of gender inequality, including the wage gap;’; (h) in objective 2.1.2, the last indent of the second paragraph is replaced by the following: ‘— the availability and extension of harmonised housing price statistics for all Member States.’; PE-CONS 29/17 ZB/JU/vm 9 ANNEX DGG 1A EN (i) in objective 2.2.1, the second paragraph is replaced by the following: ‘The objective will be implemented by: – the further development of a coherent system of environmental accounts as “satellite accounts” to the main national accounts, providing information on atmospheric emissions, energy consumption, flows of natural resources, trade in raw materials, environmental taxation and environmental protection expenditure, possibly including green growth/procurement; – the further development of experimental ecosystem accounts that would allow the use of existing data, including those compiled by Union institutions, bodies, offices or agencies as part of a long-term data integration initiative; – the further development work to better use existing data collections for climate change-related statistics; and – the further development of ***indicators*** measuring environmental “footprints” based on existing data.’; PE-CONS 29/17 ZB/JU/vm 10 ANNEX DGG 1A EN (j) objective 3.1.1 is amended as follows: (i) the first paragraph is replaced by the following: ‘Increase the efficiency and effectiveness of statistical production processes. In line with the Better Regulation Agenda, the existing legislation relating to the pillar of business statistics needs to be streamlined. In this context, due consideration should be given to the limited resources available to producers and to the overall burden on respondents in line with the Commission Regulatory Fitness and ***Performance*** Programme (REFIT). Provide high-quality statistics on key areas where enterprises are the centre of interest, such as business statistics, short-term ***indicators***, their investment in human capital and skills, international transactions, globalisation, internal market monitoring, research, development and innovation, and tourism. Special attention should be paid to the availability of data in high value-added industrial and services sectors, in particular in the green, digital, collaborative, health, education and social economies.’; (ii) the first indent of the second paragraph is replaced by the following: ‘— the reuse of data available in the statistical system or in society, the putting in place of a common legal basis for business statistics and the production of a common infrastructure and of common tools;’; PE-CONS 29/17 ZB/JU/vm 11 ANNEX DGG 1A EN (k) objective 3.2.1 is amended as follows: (i) the first paragraph is replaced by the following: ‘Provide statistics on the main areas of social policy where the citizen is the centre of interest, such as: well-being; sustainability; social cohesion; poverty; inequalities; demographic challenges, in particular population ageing, depopulation, population dispersion and migration; the labour market; education and training, including childhood education, adult learning, vocational training and learning mobility of young people; culture, physical activity; quality of life; safety; health; disability; consumption; free movement and the internal market; mobility of young people; technological innovation and new lifestyle choices. Where appropriate, those statistics shall be disaggregated by gender for groups that are of special interest to social policy-makers. Priorities shall be set in accordance with Article 6. In line with the Better Regulation Agenda, the existing legislation relating to the pillar of social statistics needs to be streamlined. In this context, due consideration should be given to the limited resources available to producers and to the overall burden on respondents in line with REFIT.’; (ii) the fourth indent of the second paragraph is replaced by the following: ‘— the provision of statistics on inequalities of income, with ***indicators*** such as the Gini index and the evolution of the top deciles of income distribution providing a comparable national headline ***indicator***, as well as data on inequalities of access to basic goods and services;’; PE-CONS 29/17 ZB/JU/vm 12 ANNEX DGG 1A EN (iii) the seventh indent of the second paragraph is replaced by the following: ‘— the implementation of actions of the work programme on mainstreaming of migration statistics taking into account new challenges, in particular international developments; — the provision of population projections and of their annual updates; — the development of comprehensive ***indicators*** on the situation of migrants within the Union; — further cooperation with specialised agencies and organisations concerning the situation of refugees; — the development of a methodology for a voluntary survey on gender-based violence, in cooperation with the European institutions, bodies, offices and agencies acting in this field; — the putting in place of a common legal basis for social statistics and the production of a common infrastructure and of common tools;’; PE-CONS 29/17 ZB/JU/vm 13 ANNEX DGG 1A EN (l) in point 3.3 Geospatial, environmental, ***agricultural*** and other sectoral statistics, the third paragraph is replaced by the following: ‘***Agriculture*** will remain an important Union policy area. The Common ***Agricultural*** Policy underlines the need for viable food production, for sustainable management of natural resources and climate action and for balanced territorial development, which are the main objectives of that policy. Focus will be on the environmental, biodiversity/ecosystem-related, economic, human health and safety and social dimensions.’; (m) objective 3.3

.1 is amended as follows: (i) the first paragraph is replaced by the following: ‘Support evidence-based policy-making by a more flexible and increased use of spatial information combined with social, territorial, economic and environmental statistical information for regions, regional typologies, cities and the degree of urbanisation.’; (ii) the following indents are added to the second paragraph: ‘— the implementation of land use and land cover statistics; — the coordination of statistical data for regions, cities and territorial typologies.’; PE-CONS 29/17 ZB/JU/vm 14 ANNEX DGG 1A EN (n) objective 3.3.3 is amended as follows: (i) the following paragraph is inserted after the first paragraph: ‘In line with the “European Energy Union” priority of the Commission, and, to the greatest possible extent based on existing data, particular focus will be given to statistics related to energy consumption, energy efficiency, renewable energy sources, energy dependence, aspects of energy poverty and security of supply and the circular economy. Furthermore, energy statistics will need to support the 2030 climate and energy framework that aims to make the Union’s economy and energy system more competitive, secure and sustainable.’; (ii) the following indent is added to the second paragraph: ‘— energy dependence and security of supply.’; (o) objective 3.3.4 is amended as follows: (i) the first paragraph is replaced by the following: ‘Provide ***agriculture***, fisheries and forestry statistics for the development and monitoring of the Common ***Agricultural*** and Fisheries Policies, reflecting key Union ***strategic*** objectives related to sustainability, as well as to ***rural*** development, by carrying out regular activities related to the development, production and dissemination of statistics. In line with the Better Regulation Agenda, the existing legislation relating to the ***agricultural*** statistics needs to be streamlined. In this context, due consideration should be given to the limited resources available to producers and to the overall burden on respondents in line with REFIT.’; PE-CONS 29/17 ZB/JU/vm 15 ANNEX DGG 1A EN (ii) the following indents are added to the second paragraph: ‘— the preparation and implementation of the ***agricultural*** census scheduled for 2020; — the putting in place of a common legal basis for ***agriculture*** related statistics and the production of a common infrastructure and of common tools.’; (5) part II. Production Methods of European Statistics is amended as follows: (a) the introductory paragraph is replaced by the following: ‘The ESS is currently facing a number of challenges. The expectations on the scope, quality and comparability of European statistics are increasing. With globalisation, a complex reality has emerged that has to be captured by official statistics and raises methodological challenges. The ever increasing availability of data from private and public providers offers the potential to improve the timeliness and relevance of official statistics as well as to reduce response burden. To face these challenges, while at the same time confronted with constraints on resources, the ESS will gradually implement ***strategic*** goals defined in the ESS Vision 2020, building upon a holistic approach to reach quality and efficiency gains: – to engage proactively in a regular dialogue with users to understand their needs more deeply, recognising that different user groups have different needs that need to be addressed correctly; PE-CONS 29/17 ZB/JU/vm 16 ANNEX DGG 1A EN – to provide high quality products and services and apply a quality approach to the management, organisation, and governance of the ESS; – to base statistical products and services on both traditional surveys and other sources, including administrative data, geospatial and, where possible, big data; – to get access to new data sources, create methods and find suitable technology in order to use such data sources to produce European statistics in a reliable way; – to improve the efficiency of statistical production by further intensifying the sharing of knowledge, experiences and methodologies but also by sharing tools, data, services and resources where appropriate and duly justified. The collaboration will be based on agreed standards and common elements of technological and statistical infrastructure; – to implement a dissemination and communication strategy for European statistics which is flexible enough to adapt to emerging technologies, gives guidance in a world of data revolution and serves as a reliable pillar of democracy.’; (b) in objective 1.1, the first indent of the third paragraph is replaced by the following: ‘— the introduction of new integrated, effective and fit-for purpose quality assurance mechanism based on the Code of Practice and the ESS Quality Assurance Framework; — the assessment of compliance with the Code of Practice;’; PE-CONS 29/17 ZB/JU/vm 17 ANNEX DGG 1A EN (c) objective 4.1 is amended as follows: (i) the following paragraph is inserted before the first paragraph: ‘European citizens should be able to draw easily and without obstacles on European statistics to enable them to use such data for their education and decision-making. That objective will be implemented by enhancing the user-friendliness of European statistics and by facilitating access to data. Special attention should be paid to easy retrievability and convertibility of statistical data for practical use, including through graphs and maps. More citizens should benefit from European statistics, thereby contributing effectively to enhancing the dissemination of statistical information throughout society.’; (ii) the following indent is added to the fifth paragraph: ‘— the identification of current and future data requirements to provide multi-purpose and customised end-user products and services.’; (d) in objective 5.1, the following indent is inserted after the third indent of the fourth paragraph: ‘— the analysis of needs for new skills related to data science and their integration into training programmes;’; PE-CONS 29/17 ZB/JU/vm 18 ANNEX DGG 1A EN (6) in part III. Partnership, the following indents are inserted after the fourth indent of the second paragraph of objective 1.4: ‘— raising European citizens’ awareness of the importance of official statistics and the communication of these statistics to all stakeholders by celebrating European Statistics Day on 20 October each year; — disseminating relevant statistical data to support the European Neighbourhood Policy and the respective Association Agreements; — promoting European values and initiatives such as the Code of Practice, the ESS Quality Assurance Framework, and standardisation and harmonisation approaches to third countries and regions;’.

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**Body**

Brussels: Public Register European Parliament has issued the following document:

AG\1129964EN.docx PE607.923v01-00 EN United in diversity EN European Parliament 2014-2019 Committee on Economic and Monetary Affairs 15.6.2017 PROVISIONAL AGREEMENT RESULTING FROM INTERINSTITUTIONAL NEGOTIATIONS Subject: Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 99/2013 of the European Parliament and of the Council on the European statistical programme 2013-17, by extending it to 2018-2020 (COM(2016)0557 – C8-0367/2016 – 2016/0265(COD)) The interinstitutional negotiations on the aforementioned proposal for a regulation have led to a compromise. In accordance with Rule 69f(4) of the Rules of Procedure, the provisional agreement, reproduced below, is submitted as a whole to the Committee on Economic and Monetary Affairs for decision by way of a single vote. PE607.923v01-00 2/25 AG\1129964EN.docx EN ANNEX Compromise reached at the Trilogue on 6 June 2017. The text in bold or [….] (deleted text) is compared to the Commission proposal REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 99/2013 of the European Parliament and of the Council on the European statistical programme 2013-17, by extending it to 2018-2020 (Text with relevance for the EEA and Switzerland) THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION, Having regard to the Treaty on the Functioning of the European Union, and in particular Article 338(1) thereof, Having regard to the proposal from the European Commission, After transmission of the draft legislative act to the national parliaments, Having regard to the opinion of the European Economic and Social Committee1, Having regard to the opinion of the Committee of the Regions2, Acting in accordance with the ordinary legislative procedure, Whereas: 1 OJ C […], […], p. […]. 2 OJ C […], […], p. […]. AG\1129964EN.docx 3/25 PE607.923v01-00 EN (1) Reliable, relevant evidence based on European statistics, timely and publicly available for policy making, is absolutely essential to measuring the progress and evaluating the efficiency of the Union’s policies and programmes, especially in the context of the Europe 2020 strategy and the Agenda for jobs, growth, fairness and democratic change.

(1a) European statistics should have a comprehensive Union-wide approach that provides accurate data to assist further integration processes in the Union (1b) The availability of reliable, comprehensive European statistics is an important public good benefiting decision-makers, researchers and the public at large. (1c) A good balance between economic and social goals in the European Semester is particularly important for the sustainability and legitimacy of the economic and monetary union. Accordingly, social and employment goals have become more prominent in the European Semester, with both country reports and country-specific recommendations assessing social and employment challenges and promoting policy reforms based on best practices. To that end, social statistics are of particular importance. 2) Under Regulation (EC) No 223/2009 of the European Parliament and of the Council1, the European statistical programme is to provide the framework for the development, production and dissemination of high quality European statistics, setting out the main fields and objectives of the actions envisaged for a period corresponding to that of the multiannual financial framework. The European statistical programme should be implemented by individual statistical actions in accordance with Article 14 of Regulation (EC) No 223/2009. Annual work programmes should be based on this European statistical programme. 1 Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164). PE607.923v01-00 4/25 AG\1129964EN.docx EN 3) Regulation (EU) No 99/2013 of the European Parliament and of the Council1 covers the period from 2013 to 2017 only, whereas the current multiannual financial framework extends to 2020. It should therefore be amended without delay to extend the European statistical programme to 2020 and fill statistical gaps where urgently required. (4) In the context of Better Regulation, Union policies should increasingly be designed and monitored on the basis of reliable evidence having a solid statistical basis. European statistics have a distinct role to play in that respect and can make a real difference, especially in policy areas where analytical value based on reliable data and responsiveness are key for policies to be successful. (5) High-quality statistics are therefore crucial to achieving better results and contributing to a better Europe, and greater efforts should be made to boost investments in official statistics at both European and national levels. The European statistical programme should also provide guidance in priority policy areas and for capacity-building[…..] and ongoing re-prioritisation. […..]. Furthermore, in order to ensure the harmonised approach in achieving the objectives of this Regulation, cooperation with international organisations should be strengthened. (5a) More specifically, action should be taken to tackle the most urgent statistical gaps, increase timeliness and support political priorities and economic policy coordination through the European Semester. The Commission (Eurostat) should also provide new population projections, including as regards migration flows, in close cooperation with the national statistical institutes for the update of the analysis of the social, economic and budgetary implications of population ageing and economic inequalities. (5a) ***Indicators*** should be published in a timely manner to support efficient policy making. The Commission (Eurostat) should communicate publicly on timeliness as an aspect of the statistical quality, including the provision of relevant information for any insufficient timeliness that might occur in accordance with Article 12 of Regulation (EC) No. 223/2009. 1 Regulation (EU) No 99/2013 of the European Parliament and of the Council of 15 January 2013 on the European statistical programme 2013-17 (OJ L 39, 9.2.2013, p. 12). AG\1129964EN.docx 5/25 PE607.923v01-00 EN (6) Experimental ecosystem accounts and climate-change statistics, including those relevant to climate-change adaptation and ‘footprints’, should be further developed using existing datasets. The European Energy Union and the 2030 framework for climate and energy, which aims to make the Union’s economy and energy system more competitive, efficient, secure and sustainable, will require new statistics on energy consumption, energy efficiency, renewable [……] energy sources, energy dependence and security of supply, and the circular economy. 6a) High quality statistics developed, produced and disseminated under the European statistical programme 2013 to 2020, in particular innovation, research and development statistics, social statistics, environmental statistics as well as energy and transport statistics should allow the monitoring of objectives and targets of the 2030 Agenda for Sustainable Development to be set at the Union and Member States level, and in this way, contribute to the achievement of such goals. 6a) Progress should be made to improve qualitative and quantitative information that should contribute to the exhaustiveness of national accounts and thus allow for better estimates of the tax gap and tax avoidance. (7) The extension of the programme is an opportunity that should be taken to make adaptations and reflect the new orientations, in particular in line with ESS Vision 2020, to complement the existing objectives and ongoing prioritisation, and the availability of data in a context where the Union is facing important challenges in terms of economic development and social cohesion. It should also ensure the continued cooperation between the Commission (Eurostat) and the national statistical institutes, the regular dialogues with the European Statistical Advisory Committee and the coordination between the European Statistical System and the European System of Central Banks. The Commission (Eurostat) should monitor Member States’ compliance with the European Statistics Code of Practice. (7a) It is particularly important to measure pockets of high unemployment, including youth unemployment in cross-border regions. PE607.923v01-00 6/25 AG\1129964EN.docx EN (8) An appropriate increase of the budget for statistics at EU level should support these changes to the programme and […] the ongoing efficiency work of the European Statistical System by bringing significant added value and results for the improvement in the quality of data through large-scale projects, structural leverage effects and economies of scale that can improve statistical systems across the Member States. (9) This Regulation establishes a financial envelope for the extension of the European statistical programme to cover the years 2018 to 2020. This is to constitute the prime reference amount, within the meaning of point 17 of the Interinstitutional Agreement between the European Parliament, the Council and the Commission1, during the annual budgetary procedure. (9a) The Commission (Eurostat) should give particular consideration, in the extension of the multiannual European statistical programme, to the consequences of the withdrawal of a Member State from the Union. (10) Since the objective of this Regulation, namely to extend the European statistical programme to cover the years 2018 to 2020, cannot be sufficiently achieved by the Member States and can therefore be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve that objective. (11) In accordance with Regulation (EC) No 223/2009, the draft proposal for an extension of the European statistical programme for the period 2018 to 2020 has been submitted for prior examination to the European Statistical System Committee, the European Statistical Advisory Committee established by Decision No 234/2008/EC of the European Parliament and of the Council2 and the Committee on Monetary, Financial and Balance of Payments Statistics established by Council Decision 2006/856/EC3, 1 Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management (OJ C 373, 20.12.2013, p. 1). 2 Decision No 234/2008/EC of the European Parliament and of the Council of 11 March 2008 establishing the European Statistical Advisory Committee and repealing Council Decision 91/116/EEC (OJ L 73, 15.3.2008, p. 13). 3 Council Decision 2006/856/EC of 13 November 2006 establishing a Committee on monetary, financial AG\1129964EN.docx 7/25 PE607.923v01-00 EN (12) Regulation (EU) No 99/2013 should therefore be amended accordingly, Article 1 Regulation (EU) No 99/2013 is amended as follows: (1) In Article 1, the following paragraph is added: ‘The programme shall be extended to cover the period 2018 to 2020.’ (1a) Article 3 is replaced as follows: ‘1. This Regulation provides the programming framework for the development, production and dissemination of European statistics, the main fields and the objectives of the actions envisaged for the period from 2013 to 2020, in accordance with Articles 13 and 14 of Regulation (EC) No 223/2009. 2. The programme does not cover measures provided for by the Programme for the Modernisation of European Enterprise and Trade Statistics (‘the MEETS Programme’), established by Decision No 1297/2008/EC of the European Parliament and of the Council, until the end of the MEETS Programme on 31 December 2013, but includes objectives in the area of enterprise and trade statistics planned to be implemented from 2014 to 2020.’ 1a) Article 9 is replaced as follows: In order to implement the programme, the Commission shall adopt annual work programmes which shall satisfy the requirements laid down in Article 17 of regulation (EC) No 223/2009 and which shall set out the objectives pursued by them and their expected results, in accordance with the general and specific objectives referred to in Article 4(1) and (2) of this Regulation. The Commission shall ensure that an appropriate emphasis is placed on actions aiming at promoting compliance with the Code of Practice. Each annual work programme shall be communicated to the European Parliament for information purposes. and balance of payments statistics (OJ L 332, 30.11.2006, p. 21). PE607.923v01-00 8/25 AG\1129964EN.docx EN (2) In Article 7(1), the following paragraph is inserted: ‘The Union financial envelope for the implementation of the programme for 2018 to 2020 shall be EUR 218.1 million, covered by the programming period 2014 to 2020.’ (3) Article 13 is replaced as follows: ‘Protection of the financial interests of the Union 1. The Commission shall take appropriate measures ensuring that, when activities financed under this Regulation are implemented, the financial interests of the Union are protected through the application of preventive measures against fraud, corruption and any other illegal activities, through consistent and effective checks and, if irregularities are detected, through the recovery of the amounts wrongly paid and, where appropriate, through effective, proportionate and dissuasive administrative and financial penalties. 2. The Commission and the Court of Auditors or their representatives shall have the power of audit, on the basis of documents and on-the-spot checks, over all grant beneficiaries, contractors, subcontractors and third parties who have, directly or indirectly, received Union funds under the Programme. 3. The European Anti-Fraud Office (OLAF) may carry out on-the-spot checks and inspections on economic operators concerned directly or indirectly by such funding in accordance with the procedures laid down in Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council1 and in Council Regulation (Euratom, EC) No 2185/962 with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union in connection with a grant agreement or grant decision or a contract funded, directly or indirectly, within the framework of this Regulation. 1 OJ L 248, 18.9.2013, p. 1. 2 OJ L 292, 15.11.1996, p. 2. AG\1129964EN.docx 9/25 PE607.923v01-00 EN 4. Cooperation agreements with third countries and international organisations and grant agreements and grant decisions and contracts resulting from the implementation of this Regulation shall expressly empower the Commission, the Court of Auditors and OLAF to conduct such audits, on-the-spot checks and inspections. 5. Where the implementation of an action is outsourced or sub-delegated, in whole or in part, or where it requires the award of a procurement contract or financial support to be given to a third party, the contract, grant agreement or grant decision shall include the contractor's or beneficiary's obligation to impose on any third party involved explicit acceptance of those powers of the Commission, the Court of Auditors and OLAF. 6. Paragraphs 4 and 5 shall apply without prejudice to paragraphs 1, 2 and 3.’ (3a) In Article 15(2), the following subparagraph is added: ‘The Commission (Eurostat) shall submit a progress report on the implementation of the programme to the ESSC by 31 December 2019. That report shall detail the Commission’s view on the outlook for the European statistical programme within the multiannual financial framework starting in 2021. That report shall be submitted to the European Parliament and to the Council.’ (4) Article 15(3) is replaced by the following: ‘By 31 December 2021, the Commission shall, after consulting the ESSC and the European Statistical Advisory Committee, submit a final evaluation report on the implementation of the programme to the European Parliament and to the Council. The report shall evaluate in particular the outcome of reprioritisation and cost evaluation of statistical products, the actions taken by the European Statistical System to reduce the implementation and production costs for Member States and to limit the overall burden stemming from the statistical projects and fields covered by the programme, the progress on rendering access to official statistics easier and more user-friendly, including the provision of data on its website, and the progress on the improvement of data availability, including on social economy activities and on the Europe 2020 ***indicators***.’ (5) The Annex is amended as set out in the Annex to this Regulation. PE607.923v01-00 10/25 AG\1129964EN.docx EN Article 2 […] It shall enter into force on the […] 20th day following that of its publication in the Official Journal of the European Union. It shall apply from 1 January 2018. This Regulation shall be binding in its entirety and directly applicable in all Member States. The Annex to Regulation (EU) No 99/2013 is amended as follows: (-1) The title of the Annex is replaced by the following: ‘Statistical infrastructure and objectives of the European statistical programme 2013 to 2020’ (-1a) In the introduction, the first subparagraph is replaced by the following: ‘The implementation of Union policies requires high-quality, comparable and reliable statistical information about the economic, social, territorial and environmental situation in the Union and its components at national and regional level. European statistics are also indispensable for Europe, allowing the general public and European citizens to understand as well as to take part in the democratic process and debate about the present and future of the Union.’ (-1b) In the introduction, the second subparagraph is replaced by the following: ‘The European statistical programme provides for the legislative framework for the development, production and dissemination of European statistics over the period 2013 to 2020.’ (-1c) In the introduction, the fourth subparagraph is replaced by the following: ‘Statistics developed, produced and disseminated under the European statistical programme 2013 to 2020 (‘the programme’) contribute to the implementation of the AG\1129964EN.docx 11/25 PE607.923v01-00 EN Union’s policies as reflected in the TFEU and Europe 2020 and its respective flagship initiatives and other policies set out in the Commission’s ***strategic*** priorities.’ PE607.923v01-00 12/25 AG\1129964EN.docx EN (-1d) Objective 1 is replaced by the following: ‘— Objective 1: provide statistical information in a timely manner, to support the development, monitoring and evaluation of the policies of the Union properly reflecting priorities, while keeping a balance between economic, social, territorial and environmental fields and serving the needs of the wide range of users of European statistics, including other decision-makers, researchers, businesses and European citizens in general, in a cost-effective manner without unnecessary duplication of effort;’ (1) Point I. Statistical Outputs is amended as follows: (-a) In point 1.1, the first subparagraph is replaced by the following: Endorsement of the Europe 2020 strategy for smart, sustainable and inclusive growth by the June 2010 European Council has shaped to a large extent the ***strategic*** agenda for the Union and national policies in the years ahead. Within that agenda, a number of targets and initiatives for which statistical ***indicators*** have to be delivered by the ESS has been agreed in a number of areas (i.e improving the conditions for innovation, research and development, promoting decent jobs, promoting gender equality, meeting Union climate change and energy objectives, resource efficiency, improving education levels, including reducing early school leaving, increasing lifelong vocational training and learning mobility, active and healthy and active ageing, promoting social inclusion, and reducing poverty. Where appropriate, gender-disaggregated statistics are needed in order to understand what gender-based discrimination involves, with a focus on gender-based violence.’ (a) In Objective 1.1.1, the first paragraph is replaced by the following: ‘Provide high-quality statistical information, which [……] shall be available in a timely manner for the European Semester, to monitor the implementation of Europe 2020 strategy. New ***indicators*** shall, to the extent possible, be based on available statistical data.’ AG\1129964EN.docx 13/25 PE607.923v01-00 EN (aa) In Objective 1.1.1, the fourth indent is replaced by the following: ‘- employment ***indicators*** distinguishing between part-time and full-time employment and between fixed-term contracts and permanent contracts, as well as ***indicators*** on unemployment that take into account people in activation policies such as training. These ***indicators*** should also include data on gender divides.’ (b) In Objective 1.2.1, the second indent is replaced by the following: ‘— providing statistical input for an enhanced Stability and Growth Pact specifically aimed at the production and provision of high-quality statistics on government deficit and debt;’ (ba) In Objective 1.2.1, the following indent is inserted after the second indent: ‘ - providing statistical input for efficiently monitoring economic inequalities.’ (bb) In Objective 1.3.1, the first subparagraph is replaced by the following: ‘Enhance the ***indicators*** and statistical information available on economic globalisation and global value chains for Union decision-makers and the public at large. That information should make for a better understanding of the economic, social and environmental impact of globalisation’ (bc) In Objective 1.3.1, the following indent is inserted after the second indent: ‘— provide the data that allow for an analysis of the positive and negative consequences for the European market, in particular the Union’s labour market;’ c) In Objective 1.3.1, the third indent is replaced by the following: '— the analysis of the global value chains, possibly through appropriate input/output tables, and foreign trade and business statistics, including micro-data linking; and the coordination of […..] outputs of this analysis […..] with the international initiatives of Union interest; and' d) Point 2 is replaced by the following: PE607.923v01-00 14/25 AG\1129964EN.docx EN ‘2. Accounting frameworks The Commission Communication of 20 August 2009 entitled ‘GDP and beyond: Measuring progress in a changing world’, and the publication of the Stiglitz-Sen-Fitoussi Report on the Measurement of Economic ***Performance*** and Social Progress have given new impetus to the key challenge for the ESS, namely how to achieve better statistics on cross-cutting issues and more integrated statistics to describe complex social, environmental and economic phenomena beyond the traditional measures of economic output. Work on GDP and beyond within the ESS focuses on three priority areas: statistics for the household sector and statistics measuring the distribution of income, consumption and wealth; measuring quality of life in a multidimensional way; and measuring environmental sustainability. The new worldwide Sustainable Development Goals (SDGs) adopted in 2015 provide further impetus. The European System of National and Regional Accounts (ESA) offers an integrated and consistent framework for all economic statistics that should be complemented by other ***indicators*** in order to provide more comprehensive information for policy- and decision-making. Full implementation of the ESA 2010 will be supported by regular quality and compliance assessments, taking into account the progressive expiry of derogations until 2020, leading to further improvements in the timeliness and availability of ***indicators***.’ (da) In point 2.1 the first paragraph is replaced by the following: ‘The economic crisis has reinforced the need to have high-quality macroeconomic ***indicators*** in order to better understand and analyse economic fluctuations as well as the evolution of economic inequalities and their effects on society, thereby facilitating the decision-making process. Increasingly globalised production makes it necessary to develop a consistent framework that facilitates the interpretation and integration of statistics from different domains.’ e) Objective 2.1.1 is amended as follows: -i) The second indent is replaced by the following: AG\1129964EN.docx 15/25 PE607.923v01-00 EN ‘— the production of ***indicators*** on income, consumption and wealth distribution across households, and the reconciliation of national accounts aggregates with household survey data or administrative data;’ PE607.923v01-00 16/25 AG\1129964EN.docx EN i) The fourth indent is replaced by the following: ‘— reinforcement of links with national accounts in the areas of social protection, health and education; ‘— development of a measurement framework of quality of life, reinforcing the household perspective in national accounts; ‘— development of ‘GDP and beyond’ related ***indicators*** measuring environmental sustainability and external effects with a national account perspective;’ ii) The following new indents are inserted after the fifth indent as follows: ‘— further development of timely social ***indicators***, including advanced techniques for now-casting and flash estimates; — supporting international data sharing for macroeconomic data to reduce the burden for data producers and improve the availability of comparable and consistent data to users; ‘— development and fine-tuning of aggregated ***indicators*** of income and aspects of wealth inequality; ‘— measurement and analysis of gender inequality, including the wage gap;’ (f) In Objective 2.1.2, the last indent is replaced by the following: '— the availability and extension of harmonised housing price statistics for all Member States.' (g) In Objective 2.2.1, the indents are replaced by the following: ‘— further development of a coherent system of environmental accounts as ‘satellite accounts’ to the main national accounts, providing information on atmospheric emissions, energy consumption, flows of natural resources, trade in raw materials, environmental taxation and spending on environmental protection, possibly including green growth/procurement; AG\1129964EN.docx 17/25 PE607.923v01-00 EN — further development of experimental ecosystem accounts that would allow the use of existing datasets, including those compiled by EU institutions, as part of a long-term data integration initiative; — further development work to better use existing data collections for [….] climate change-related statistics; and — further development of ***indicators*** measuring environmental 'footprints' based on existing datasets.’ h) Objective 3.1.1 is amended as follows: i) The first paragraph is replaced by the following: ‘Increase the efficiency and effectiveness of statistical production processes [……]. In line with the [……] Better Regulation Agenda, [……] the existing legislation related to the pillar of business statistics [……] needs to be streamlined. In [……] this context, due consideration should be given to the limitations of the resources available to producers and the overall burden on respondents in line with the Commission Regulatory Fitness and ***Performance*** Programme (REFIT). Provide high-quality statistics on key areas where enterprises are the centre of interest, such as business statistics, short-term ***indicators***, their investment in human capital and skills, international transactions, globalisation, internal market monitoring, [……] research, development and innovation, and tourism. Special attention should be paid to the availability of data in high value-added industrial or services sectors, in particular in the green, digital, collaborative, health, education and social economy’ ii) The first indent is replaced by the following: '— the reuse of data available in the statistical system or in society, a common legal basis for [……] business [……] statistics and the production of a common infrastructure and of common tools;' PE607.923v01-00 18/25 AG\1129964EN.docx EN (i) Objective 3.2.1 is amended as follows: - i) The first paragraph is replaced by the following: ‘Provide statistics on key the main areas of social policy where the citizen is the centre of interest, such as well-being, sustainability, social cohesion, poverty, inequalities, demographic challenges (in particular population ageing, depopulation, population dispersion and migration), the labour market, education and training, including childhood education, adult learning, vocational training and learning mobility of young people, culture, physical activity, quality of life, safety, health, disability, consumption, free movement and the internal market, mobility of young people, technological innovation and new lifestyle choices. Those statistics shall be disaggregated by gender, where appropriate, for groups that are of special interest to social policy makers. Priorities shall be set in accordance with Article 6. In line with the Better Regulation Agenda, the existing legislation related to the pillar of social statistics needs to be streamlined. In this context, due consideration should be given to the limitations of the resources available to producers and the overall burden on respondents in line with the Commission Regulatory Fitness and ***Performance*** Programme (REFIT).’ -ia) The fourth indent is replaced by the following: ‘— the provision of statistics on inequalities of income, with ***indicators*** such as the Gini Index and the evolution of the top deciles of income distribution providing a comparable national headline ***indicator***, as well as data on inequalities of access to basic goods and services;’ i) The seventh indent is replaced by the following: ‘— the implementation of actions of the work programme on mainstreaming of migration statistics taking into account new challenges, in particular international developments;’ ii) The following new indents are inserted after the seventh indent as follows: ‘— the provision of population projections and of their annual updates; AG\1129964EN.docx 19/25 PE607.923v01-00 EN ‘— the development of comprehensive ***indicators*** on the situation of migrants within the Union; PE607.923v01-00 20/25 AG\1129964EN.docx EN ‘— further cooperation with specialised agencies concerning the situation of refugees; ‘— the development of a methodology for a gender based violence survey of the voluntary nature in cooperation with the European institutions, bodies, offices, or agencies acting in this field; ‘— the putting in place of a common legal basis for social statistics and the production of a common infrastructure and of common tools;’ (j) In Point 3.3, the third paragraph is replaced by the following: ‘***Agriculture*** will remain an important Union policy area. The Common ***Agricultural*** Policy underlined needs for its main objectives namely for viable food production, for sustainable management of natural resources and climate ac

tion as well as for balanced territorial development. Focus will be on environmental, biodiversity/ecosystem-related, economic, human health and safety and social dimensions. ’ (k) Objective 3.3.1 is amended as follows: i) The first paragraph is replaced by the following: ‘Support evidence-based policy-making by a more flexible and increased use of spatial information combined with social, territorial, economic and environmental statistical information for regions, regional typologies, cities and the degree of urbanisation. ’ ii) Two new indents are added as follows: ‘— the implementation of land use and land cover statistics [……] — coordination of statistical data for regions, [……], cities and [……] territorial typologies.’ AG\1129964EN.docx 21/25 PE607.923v01-00 EN (l) Objective 3.3.3 is amended as follows: i) A second paragraph is inserted as follows: ‘In line with the ‘European Energy Union’ priority of the Commission, and to the highest possible extent based on existing data, particular focus will be given to statistics related to energy consumption, energy efficiency, renewable [……] energy sources, energy dependence, aspects of energy poverty and security of supply, and the circular economy. Furthermore, energy statistics will need to support the 2030 policy framework for climate and energy that aims to make the Union’s economy and energy system more competitive, secure and sustainable.’ ii) A new indent is added as follows: ‘— energy dependence and security of supply. ’ (m) Objective 3.3.4 is amended as follows: i) The first paragraph is replaced by the following: 'Provide ***agriculture***, fisheries and forestry statistics for the development and monitoring of the Common ***Agricultural*** and Fisheries Policies, reflecting key European ***strategic*** objectives related to sustainability as well as ***rural*** development by carrying out regular activities related to the development, production and dissemination of statistics. In line with the Better Regulation Agenda, the existing legislation related to the ***agricultural*** statistics needs to be streamlined. In this context, due consideration should be given to the limitations of the resources available to producers and the overall burden on respondents in line with the Commission Regulatory Fitness and ***Performance*** Programme (REFIT).' ii) New indents are added as follows: '— the preparation and implementation of the ***Agricultural*** Census scheduled for 2020; — the putting in place of a common legal basis for ***agriculture*** related statistics and the production of a common infrastructure and of common tools.' PE607.923v01-00 22/25 AG\1129964EN.docx EN (la) The following paragraph is added before the first paragraph of Objective 4.1: European citizens should be able to draw easily and without obstacles on European statistics to enable them to use such data for their education and decision-making. That objective will be implemented by enhancing the user-friendliness of European statistics and by facilitating access to data. Special attention should be paid to easy retrievability and convertibility of statistical data for practical use, including through graphs and maps. A broader range of citizens should benefit from European statistics in order to effectively contribute to enhancing the dissemination of statistical information throughout European societies.’ (2) Point II. Production Methods of European Statistics is amended as follows: (a) The first paragraph is replaced by the following: ‘The ESS is currently facing a number of challenges: the expectations on the scope, quality and comparability of European statistics are increasing; with globalisation, a complex reality has emerged that has to be captured by official statistics and raises methodological challenges; the ever increasing availability of data from private and public providers offer a [……] potential to improve the timeliness and relevance of official statistics as well as to reduce response burden. To face these challenges, while at the same time confronted with constraints on resources, the European Statistical System will gradually implement ***strategic*** goals defined [……] in the ESS Vision 2020, building upon a holistic approach to reach quality and efficiency gains: — to engage proactively in a regular dialogue with users to understand deeper their needs, recognising that different user groups have different needs that need to be addressed in the right way. — to provide high quality products and services and apply a quality approach to the management, organisation, and governance of the ESS. AG\1129964EN.docx 23/25 PE607.923v01-00 EN — to base statistical products and services on both traditional surveys and [……] other sources, including administrative data, geospatial and, where possible, big data. To get access to new data sources, create methods and find suitable technology in order to use [……] such data sources to produce European statistics in a reliable way. PE607.923v01-00 24/25 AG\1129964EN.docx EN — to improve the efficiency of statistical production by further intensifying the sharing of knowledge, experiences and methodologies but also by sharing tools, data, services and resources where appropriate and duly justified. [……] The collaboration will be based on agreed standards and common elements of technological and statistical infrastructure. — to implement a dissemination and communication strategy for European statistics which is flexible enough to adapt to emerging technologies, gives guidance in a world of data revolution and serves as a reliable pillar of democracy.‘ (b) In Objective 1.1, the first indent is replaced by the following: ‘— the introduction of new integrated, effective and fit-for purpose quality assurance mechanism based on the Code of Practice and the ESS Quality Assurance Framework; — assessment of compliance with the Code of Practice;’ [……][……] (d) In Objective 4.1, a new indent is added as follows: ‘— the identification of current and future data requirements to provide multi-purpose and customised end-user products and services [……]; (e) In Objective 5.1, a new indent is inserted after the third indent as follows: ‘— the analysis of needs for new skills related to data science and their integration into training programmes; ’ AG\1129964EN.docx 25/25 PE607.923v01-00 EN (3) Point III. Partnership is amended as follows: (a) In Objective 1.4, three indents are inserted after the fourth indent as follows: ‘— raising awareness of Union citizens to the importance of official statistics and its communication to all stakeholders by celebrating the European Statistics Day on 20 October each year; — disseminating relevant statistical data to support the European Neighbourhood Policy and the respective Association Agreements; — promoting European values and initiatives such as the European Statistics Code of Practice, ESS Quality Assurance Framework, standardisation and harmonisation approaches to third countries and regions;’

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**End of Document**



[***Council of the European Union: COMMISSION STAFF WORKING DOCUMENT Roma integration indicators scoreboard (2011-2016) Accompanying the document Communication to the European Parliament and the Council Midterm review of the EU framework for national Roma integration strategies ST 11801 2017 ADD 1***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PXR-N021-F0YC-N3K7-00000-00&context=1516831)

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11801/17 PL/mz DG B 1C EN Council of the European Union Brussels, 31 August 2017 (OR. en) 11801/17 SOC 557 ANTIDISCRIM 37 POLGEN 113 JAI 747 EDUC 328 FREMP 90 COHOM 98 FSTR 58 FC 66 REGIO 84 COVER NOTE From: Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director date of receipt: 30 August 2017 To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union No. Cion doc.: COM(2017) 458 final Subject: COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL Midterm review of the EU framework for national Roma integration strategies Delegations will find attached document COM(2017) 458 final. Encl.: COM(2017) 458 final EN EN EUROPEAN COMMISSION Brussels, 30.8.2017 COM(2017) 458 final COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL Midterm review of the EU framework for national Roma integration strategies {SWD(2017) 286 final} 2 This midterm review takes stock of the progress since the launch of the EU framework for national Roma integration strategies (NRISs) in 2011. It is based on data on how the situation of Roma have changed and input from national authorities, civil society and other partners. The review confirms the added value of the framework, the relevance of EU Roma integration goals and the continued need for a combination of targeted and mainstream approaches.

The most important improvements prompted by the EU framework include:  the commitment to addressing Roma integration as a priority at European and national levels  structures for cooperation and coordination among Roma inclusion stakeholders  the development, implementation and monitoring of national strategies and integration measures, and  the mobilisation and alignment of legal, policy and funding instruments to fight discrimination and promote Roma inclusion With the development of the necessary structures, the conditions are in place to make a difference in the life of Roma. As regards real change in the situation of Roma between 2011 and 2016, however, it is clear that five years is too short a period to undo centuries of discrimination and deprivation. Progress is visible mainly in the area of education; in particular, the growing participation of Roma children in early childhood education and care points to strong potential for their later development. On the other hand, early school-leaving and poverty risk among Roma, though declining, are still far too high. The growing proportion of young Roma who are not in education, employment or training (NEET) is an alarming signal that translating results in education into employment and other areas requires a more effective fight against discrimination. The review also identifies key priorities for Member States to address and ways to strengthen the EU Framework for NRIS. 1. DEVELOPING THE EU FRAMEWORK In 2011, the situation of Roma,1 Europe’s largest minority (about 10-12 million people), came to the centre of political attention. In the context of the economic crisis, it became clear that tackling economic and social marginalisation and discrimination against Roma is not only a moral duty in line with fundamental EU values, but also, an economic imperative promising long-term benefits for ageing European societies. It was clear that action is needed at both national and EU levels. While Member States are primarily responsible and equipped to change the situation of their Roma communities, the Commission (in line with a call from the European Parliament)2 proposed a new targeted European-level policy instrument: the EU framework for national Roma integration strategies (NRISs).3 1 In line with the terminology of European institutions and international organisations, the term ‘Roma’ is used here to refer to a number of different groups (e.g Roma, Sinti, Kale, Gypsies, Romanichels, Boyash, Ashkali, Egyptians, Yenish, Dom, Lom, Rom, Abdal) and includes travellers, without denying the specificities of these groups. 2 2010/2276(INI). 3 COM(2011) 133. 3 The framework aims to close the gap between Roma and non-Roma in four key areas: education, employment, healthcare and housing. The Commission’s proposal was followed up by Council and European Council conclusions4 marking an unprecedented EU-level commitment to a comprehensive approach to Roma inclusion. Key requirements included: • a commitment by all Member States to developing national strategies • a combination of social inclusion and rights-based approaches, with the fight against discrimination becoming a horizontal requirement across all policy fields • the involvement of regional and local authorities, civil society and Roma in the design, implementation and monitoring of NRIS • adequate and sustainable funding (national budget to be supplemented by EU funds) • monitoring of results, and • mainstreaming Roma inclusion goals in public policies In 2013, the EU Roma framework was strengthened by a Council Recommendation on effective Roma integration measures.5 The Recommendation sharpened the focus on anti-discrimination and extended work on Roma to new horizontal and structural areas. It also introduced, as of 2016, an annual reporting obligation on Member States, contributing to the development of a European system of monitoring. The December 2016 Council conclusions on accelerating the process of Roma integration6 confirmed the Member States’ commitment and called for a midterm review of the EU framework. 2. MOBILISING EUROPEAN LEGAL, POLICY AND FUNDING INSTRUMENTS Since the launch of the EU framework, legal, policy and funding instruments have been mobilised and aligned to promote Roma inclusion. Mainstream EU legislation (the Racial Equality Directive, the Council Framework Decision on combating racism and xenophobia)7 prohibits anti-Roma discrimination, hate speech and hate crime. The European Semester promotes reforms of mainstream policies that are conducive to Roma inclusion. The 2014-2020 European structural and investment funds (ESIFs) include several innovations to link policy priorities with European funding. 4 EUCO 23/11, EPSCO 106665/11. In line with the Council conclusions, all Member States were invited ‘to prepare, update or develop their national Roma inclusion strategies, or integrated sets of policy measures within their broader social inclusion policies’. By 2012, all Member States except Malta had submitted strategies or integrated sets of policy measures. The terms ‘NRIS’ and ‘strategy’ also cover integrated sets of policy measures. 5 OJ C 378 6 14294/16 7 2000/43/EC, 2008/913/JHA 4 2.1 Fighting discrimination Following the adoption of the EU framework, the Commission took a series of measures to fight Roma discrimination. It reinforced its monitoring of Member States’ implementation of anti-discrimination and anti-racism and xenophobia legislation. The Commission continuously monitors Member States’ compliance with the anti-discrimination legislation. There is a particular focus on the fields of education and housing. Cases of systematic discrimination against Roma on grounds of their ethnicity are swiftly investigated. Infringement proceedings concerning discrimination against Roma children in education are ongoing.8 The Commission highlighted that placing Roma children in segregated schools or Roma-only classes with substandard school curricula, and diagnosing them with light mental impairment in disproportionate numbers on the basis of their social disadvantage, are in breach of the Racial Equality Directive. The Commission also monitors Member States’ transposition of the Council Framework Decision on combating racism and xenophobia, and fights racist and xenophobic stereotypes and hate speech and hate crime, including when addressed to Roma. Under this framework the Commission entered dialogue with Member States leading to changes in legislation, established an EU high-level group on combating racism and xenophobia to foster cooperation between relevant actors and reached agreement with the main social media providers on a code of conduct on countering illegal hate speech online. Several important steps have been taken to recognise and fight antigypsyism, as a specific form of racism against Roma and one of the root causes of Roma social exclusion and discrimination: • the 2013 Council Recommendation highlighted the need to fight antigypsyism and encouraged Member States to adopt measures to prevent or compensate for disadvantages suffered by Roma (positive action) • a 2015 European Parliament Resolution9 called on Member States to recognise the Roma holocaust officially and designate a European memorial day • antigypsyism was further discussed at the 2015 European platform for Roma inclusion • European Roma and pro-Roma civil society produced a reference paper on antigypsyism10 • the 2016 Council conclusions referred to antigypsyism and to the recognition and commemoration of Roma genocide, and • the above mentioned high level group combating racism and xenophobia aims to , prevent and counter, inter alia, antigypsyism The Commission has also worked to tackle multiple discrimination against Roma children and women, as groups exposed to high risks of violence, trafficking in human beings (THB),11 8 CZ, HU, SK 9 2015/2615(RSP). 10 [*www.antigypsyism.eu*](http://www.antigypsyism.eu) 5 exploitation, and underage and forced marriage, and to ensure that they are better protected. Promoting the empowerment of both groups, as well as Roma youth, was at the core of the above-mentioned Council conclusions. 2.2 Promoting inclusive reform through the European Semester Through the European Semester exercise, the Commission steers and monitors Member States’ action in order to make mainstream policies more inclusive of Roma. Since 2012, the five Member States most concerned (i.e with the largest Roma communities and most acute challenges)12 have received country-specific recommendations (CSRs) on Roma inclusion. These increasingly focused on education, calling for systemic measures to promote Roma children’s participation in quality inclusive mainstream education. CSRs steered funding priorities in the 2014-2020 programming period. 2.3 Mobilising EU funding The EU framework called on Member States to make full use of EU funds for Roma inclusion. In 2007-2013, the funds took a mainstreaming approach to disadvantaged groups/regions, without explicitly targeting Roma, so the precise amounts of funding for Roma inclusion cannot be quantifed. Disadvantaged groups could receive funding from the European Social Fund (ESF) mainly in the area of social inclusion, but also in the areas of employment and education. The amount allocated to the integration of disadvantaged people (including Roma) into employment was around €10 billion. The amount allocated under the European Regional Development Fund (ERDF) for social infrastructure (benefiting Roma among others) was around €17 billion. The ERDF Regulation was amended in 2010 and the Commission issued guidance in 2011 to support integrated housing ***interventions*** for Roma communities. ***Rural*** development policy supported the inclusion of marginalised minorities, including Roma. For the 2014-2020 programming period, the EU framework and the European Semester have ensured that there is a strong linkage between policy and funding priorities. The link between implementation of CSRs and the ESIFs ensures that mainstream policy reforms serve inclusion goals. For example, the Commission asked Member States that received CSRs calling for enhanced Roma participation in education to select the investment priority ‘socio-economic integration of marginalised communities such as Roma’ and to mainstream Roma inclusion under other relevant priorities (most importantly, ‘fighting early school-leaving and promoting equal access to quality early childhood, primary and secondary education’). Inclusive education cannot be achieved by targeted actions alone, but requires reforms of mainstream education. The 2014-2020 ***rural*** development programmes of the Member States most concerned provide support under priority 6 'promoting social inclusion, poverty reduction and economic development in ***rural*** areas' which includes measures to address the specific needs of marginalised groups including, but not limited to Roma.13 The Commission also encouraged 11 The EU strategy towards the eradication of trafficking in human beings 2012–2016 (COM(2012) 286 final) led to relevant deliverables, such as a 2015 study on high-risk groups for trafficking in human beings and the Report on the progress made in the fight against trafficking in human beings COM(2016) 267 final and SWD(2016) 159 final. 12 BG, CZ, HU, RO, SK 13 Ibid – Targeting is made during the selection process prioritizing projects addressing problems of marginalised groups in ***rural*** areas, mainly under measure 7 'Basic services and village renewal in ***rural*** areas' and measure 19 'Community-led local development.' 6 the involvement of NRCPs in the planning of EU funds, including as members of monitoring committees. For 2014-2020, several new tools have been introduced (in addition to the ‘socio-economic integration of marginalised communities’ investment priority) to improve the effectiveness of the ESIFs as regards social inclusion, including that of Roma: • a new set of requirements to ensure that Member States that allocate EU funds for Roma inclusion, have national ***strategic*** Roma inclusion policy frameworks and meet the pre-conditions for their effective implementation • a more robust partnership principle (as part of a European code of conduct) to guide cooperation with civil society, local authorities and social partners in the planning, implementation and monitoring of EU-funded ***interventions*** • increased earmarked funding for capacity-building for civil society organisations • obligatory minimum allocation ratios for investment in social inclusion • support for the physical, economic and social regeneration of deprived communities that may involve stronger integrated housing measures • territorial and integrated approaches addressing the specific needs of geographical areas most affected by poverty and target groups at highest risk of social exclusion, facilitated by a multi-fund approach • enhanced results-oriented monitoring arrangements (common ***indicators*** focusing on outputs and results) and reporting on a Roma-specific investment priority, and • guidance for Member States on the use of EU funds to tackle segregation In June 2016, the Court of Auditors published the results of its audit on EU policy initiatives and financial support for Roma inclusion, concluding that significant progress in setting out EU policy initiatives promoting Roma inclusion had led to clear improvements for the 2014-2020 period. The Court called for additional efforts to ensure that the new tools improved results on the ground. It also made specific recommendations regarding the use of the ESIFs, data collection and monitoring.14 The Commission has mobilised directly managed EU funding to finance projects fostering Roma inclusion and fighting discrimination across Europe: • The Rights, Equality and Citizenship Programme funds local, national and transnational projects on Roma inclusion and anti-discrimination • The Europe for Citizens Programme supports projects commemorating the Roma holocaust 14 EN 2016, no. 14 7 • The Employment and Social Innovation (EASI) Programme promotes social policy innovation aimed at Roma inclusion • Erasmus+ helps develop lifelong learning measures for Roma inclusion • The Public Health Programme supports initiatives to promote equal access to healthcare, and • The Horizon 2020 research and innovation programme and the Seventh Research Framework Programme fund research on social inclusion, education, including research projects on the mobility of Roma to Western Europe and the impact of educational policies on Roma 2.4 European mainstream policy initiatives European mainstream policy initiatives in the fields of education, employment, social and health can help to promote Roma inclusion. The 2011 Council Recommendation on policies to reduce early school-leaving15 recommends the inclusion of targeted measures for the most vulnerable groups, including Roma. As a follow-up to the Paris Declaration16, the Commission stepped up its support for inclusive education. One of the priorities is to foster the education of disadvantaged children and young people, including Roma, by ensuring that education and training systems address their needs. The youth guarantee and youth employment initiatives of 2013 are particularly relevant for Roma. They played a crucial role in helping to get young people back into work or education, but the Commission has acknowledged that more effort must be made to support ‘hard-to-reach’ young people, such as Roma. Key categories of the European pillar of social rights include equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion. The Commission’s initiatives targeting Roma health are taken forward under a range of general and specific policies. The 2014 Roma health report constitutes an important contribution to improving the knowledge base and mechanisms for monitoring and reporting on the health status of the Roma, with a focus on countries with large Roma populations. 17 2.5 Involving all stakeholders at European level If Roma exclusion is to be overcome, all relevant stakeholders must join forces, fulfilling their responsibilities in the light of their mandates, competences and capacities. In order to promote mutual learning, dialogue and cooperation, the Commission has facilitated and financially supported stakeholder dialogue through the European platform for Roma inclusion, the NRCP network and regular consultation meetings with EU umbrella Roma and pro-Roma NGOs and international organisations. Over the years, the participatory approach and cooperation with international organisations have been reinforced. 15 2011/C 191/01 16 17.03.2015, informal meeting of EU education ministers 17 Roma Health Report 2014 8 2.6 Promoting awareness-raising, Roma participation and capacity-building for civil society and local authorities The Commission has stepped up its efforts to promote awareness-raising, Roma participation and empowerment, and capacity-building for civil society and local authorities. Its ‘For Roma, with Roma’ campaign supported targeted communications activities to combat prejudices and discrimination against local Roma populations. The Commission has launched joint programmes with the Council of Europe: • JUSTROM gives Roma and traveller women greater access to justice • ROMED promotes inclusion by training intercultural mediators • ROMACT builds local authorities’ capacity to develop and implement inclusion measures • ROMACTED promotes good governance and Roma empowerment at local level in Western Balkans and Turkey The Commission has launched a pilot programme to build capacity among local civil society actors in order to strengthen their involvement in the monitoring of NRISs. In 2016, the Commission and the Slovak Presidency organised a high-level event on Roma youth empowerment, which confirmed the urgent need to empower young Roma and actively involve them in Roma inclusion policy. 3. ASSESSING EFFORTS AND RESULTS IN THE MEMBER STATES The political commitment of Member States, translated into national strategies, was a significant first step towards improving the livelihoods of Roma. National approaches to Roma inclusion vary across Member States according to the size and socio-economic situation of local populations. In its annual reports, the Commission has identified the priorities to be addressed by Member States in order to secure effective implementation. These include setting quantifiable targets, ***indicators*** and budget allocations, monitoring the impact of mainstream measures on Roma, cooperation with local authorities and civil society, and the involvement of Roma in all phases of the policy process. Member States have addressed some of these challenges, in particular with respect to their institutional arrangements, stakeholder cooperation, monitoring and funding. However, the impact of their measures on the situation of Roma in education, employment, healthcare and housing remains limited. 3.1 Substantive policy areas The EU framework sets goals to improve Roma access to education, employment, healthcare and housing, and to fight discrimination in these areas. Changes in the situation of Roma (from 2011 to 2016)18 are reviewed below on the basis of Member States’ reports on integration measures, main successes and implementation challenges. 18 Based on the FRA’s 2011 Roma pilot survey and the EU-MIDIS II survey in 2016, see SWD in annex. 9 Measures reported by Member States in the key policy areas and antidiscrimination 3.1.1 Education Education is the main area in which the situation of Roma improved. It is also the most prominent area in Member States’ policy mix for Roma inclusion. There is clear progress in the fight against early school-leaving, with declining rates among Roma in all surveyed Member States (most significant improvements in ES, SK, BG, CZ and RO). This is in line with Member States’ policy focus: a majority of Member States implemented early school-leaving strategies and several met their Europe 2020 target in this area as a result. However, despite the improvements Roma continue to be strongly over-represented among early school-leavers, with rates up to 24 times higher than in the population as a whole. The other clear improvement is in early childhood education and care, where the participation of Roma children grew in most Member States (significant progress in BG, EL, ES, SK and HU, but deterioration in PT and RO). The greater recognition of the importance of early education is reflected in the high number of measures and increased investment in this area, supported by legislative changes such as introducing compulsory kindergarten years (BG, CZ, FI, HU and LT). However, dedicated financial support is required to help the most deprived families with the indirect costs of early childhood education (fees, food, clothing, transport, etc.). Small improvements have been registered in compulsory education, with more than 9 in 10 Roma children covered by compulsory schooling provisions attending education in most Member States (not EL and RO). While education is the area in which the most progress has been made, important systemic challenges remain. Eliminating segregation in education and putting an end to the inappropriate placement of Roma in special needs schools have been highlighted as priorities under the EU framework, the 2013 Council Recommendation, the Racial Equality Directive and the European Semester. There are still trends of persisting, sometimes even growing, segregation, with one to two thirds of Roma children attending schools where most or all 163 58 36 31 72 115 88 57 44 66 Education Employment Healthcare Housing Antidiscrimination Targeted Mainstream 10 children are Roma (SK, HU, BG: 60 % or above; EL, HR, ES, CZ, RO: 29-48 %). 19 This can be explained only partially by residential segregation. Despite the increasing number of Member States investing in measures promoting inclusive teaching and learning methods, active desegregation measures are lacking in several of the countries most concerned and in some cases EU funds have even been used for segregated facilities. Evidence that integrated school settings and mixed classes are mutually beneficial for Roma and non-Roma is still not widely acknowledged. Too little attention is given to other key areas that are indispensable for improving employability, such as second-chance education and skills development in line with labour market needs. Among successes in the area of education, NRCPs mention:  legislative reform  inclusive structures  increasing participation by Roma (especially in early, but also compulsory and vocational, education)  improved multicultural competences  support for Roma students and teachers, and  reaching out to parents Among remaining challenges, they cite:  still-high, though declining, early school-leaving rates  difficulty of promoting effective transition for Roma to upper secondary and tertiary education  language deficiencies, and  discrimination 3.1.2 Employment Improvements in education have not yet been effectively translated into employment. Although Roma employment levels have risen in some Member States (PT and HU), changes elsewhere are smaller or even negative. The NEET rate among young Roma remains alarmingly high and has actually risen in several Member States (51-77 % in ES, HR, BG, SK, RO, CZ and HU, with only PT showing a clear decline). One reason for the lack of progress could be that measures focus on the supply side, i.e employability (through vocational training, lifelong learning, etc.) and do not proportionately address barriers on the demand side, e.g by monitoring and fighting discrimination. Mainstream measures could also target Roma better. 19 EU-MIDIS II (selected findings). 11 The strong employment gap between Roma women and men (widest in EL, RO, PT and HU) 20 is not sufficiently addressed. Avenues to mobilise the private sector and incentivise employers to recruit Roma, who in several Member States represent a significant and growing proportion of the working-age population, should be further explored, e.g through the explicit targeting of Roma under the youth guarantee and social considerations in public procurement. Recently, national employment levels have started to rise in several of the Member States most concerned. Revived economic growth offers a long-awaited opportunity for Roma to (re-)enter the open labour market, provided Member States apply smart policies with effective incentives. Where entry-level wages are extremely low, social benefits not linked to activation measures can constitute an unemployment trap. According to the NRCPs, the single most important success factor is:  targeting Roma through mainstream employment services, e.g via individual support or reaching out through Roma fieldworkers/labour officers Among challenges, the NRCPs refer to:  lack of skills and competences  discrimination  need to impress on employers the importance of diversity management and anti-discrimination, and  better targeting Roma women 3.1.3 Health In the field of health, basic social security coverage remains a challenge, without significant improvement in the countries most concerned, where around half of the Roma population are still without basic medical insurance coverage (BG and RO, but an improvement of over 30 percentage points in EL). This is in spite of measures focusing on removing barriers that prevent Roma from accessing the healthcare system, which often include a lack of civil documentation. The self-perceived health status of Roma has generally improved (with the biggest increases in RO, BG, HU, PT and EL), which points to some success from other health measures, such as those promoting health awareness, access to vaccinations, medical check-ups, pre- and post-natal care and family planning. Improved perceptions of health could also be linked to the declining rate of Roma suffering from hunger on a regular basis in most countries. The civil delivery of services and targeting of Roma women are strongest in the field of health, but health reforms generally fail to target Roma needs explicitly. These findings are confirmed by NRCPs, who mention among successes:  health awareness  promotion of a healthy lifestyle 20 Ibid. 12  focus on prevention  health literacy  Roma health mediators  civil participation, and  cross-sectoral, multi-stakeholder cooperation Challenges raised include:  lack of health coverage and general practitioners in Roma-populated areas  under-use of health services  mental and physical health problems  teenage pregnancies, and  need for more Roma health professionals 3.1.4 Housing In the field of housing, small improvements regarding Roma access to basic amenities can be observed, with the rate of Roma living in households without tap water, toilet, shower or bathroom decreasing in several Member States (especially BG, RO, SK and CZ). Access to electricity supply is also improving slightly, with rates above 90 % in most Member States (not PT and EL). However, in several Member States (CZ, ES, IT and PT), Roma increasingly experience discrimination when it comes to access to housing. In the NRISs, Member States focused on promoting non-discriminatory access to social housing, with some also adopting desegregation measures. However, some of the countries most concerned do not report measures fighting segregation, while others do not address non-discriminatory access to social housing at all. Both areas are of utmost importance for further robust action, potentially financed from EU funds in line with the Commission’s guidance on desegregation. This is especially important in the context of frequent evictions in several Member States. Successes mentioned by NRCPs (which tend to be pre-conditions for future change) include:  housing allocations for marginalised communities under the 2014-2020 ESIF operational programmes  surveys on the housing situation, and  new action plans or ***strategic*** documents on housing Among challenges, they refer to: 13  the limited availability and low quality of social housing  discrimination in the housing market, and  segregation and ghettoisation Priorities to be addressed by Member States:  Promote effective equal access for Roma to quality inclusive mainstream education through legislation, inclusive reforms of public education, sustainable funding and explicit desegregation measures combined with inclusive teaching and learning methods  Monitor and fight discrimination in the labour market as a pre-requisite for improving Roma employment levels. Develop a comprehensive package of mainstream and targeted measures addressing both the supply and the demand side of the labour market. Tackle the gender gap in employment by explicit measures targeting Roma women  Ensure minimum basic social security coverage as an urgent priority, including by solving civil documentation issues, and improve access to other quality healthcare services. Exploit results in Roma participation in early childhood education and care by improving health services and providing free vaccination and medical check-ups for Roma children and their families  Address spatial segregation with a complex integrated long-term approach. Prevent forced evictions on ethnic grounds and offer alternative housing to evicted families (including through ESIF investments) to avoid homelessness and greater exclusion, and  Introduce safeguards to ensure effective equal access for Roma to mainstream measures and quality services in education, employment, health and housing. Target the specific needs of Roma in the context of public policy reforms 3.2 Use of EU funds In 2014-2020, Member States allocated a total of €42.3 billion in ESIF funding to promote social inclusion and fight poverty and discrimination, enabling actions targeting the socially disadvantaged (including, but not limited to Roma): • €21.2 billion from the ESF, i.e 25.6 % of the total ESF budget – well above the minimum 20 % required under the Regulation • €11.9 billion from the ERDF, and • €9.2 billion from the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD) 12 Member States allocated €1.5 billion (i.e 3.5 % of the total allocation for social inclusion) to the priority explicitly targeting Roma. In addition, 11 Member States allocated a total of €447 million to combating discrimination. 14 Investment priority (IP) Member States that selected the IP Financial allocation Socio-economic integration of marginalised communities such as Roma AT, BE, BG, CZ

, ES, FR, EL, HU, IT, PL, RO, SK €1.5 billion The majority of funding (€1.2 billion) is concentrated in BG, CZ, HU and RO. Combating all forms of discrimination and promoting equal opportunity BE, CY, CZ, DE, ES, FR, EL, IE, PL, PT, SK €447 million Other relevant social inclusion priorities are active inclusion, access to affordable, sustainable and high-quality services, and health and social infrastructure. Roma can also be supported under the ‘education’ objective (e.g early childhood education and primary schools) and the ‘employment’ objective (where relevant priorities include access to employment, and social entrepreneurship). Several Member States predominantly rely on EU funds to implement integration measures, without national investments or adequate monitoring and reporting of the impact of ESIF-financed ***interventions***. Priorities to be addressed by Member States:  Ensure sustainable national funding of integration measures  Measure and report the impact of integration measures on Roma school attainment, employment levels, desegregation, access to health, housing and quality services, and  Use 2014-2020 funds to upscale, extend and multiply smaller-scale initiatives that proved successful in 2007-2013 3.3 Fighting discrimination Member States have put in place legal frameworks prohibiting discrimination, hate speech and hate crime, but the enforcement of EU legislation with regard to Roma remains a serious challenge. Overall, the situation has not improved over the years. Discrimination and racism affecting Roma is still present and widespread in all key areas. Hate speech and hate crime continue significantly to affect the Roma community. The lack of progress can be explained by several persisting challenges, including:  lack of political will at national, regional and local levels to ensure non-discrimination and equal treatment  administrative practices that can result in discriminatory practices or segregation  lack of data  under-reporting 15  scarcity of case-law, and  inadequate protection for Roma victims of discrimination and hate crime Despite the lack of progress, some positive developments should be recognised:  the adoption of new legislation and/or essential legislative amendments that have a direct impact on Roma, in particular in the area of education (HR, CZ, EL, HU, RO and SK)  increased cooperation and networking between key actors, such as NRCPs, equality bodies, legal practitioners, civil servants, police, service providers (including teachers), municipalities and members of Roma communities  efforts by national equality bodies to support Roma victims  prevention, awareness-raising, promotion of anti-discrimination standards and activities sensitising people to the situation of the Roma, including possible vulnerability to become victims of trafficking in human beings , promoting best practices in countering hate crime, hate speech and negative stereotypes, and  enforcement of national case-law on discrimination (Although in many Member States, court rulings and decisions recognising anti-Roma discrimination are not properly followed up.) The Commission supports Member States’ efforts in a number of ways, including work to enhance the role of national equality bodies and promote equality data collection. Priorities to be addressed by Member States:  Fully transpose and enforce anti-discrimination and anti-racism legislation and safeguards, e.g by guidance targeting the regional and local levels  Support the development and operation of effective and independent equality bodies, and  Fight antigypsyism by specific measures, addressed to majority society and stakeholders, to counter negative stereotyping and stigmatisation of the Roma community, and support civil society 3.4 Involving all stakeholders at national level Following the Commission’s guidance, Member States started to put in place the structural pre-conditions for the successful implementation of their strategies, including cooperation and coordination with relevant stakeholders. They began investing in internal policy coordination, ***strategic*** planning and stakeholder dialogue. Within their respective administrative structures, they designated NRCPs to coordinate Roma-related policies. The NRCPs have become increasingly involved in coordination and contribute to policy-making and the use of national and EU funds. Strengthening their human and financial resources would allow them to perform their tasks more effectively. 16 Most Member States established mechanisms to coordinate Roma inclusion efforts. Dialogue structures have improved considerably thanks to EU financial support for the development of national platforms for Roma inclusion. In all, 15 Member States have taken an advantage of this to date and developed national consultation processes convened and managed by NRCPs. However, important obstacles persist, such as a lack of capacity and sustainable funding, insufficiently transparent and inclusive involvement of civil society, and local authorities’ limited administrative capacity to implement sustainable integrated measures. Roma youth could be further encouraged to play an active role in shaping policies that directly impact them. Although the situation of Roma children and women is addressed by mainstream policies in the majority of the Member States, targeted ***interventions*** are also needed. Priorities to be addressed by Member States:  Strengthen NRCPs’ human and financial resources, and enhance their coordination role  Promote capacity-building, sustainable funding and the transparent and inclusive involvement of Roma, civil society and local authorities, and  Empower Roma youth, children and women as active players in the inclusion process 4. STAKEHOLDER ASSESSMENT OF ACHIEVEMENTS AND CHALLENGES The Commission invited European and national NGOs, international organisations, experts and NRCPs to provide their assessment of the key strengths and weaknesses of the EU framework, ways to improve it and priorities for action. Analysis of their contributions reveals a strong consensus on the achievements, challenges and priorities at European and national levels, suggesting that stakeholders appreciate the steps taken so far, but would like to see further reforms/improvements in addressing the challenges. 4.1 Achievements There is broad consensus that the biggest achievement of the EU framework is putting Roma inclusion high on the European and national political agendas, creating political commitment to concrete, large-scale, long-term integrated action. Stakeholders widely believe that annual monitoring and reporting from the Commission, targeted policy guidance for Member States, data collection and the more recent reporting obligation of Member States are all crucial to keeping the issue on the policy agenda and improving knowledge and evidence-based policy-making. The mobilisation of mainstream European legal, policy and funding instruments is another recognised result. Stakeholders attach great importance to the Commission’s commitment to enforcing the prohibition of discrimination and its drive for inclusive reform of mainstream policies (through CSRs under the European Semester). Aligning EU funding with policy priorities in 2014-2020 is considered even more important. The new Roma-specific investment priority, the associated ex ante conditionality and the partnership principle under the European code of conduct receive most recognition. The development of European and national coordination structures, creating spaces for Roma participation and cooperation between stakeholders are recognised. The designation of NRCPs to coordinate the development, cross-sectoral implementation and monitoring of NRISs, and 17 their increasing involvement in planning the use of the ESIFs and mainstream policies, are appreciated. The creation of the European platform for Roma inclusion in 2009 and the national platforms in 2015, and the role of equality bodies in the fight against discrimination are other strong points mentioned. Finally, there is recognition of the fact that the EU framework has adapted over time to address emerging priorities and gaps. In particular, the growing EU-level recognition of antigypsyism and the Council Recommendation extending the framework to new areas stand out. As regards the specific achievements of the NRISs, NRCPs emphasise progress on the horizontal and structural pre-requisites of implementation:  revising Roma integration strategies  mainstreaming Roma inclusion in other areas  drawing up local action plans  local authorities becoming more active  knowledge development (surveys, guidance, training)  recognition of the Roma minority, language, culture and history  developing coordination structures  Roma participation, and  legislative reform Concrete progress in the situation of Roma is referred to much less frequently. 4.2 Challenges and priorities The most important overarching challenge and priority is the still-limited impact of the EU framework in improving the situation of Roma. This is often linked to external factors, such as the economic crisis or the alarming rise of xenophobia and nationalistic, populist political movements. Other factors highlighted include the lack of local commitment and capacity to implement integration measures and access funding. The perceived challenges underline the enduring importance of the key policy areas. Most stakeholders emphasise education (in particular, early education and desegregation) and housing (in particular, forced evictions and spatial segregation). However, translating improvements in employability into real employment and ensuring access to basic health services are also mentioned. Many civil stakeholders believe that the EU framework would benefit from a greater focus on anti-discrimination, in particular the fight against antigypsyism as a root cause of Roma exclusion. Other challenges and priorities largely overlap with the achievements. Stakeholders refer to declining levels of political commitment, with emerging priorities, such as the refugee crisis, 18 shifting Member States’ attention away from Roma inclusion. As regards reporting by Member States, they call for more transparency, further development and closer involvement of civil society in monitoring, which should also facilitate peer learning. They call for more attention to fighting discrimination, e.g by launching more infringement proceedings and imposing sanctions on non-compliant Member States. Regret is expressed at the fact that the Commission’s Roma-targeted and mainstream policy guidance under the EU framework and Europe 2020 is not enforceable. There are calls to target Roma more explicitly under European and national programmes, such as the youth guarantee and Erasmus+. Many point to possible further improvements in the use of the ESIFs and call for NGOs and local authorities to be given direct access to funds, for better enforcement of ex ante conditionalities, sanctions for failure to uphold the partnership principle, better monitoring (through an increased role for the Commission and Roma themselves) and action to prevent the ineffective use of funds (e.g training programmes not leading to employment) or their misuse (e.g ESIF ***interventions*** financing segregated settings), including through a transparent complaint mechanism. As regards coordination structures, challenges include NRCPs’ evolving but still-insufficient mandate, capacity and resources, insufficient Roma participation and the need to ensure more transparent and inclusive involvement, capacity-building and access to funding for civil society. Various stakeholders call for continued and more flexible support for national Roma platforms, extending to more Member States and allowing transnational cooperation. There could also be greater coordination between the national and European Roma platforms. As regards the targeting of the EU framework and NRISs, some criticise the focus on marginalised Roma and recommend increasing investment in, and empowerment of, Roma youth, women and children, and paying more attention to the intra-EU mobility of Roma. 5. ROMA INCLUSION IN THE ENLARGEMENT PROCESS The EU framework states that Roma integration goals apply equally to enlargement countries. The Commission included Roma integration as a key priority in its enlargement strategy. Although Roma inclusion has been prioritised in the political agenda in the enlargement region since 2011, there has been limited progress on the ground. Most Roma still suffer from multi-dimensional social exclusion, notably in education, employment, health and housing. The integration difficulties faced by internally displaced Roma following the Balkan wars have not been fully addressed and are now exacerbated in some countries by the need to cope with returnees. In most countries, the lack of civil documentation still gives rise to real problems for some Roma. The Commission’s policy of promoting Roma integration in the enlargement region has involved: • supporting all countries in developing a Roma integration strategy and action plan, and monitoring its implementation • working with each Western Balkan government to organise a biennial Roma integration seminar with public authorities, civil society and international organisations. The implementation of seminar conclusions is monitored annually in the respective Association Agreement subcommittees • putting Roma integration at the heart of the enlargement process by identifying concrete Roma-related targets in key policies such as the visa liberalisation roadmap and the chapter 23 negotiations (judiciary and fundamental rights), and • mobilising EU funding for Roma inclusion (Under the 2007-2013 instrument for pre-accession (IPA I), the Commission allocated substantial funds for Roma inclusion and 19 commissioned an independent evaluation to identify possible improvements for future financing. Under IPA II (2014-2020), it intends to enhance and better target Roma inclusion funding, with improved cooperation with international organisations.) Since 2016, all enlargement countries have NRIS and action plans, and put in place NRCP and national Roma Platform structures. The Commission is fully committed to maintaining support for Roma inclusion stakeholders, with a particular emphasis on the involvement of civil society, cooperation with other donors and improved monitoring tools. 6. CONCLUSIONS This review has confirmed the added value of the EU framework, the relevance of EU Roma integration goals and the continued need for a combination of targeted and mainstream approaches, whereby targeted measures can help to eliminate barriers to effective equal access for Roma to rights and services in mainstream public policies. The consultations with stakeholders confirmed their recognition of, and continued demand for, a European commitment based on an enhanced EU framework. This is equally valid for the enlargement countries. In response to the Council’s call to propose a post-2020 European ***strategic*** approach to Roma inclusion, the Commission will go beyond this review and launch a full in-depth evaluation of the effectiveness, efficiency, coherence, relevance and added value of the EU Framework for NRIS, covering all key elements of the European and national approaches to Roma integration, including the policy, legal and funding instruments that have been aligned and mobilised since the 2011 launch of the EU framework. The evaluation will further explore ways to develop the EU framework and feed into the planning for targeted and mainstream EU policy, legal and funding instruments post-2020. The results of this stocktaking highlight the following conclusions as priorities for strengthening the implementation of the EU framework: HORIZONTAL AREAS • Reinforce and distinguish the anti-discrimination and antigypsyism focus both under the EU Framework and NRIS • Promote Roma participation and empower Roma children, youth and women Antigypsyism goes beyond the legal notion of discrimination. It can be addressed as a separate thematic area with specific measures, such as awareness-raising, informing about the mutual benefits of Roma inclusion and inter-ethnic community-building. Fighting antigypsyism should include measures to prevent and counter bias-motivated hate crime and hate speech targeting Roma. At the same time, it can also be considered a horizontal priority to be addressed through ***indicators*** or by promoting Roma participation in all key policy areas. The civil society monitoring project and Commission-facilitated peer learning between Member States and key stakeholders have the potential further to operationalise action in this area. Fighting antigypsyism and stereotypes by targeting majority society is a pre-condition for generating political will and for the success of any Roma inclusion ***intervention***. In order to ensure close interaction of anti-discrimination and social inclusion approaches, reporting under international human rights mechanisms could more systematically complement the monitoring of discrimination and antigypsyism under the EU framework, through closer 20 cooperation with organisations such as the Council of Europe, the United Nations and the Organisation for Security and Cooperation in Europe. Further work by the EU’s Agency for Fundamental Rights (FRA) on integrating rights-based ***indicators*** under the reporting framework and more in-depth analysis of the fight against discrimination and antigypsyism in each area of the framework are welcomed. To promote Roma participation, specific groups that have an active role in driving Roma integration should be empowered further. This includes taking an integrated lifecycle approach in policy ***interventions*** targeting Roma youth, women and children, and improving their participation in all stages of the policy process and decisions affecting them. STRUCTURAL AREAS • Reinforce partnership and support more inclusive coordination structures • Consolidate a transparent system of reporting and monitoring to feed policy learning • Support independent civil society Fora for cooperation at both European and national levels should be maintained and become more transparent and inclusive. More Member States should set up national Roma platforms, with more flexible support and closer links to the European platform. Concrete follow-up to the work of the EU high-level group on combating racism, xenophobia and other forms of intolerance could contribute to better national-level responses to hate speech and hate crime targeting Roma. More transparent national reporting, greater involvement of civil society in reporting and monitoring, and the development of a Roma integration policy learning tool to provide evidence-based policy guidance and support peer learning could enhance political commitment and accountability on Roma integration. Direct EU funding, including under the rights, equality and citizenship programme, could be used more to support local civil society empowerment and capacity-building, improving access to funds, quality of implementation and independent monitoring. KEY POLICY AREAS AND THE USE OF POLICY, LEGAL AND FUNDING INSTRUMENTS • Focus on a limited number of key areas to be addressed by the coordinated use of policy, legal and funding tools for visible results • Ensure more effective use of and better access to EU funds While EU Roma integration goals in the key policy fields of education, employment, health and housing remain relevant, in order to accelerate the improvement of the situation of Roma communities, efforts should focus on a limited number of critical areas and targets, allowing for the combined use and aligned monitoring of targeted and mainstream policy, legal and funding tools. Setting a limited number of specific national quantitative targets with ***indicators*** for selected inclusive reforms and major targeted ***interventions*** under each area could help to focus action and achieve a greater impact. 21 A closer alignment of inclusive reforms of the mainstream policies with Roma integration priorities under NRIS and access to ESIF in specific areas, combined with reinforced conditionalities and partnership principle could focus attention and bring visible results.

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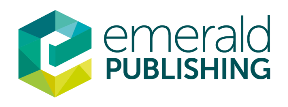


[***Empowering women and stimulating development at bottom of pyramid through micro-entrepreneurship***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5V6X-0HW1-JB00-30D9-00000-00&context=1516831)

Management Decision

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**Body**

**ABSTRACT**

Purpose

The purpose of the paper is to address the sustainability issue of Self-help groups by means of developing small business/micro-entrepreneurs.

Design/methodology/approach

The causal relationship between empowerment through SHG and micro-entrepreneurship is being investigated by estimating empirical data through structural equation modelling with second-order latent factor.

Findings

Empirical examination supports the causal relationship between empowerment through SHG and small business.

Research limitations/implications

The study is conforming the policy of group forming and, at this stage, develops a conceptual framework but with real implications for comprehensive policy decisions.

Originality/value

There are many studies on the women empowerment aspect of SHGs. However, few attempted to find out how the micro-entrepreneurs emerging from SHGs.

**1. Introduction**

India has shown good economic growth in past two decades; however, India’s rank in the human development index has remained low hovering around 130. Eradication of poverty has remained the most important challenge faced by India. Poverty increases the gap between men and women while economic development narrows down the gap through its gender promotional activities. One effective way to fight poverty especially in the ***rural*** areas is to encourage entrepreneurship particularly among women. Schumpeter (1936) pointed out that creation of new business is an important driver of economies. Entrepreneurship acts as a mechanism for socio-economic development, reduction in poverty, and employment generation (Austin et al., 2006; Audretsch, 2012; Baumaol and Storm, 2007; Galindo and Méndez-Picazo, 2013). Generation of employment for people in the ***rural*** areas through entrepreneurship results in inclusive growth.

A new concept developed by London and Hart (2011) called Base of Pyramid (BoP) 2.0 talks about creating opportunities for people who are at the base of the pyramid and earning US2$ per day. The new concept talks about how to involve people who are at the base of the pyramid in the socio-economic development of the country rather than treating them as redundant. Generating entrepreneurial opportunities for people at the base of the pyramid is important for inclusive growth (Hall et al., 2012). In India, creating employment opportunities at BoP through entrepreneurship will help in inclusive growth. This growth will be more pronounced if employment can be generated for women.

Research indicates that women are and will remain the drivers of economic development. Economies grow faster and poverty reduces if there is parity between men and women. A vast number of firms created and led by women in the past 20 years have attracted the interests of scholars and practitioners all over the world (Mari and Pogessi, 2016). Lortie et al. (2016) showed that gender positively influences the social ***performance*** of an organization.

Studies have shown that raising female-to-male employment levels can increase GDP growth rate by as much as 34 percent in case of some countries, and productivity can increase by as much as 25 percent as per the United Nations Industrial Development Organization (UNIDO) report. This is because as women start earning, they spend more on the education of the children and their well-being (Doepke and Terlilt, 2011). They create human capital and create jobs to stimulate economic growth. As per the UNIDO report, by 2020, 870 million women will enter the economic mainstream for the first time as consumers, producers, employees, or entrepreneurs. The economic impact of this on development process will be significant. Duflo (2011) has found out a bi-directional relationship between empowerment and economic development. Women empowerment and economic development can be stimulated by entrepreneurship.

Both men and women face problems in setting up the enterprises, but women face more problems especially in ***rural*** areas in terms of lack of access to education, finance, and so on. Self-help groups (SHGs) in India have partly solved that problem. SHG is an effective instrument for eradication of poverty and acts as a catalyst for social upliftment of the members.

SHGs are associations of 10-20 members who come together to find solution to their common problems. The main objective of the group is to help villagers mainly women to develop the habit of small savings. This ultimately facilitates access to credit. Members of SHGs are encouraged to set up their own micro-enterprise with the help of the credit. As per Micro, Small & Medium Enterprises Development Act, 2006, a micro-enterprise is defined as an enterprise whose investment in plant and machinery does not exceed Rs25 lakhs in case of the manufacturingsSector and Rs10 lakhs in case of the service sector. Setting up micro-enterprise helps in empowerment of women. Empowerment is measured through their capacity to take decision regarding education of their children and their marriage, ability to stand against the evils of the society, and access to resources and property.

Researchers have studied about the empowerment aspects of SHGs. Most research looked into how SHGs are empowering women. There is also vast body of research on the impact of empowerment on economic development. However, there are limited studies on how empowered women of SHGs are turning into micro-entrepreneurs. Our research extends the research in several ways. This study looks at how SHGs are empowering women to become micro-entrepreneurs. Researchers have not studied this aspect so far.

The paper is organized as follows. The next section will deal with theory and hypotheses’ development. Section 3 illustrates research model. The research methodology is discussed in Section 4. Section 5 discusses the empirical results. The penultimate sections discuss about the limitations of the study and future course of research. The final section summarizes the results.

**2. Theory and hypotheses’ development**

**2.1 SHGs**

SHG started as a pilot project by National Bank for ***Agriculture*** and ***Rural*** Development (NABARD), India, in the year 1992. The basis objective was to give collateral-free credit to the poor. The money can be used for lending among them to meet their needs and to set up micro-enterprises. A total of 10-20 members are allowed to form groups. They form groups based on mutual trust for each other. To develop the corpus fund, each member contributed a small sum of money every week. Six times the savings was given as cash credit after 6-8 months. After the project was very successful, the government decided to scale it up. SHGs were formed not only under NABARD but also under Swarnajayanti Gram Swarojgar Yojana (SGSY). The state governments in various states of India had taken a policy decision to set up SHGs as a major poverty alleviation initiative with a view to ensuring a sustainable economic development that would be labor intensive and equitable combined with the development of the social sectors specially directed toward the poor. Various programs administered by different departments of the central and the state governments, like SHG-Bank Linkage Program (BLP) initiated by NABARD, and the social intermediation program followed by NGOs, have accelerated the process of organizing the poor, particularly women into SHGs. In West Bengal, more than 100,000 SHGs have been formed by different organizations (both government and non-government) with SGSY-SHG-based program implemented by ***rural*** development department) contributing formation of about 55,699 SHGs. The ministry of ***rural*** development launched National ***Rural*** Livelihood Mission (NRLM) replacing SGSY scheme with effect from April 1, 2013. NRLM happens to be the flagship program of the government of India for eradication of poverty. The primary block of NRLM is forming women SHGs on the basis of mutual affinity. NRLM has taken a saturation approach and will ensure that at least one woman from a poor family is motivated to join the SHG.

A vast body of literature can be found on the SHGs in India and other micro-credit organizations all over the world. SHGs have played an important role in the financial system of India (Basu and Srivastava, 2005; Shah et al., 2007; Sinha, 2006). The importance of collateral-free loan on the poor has been proved by Grameen Bank experience (Yunus, 2004). A study by Deininger and Liu (2009) found that longer program exposure has resulted in a positive impact on consumption, nutritional intake, and asset accumulation. A study by Pitt and Khandker (1998) analyzed the impact of Grameen Bank and two other micro-credit organizations of Bangladesh on labor supply, schooling, household expenditures, and assets. They found that program credit has a larger effect on the behavior of poor households in Bangladesh where women are program participants. A study by Swain and Wallentin (2008) found that there is a positive impact of SHGs on empowerment. The study observed that there has been significant improvement in the empowerment level of SHG members compared to the control group. A study by Anand (2002) found out that the impact of being part of SHG has been positive. Many women are taking a stand against evils of the society such as alcoholism, illiteracy, and dowry. However, there are studies which challenge the effectiveness of SHGs in eradication of poverty and empowerment. There are studies which have shown that SHGs have not yielded the result expected from them. A few studies find no impact (Banerjee et al., 2013) or a negative impact of micro-credit on women’s decision-making power, especially where loans are controlled by the husbands and where women depend on them for repayments (Garikipati, 2012; Goetz and Gupta, 2006). Some studies that were focused on the state of Andhra Pradesh find little evidence for women’s empowerment. Investigating 291 married couples from two villages in Mabubnagar district in 2001-2003, Garikipati (2012) finds that lending to women helps households diversify livelihoods and reduce their vulnerability to shocks, but fails to empower women. Banerjee et al. (2013) also find no impact of micro-finance institutions (MFIs) on women’s decision making, using data from slums in the capital city of Hyderabad in Andhra Pradesh, in 2005-2007.

Thus, from the above review of literature, it can be concluded that while in some cases SHGs played an important role in empowerment of women, in other cases the SHGs have failed to produce desired results. Our study is based on the positive role played by SHGs in turning women into micro-entrepreneurs and thereby helping in empowerment of women and economic development. It also looks into the factors which can be instrumental in ensuring that SHGs play an important role in promoting micro-entrepreneurship, empowerment, and economic development. SHG is a people’s scheme and its organization is a significant step toward empowering women (Mittal, 1999). SHGs gain importance from the human resource development point of view. According to Gore (2001), development is social + economic + political, so development is incomplete without developing the human resource of a given community.

**2.2 Dimensions of empowerment**

Empowerment is multi-dimensional – for instance, economic decision making does not necessarily imply that the woman can decide on birth control and contribute to non-financial decisions. This makes alternative development initiatives, such as political quotas, awareness generation, and property rights, important ***interventions*** for empowering women (Armendáriz and Morduch, 2010; Kabeer, 2005). Factors such as legal and regulatory framework and social norms and culture also have a significant impact on the empowerment process (Beteta, 2006). Investigating the factors that lead to empowerment of SBLP members, Swain and Wallentin (2012) find that economic factor is among the most significant factors for women empowerment. Autonomy of the member in decision making and social attitudes are other factors that contribute significantly to empowering the SBLP female clients. In another study, Hashemi et al. (1996) investigate the change in women empowerment with the help of an ethnographic study and quantitative survey. Based on 1300 women sample data to measure the effects of Grameen Bank and Bangladesh ***Rural*** Advancement Committee, they create an empowerment ***indicator*** built on the following eight criteria: mobility, economic security, ability to make small purchases, large purchases, involvement in major household decisions, relative freedom from domination by the family, political and legal awareness and participation in public protests and political campaigns. Measuring women empowerment by constructing indices is an inappropriate technique as it allows the use of arbitrary weights. In a comprehensive study, Pitt et al. (2006) use the item response theory, where the element of analysis is the whole pattern of a set of binary ***indicators*** that proxy for woman’s autonomy, decision-making power, and participation in household and societal decision-making. They find that credit programs lead to women taking a greater role in household decision making, having greater access to financial and economic resources, having greater access to financial and economic resources, having greater social networks, more bargaining power vis-à-vis their husbands, and having greater freedom of mobility.

Political empowerment can be seen as the awareness and power to act in accordance with the rights and rightful role of women. The ways of achieving political empowerment are as follows: political awareness, participation in political activity, membership in political parties, and position of power. While associating with groups, women are provided a firm base for dialog and cooperation in programs with other institutions such as government departments, cooperatives, financial, and Panchayat Raj Institutions. In this process, they are becoming aware about the political factors and getting involved in political affairs as well.

Improved networking, better communication, and greater mobility also empower women (Swain and Wallentin, 2009). Browning and Chiappori (1998) suggest that social pressure may also alter the woman’s power within household decision making. The inclusion in SHG encourages the women members to participate in the community, thereby making them more active in the democratic system. Increased female representation in local governments, voting, and involvement in politics, as well as in informal organizations to solve community problems are factors that lead to further empowerment of women (Bardhan and Klasen, 1999).

The hypotheses that will be tested in this paper based on the above-mentioned theory are as follows:H1. SHG linkage is positively influencing different dimensions of empowerment – economic, political, social, external communication, and network.

According to Taylor (2000), dimensions of empowerment – economic, social, political, psychological, and educational – are interlinked and cannot be isolated:H2. Subsequently, all the dimensions converge to women empowerment.

**2.3 SHGs and micro-entrepreneurs**

Women as part of SHGs create sustainable forms of livelihoods through entrepreneurship (Parasuraman, 2017). The SGSY was launched as an integrated program in 1999 to create employment for ***rural*** poor people. It helps in organizing them into SHGs and helping them through training and assistance from government. The main focus of the program is to create large number of micro-entrepreneurs for sustainable income generation. Emphasis is given on training, credit, marketing, and infrastructure (SGSY website). Recent programs such as SHG-BLP are now expanding to reach out to 100 million women (NABARD, 2016). The main aim of SHG-BLP is to encourage social empowerment through financial skill development. The program aims to develop micro-entrepreneurs by imparting skill training under Micro Enterprise Development Program launched by NABARD a decade ago. The number of SHGs linked to bank increased to 7.9 million in 2016. The alignment between NABARD and NRLM/State ***Rural*** Livelihood Mission ensures that more SHGs receive loans in recent years. NRLM has been working to enable 70 million ***rural*** poor households to attain their livelihoods with the help of SHGs (Parasuraman, 2017).

SHGs have been instrumental in generating ***rural*** livelihoods for women and in eradicating poverty. They have been able to generate income and contribute to social development. Members of SHGs are involved in a number of micro-businesses such as beauty salons, dairy, candle-making, ***agriculture***-based activity, animal husbandry such as goat farming, floriculture, handicrafts (Zari, Kantha, Shola, etc.), sericulture, “dhoop”-making, and mat making. Women who have been able to set up their enterprises benefited significantly. It adds new dimensions to their lives. They have been saved from traveling long distances for petty jobs. It gave them the freedom from economic hardships. It increased their level of confidence and gave them the opportunity to participate in family affairs and take a stand against the evils of the society.

Many of these women set up their own enterprises. Women entrepreneurship results in further empowerment of women. It involves a multi-dimensional process (Swain and Wallentin, 2012). According to researchers, micro-finance helps in empowerment of women through generation of income. This will result in increased bargaining power which will help in allocation of resources even within the household. There are studies which have emphasized about the impact of MFIs on women empowerment in terms of decision making and greater awareness (Swain and Wallentin, 2009, 2012; Malhotra and Schuler, 2005). Mayoux (2001) concluded that micro-finance programs in Cameroon resulted in women empowerment through the development of network of women and social capital. Micro-credit is also seen as a means to attain gender equality (Rhyne and Otero, 1994). Micro-finance helps in creating micro-entrepreneurs. SHGs mainly result in women micro-entrepreneurs. Women entrepreneurs are being considered as engines of growth (UNIDO). Okah-Efogo and Timba (2015) showed that female entrepreneurship contributes toward economic growth by reducing unemployment particularly for women, generating revenues for government and enhancing human capital skills. The third hypothesis which is being tested in the paper is based on the review of literature and is as follows:H3. Empowered women of SHGs are turning themselves into micro-entrepreneurs.

Thus, there is a vast body of literature on SHGs and how they play an important role in women empowerment. There is also literature on women entrepreneurs and their contribution to economic development. However, very few studies can be found on how SHGs are helping in creation of micro-entrepreneurs.

Congruence of different dimensions of empowerment encourages development of small business/micro-entrepreneurship. This process inexorably ensures sustainability. Formation of SHG is considered as a rudimentary base for creation of micro-entrepreneurship.

**3. Research model**

Figure 1 presents the proposed research model for this study. The model is a structural model with second-order factor which is women empowerment whose latent ***indicators*** are economic empowerment, social empowerment, political empowerment, and external communication and networks. Subsequently, the second-order latent factor causes the decision to start micro-entrepreneurship and acts as a mediator. It is not a mediator, but rather a spurious cause of its ***indicators*** and the endogenous variables (Kenny, 2016). Figure 1 captures the relationship between all variables in the proposed research. In this research framework, we do not assign any artificial weight to latent factors.

**4. Research methodology**

**4.1 Data**

Estimating latent factor women empowerment requires a spectrum of questions and sample size. Data constraints have been a major challenge for this study, and one of the authors personally interviewed everyone. The survey uses a quasi-experimental design, with a pre-coded questionnaire to collect data. In this study, we have interviewed 906 SHG members of West Bengal; of this, 508 members are associated with SHGs for more than four years and treated as group 1 in subsequent analysis and the remaining 398 are associated for less than four years and are treated as group 2. The SHGs studied by us were formally linked with banks and begun their operations in 2005. So our study covered a period of around 11 years. We have tried to assess whether there is any change of mindset toward entrepreneurship amongst women who are for a long period of association with group and those who are relatively new and in a new political regime as well.

The sample composition of this study is reported in Table I.

**4.2 Measurements and scale**

This study used self-administered questionnaires which were developed using a five-point Likert scale. The instruments contained a total of 24 items: four items for economic empowerment, five items for social empowerment, three items for political empowerment, nine items for external communications and network capability, and three items for women empowerment which are formulated and used by Swain and Floro (2012). While developing the questionnaire, a pilot survey has been done to validate the questionnaire. The pilot survey has been done in Kumra Block of Habra district, Kolkata, and in Baranagar of North 24 parganas with 150 respondents. The final version of 24-item questionnaire has an average content validity coefficient (V-value) of greater than 0.7 (p<0.01) The V-values with each item in questionnaire are presented in Table AI. For development of items, literature review has been done along with expert opinions.

Reliability and internal consistency of the responses were checked using Cronbach’s α (Cronbach, 1951). Table II lists Cronbach’s α values for instruments used in this study.

**5. Results and discussion**

**5.1 Model estimation**

To estimate latent women’s empowerment, we need to rely on observed ***indicators*** that capture the increment in empowerment. Swain and Wallentin (2009) explain that women are empowered when their well-being increases through participation in non-traditional domains. In South Asia, decisions such as buying and selling of land and property, family planning and use of contraception, and decision to educate a girl child and marriage of an off-spring remain outside the domain of women’s decision making (Swain and Wallentin, 2009; Kabeer, 2005). Based on the extant literature, we have selected our observed ***indicators*** to corroborate with the definition of women’s empowerment. We have chosen three ***indicators*** (Table AI) and enquired about those three from our respondents. The questionnaire survey revealed that after joining the SHG, in 30 percent cases, participation in property-related matters increased. Decision over family planning is another factor measuring empowerment, and 30 percent of women within reproductive age answered that after being a member they are not forced to give birth to a second child (particularly a male child) as they have to work outside the domestic arena. Women members (50 percent) reported that they are now able to send their scions particularly daughters to schools.

Our first objective is to investigate whether the measurement models of different dimensions of empowerment are truly specified for overall members and also for two focus groups separately. Second, we also examine the linkage between these dimensions of women’s empowerment with the latent construct of overall empowerment. The underlying assumption of the hypothesized model is that by joining SHG women are empowered and this empowerment will lead to small business development which inexorably ensures sustainability of SHG model. Tables III-V present the parameter estimates, factor loadings, and some of the fit indices for the SHG members in the overall focus groups, group 1, and group 2, respectively. These coefficients are standardized and may thus be interpreted on both significance and magnitude.

The model fit is assessed by examining the Satorra-Bentler-scaled χ2 goodness-of-fit index (CMIN/DF), the root mean square error of approximation (RMSEA), and the comparative fit index (CFI). The RMSEA considers the error of approximation in the population and finds how well the model, with unknown but optimally chosen parameter values, fits the population covariance matrix. The CFI avoids the underestimation of fit often noted in small samples; it is a measure that rescales χ2 to compare a restricted model with a full model using an arbitrary baseline null model. The χ2 value is amounted to 2.762. The value of CFI should be 0.90 or higher (Hu and Bentler, 1999), and for tested model, the value is 0.919 and the RMSEA value is 0.044, while the recommendation score is 0.05 or less (Browne and Cudeck, 1992). The model fit ***indicators*** reveal that the model has a good approximate fit, which implies that our estimates are reliable.

The results reveal that ***indicators*** of different dimensions of empowerment by joining the group are statistically significant. Women empowerment is also significantly linked with all these dimensions which resonate the existing theory and earlier studies. Women participating in SHG get access to different financial assistances, communication and network facilities, and also social recognitions. This leads to greater negotiating and decision-making power within the family and a greater voice, thereby leading to greater women’s empowerment.

Social dimension, network, and communication contribute significantly to women’s empowerment for all three models. Political participation factor for group 1 is statistically non-significant, suggesting that reticence of this group might be due to certainty and unambiguity of prevailing system they are assured with.

In addition to the estimated parameters of the SEM, we also look at the underlying covariance coefficients of the economic and non-economic factors with women empowerment. Although for the structural model all the parameter estimates are significant in the case of all the models, the covariance matrix reveals significant correlations between the factors and women’s empowerment. In the second stage, we have seen women empowerment is significantly related to micro-entrepreneurship/small business for overall model and for the second group. The activities are reported in Table VI which exhibits that with traditional activities new activities such as readymade dress materials, soft toys making, beauty parlors, and catering services are preferred by group 2 members.

Our survey reveals that the apathy of doing own business is mostly due to difficulty in marketing and distribution.

The second observation of this study is the leakage of financial support provided by the government within the framework of BLP. The financial support provided to SHG members for doing business is sometimes appropriated by male members of their families either for their vocation or just for mere consumption purposes. Garikipati (2012) argued that micro-credit leads to enhancing male ownership of the household’s productive assets, thus helping husbands to move away from wage work (associated with low wages and status) to self-employment. The study found little impact on women’s time use, and she finds that loan access and autonomy in making work-related decisions have to be supported by women’s control over loan-created assets to have an impact on empowering women. Goetz and Gupta (2006) explored that loans taken by women are often controlled by their husbands, resulting in their dependence for loan repayment and domestic discord. The prevention of this leakage is possible by not only monitoring but also with the change in mindset of SHG members and their families as well. The family reticence can be reduced with strong motivations and by providing proper profit incentive to do business. The pecuniary impact must be vivid to incentivize further women entrepreneurship. The study shows that newly joined members are more interested in own business establishment. This is not just because of pecuniary gain. The result resonates study by Hitt et al. (2001) who found that individual entrepreneurs benefit through financial wealth, but other outcomes such as personal satisfaction and fulfillment of personal needs (e.g. self-actualization) may be of equal or even greater importance.

Since change in usual norms does not happen automatically, it is the regularity of collective sharing of information and institutional coping strategies that eventually can bring about change in attitude, including habit of expenditure. The impact of SHG therefore goes beyond provisioning of finance to make their ends meet. The SHGs can provide non-financial services such as indigenous training and can use group meetings to discuss entrepreneurship which can further endorse sustainability and decision for productive investment.

Resource orchestration is needed to achieve the goal of self-sufficiency. Customized offerings are required to support full spectrum of financial needs of women entrepreneurs. A suite of financial products and services specifically tailored to the financial needs along with associated sourcing and marketing strategies will facilitate their endeavors. Perfect alignment of policies, procedures, and systems which can be accessible to women entrepreneurs is necessary. Establishment of relationship between constructs of empowerment re-confirms the issue of development through empowering women in these dimensions. However, increased female presence within decision-making bodies is an important step for women, as well as for their groups, as this will challenge traditional gender roles. Public participation will provide both moral authority and respect within the society. Further development through increase in job opportunity, access to public provisions, and restrain of violence against women needs engagement of these women in public decision-making process. Direct significant linkage between empowerment and small business development (overall and for group 2) is a beacon of hope for long-term development. The project of development which we can say a “ladder transformation” would be possible by creation of economic avenues such as micro-entrepreneurship.

**6. Practical implications and limitations and future directions**

**6.1 Practical implications**

As pointed out in the Introduction section, the first purpose of this research study was to conform the convergence of different dimensions of empowerment, emerging by being associated with SHGs. The strong relationship between women empowerment and these dimensions provides insight to the policy makers, to consider this aspect to encourage group formation. The government should create a supportive environment where SHGs could flourish.

The second objective was to show the linkage between women empowerment and micro-entrepreneurship. The positive influence of women empowerment is economically and socially noticeable. The long-term sustainability of groups depends on new economic activity generation. The policy decision should be to accelerate the procedure through supportive mechanism, development of quality system, and provision of platform which facilitate interaction among the different stakeholders.

Our survey reveals that the apathy of doing own business is mostly due to difficulty in marketing and distribution. A complete model of backward and forward linkage can be a corrective measure. SHGs will be supported by training and raw material supply for products manufactured by them which may government or non-government (backward linkage). We arrive at a parsimonious “model” of the entrepreneurial process that includes the assumption of both public and private worlds and judgements that are based on knowledge and understanding of both social and economic processes. This facility will be added to the bank linkage which is present for financial support. The forward linkage is marketing and distribution of products. As the price discovery should be fair for SHG products, government can take the role of auctioneer to discover the fair price, or a standardization of prices can be done by the government. The public-private partnership can also be effective. The role of motivator is also important. As the state is appointing motivators for the formation of SHGs, advisers with proper market knowledge and ICT competence for networking are also of utmost need. The products generated from SHGs have a thin market here, and matching of buyers and sellers is crucial and, at the onset, the government can do this by providing marketing channels and advisers.

**6.2 Limitations and future research**

This study has certain limitations. To begin with, we only have data from one state of India which limits the generalization of the findings. Questionnaire is the only method of primary data collection, thus the results should be interpreted regarding the influence of common method bias. The empirical investigation is particularly cross-sectional and therefore does not allow to observe the long-term interplay of empowerment aspect and micro-entrepreneurship. The current research does not adopt a longitudinal research design.

Extension of the study to other states of India to see whether similar results will replicate or not will give a holistic idea which will be helpful for future policy design. A more in-depth qualitative research in the future will help generate a comprehensive idea about women empowerment and its linkage with entrepreneurship.

**7. Conclusion**

This study looks into the empowerment aspects of the SHGs. It shows how empowerment can help in development of micro-entrepreneurship which has not been touched upon before. The research further enhances the entrepreneurship literature through incorporating the convergence aspect of different dimensions of empowerment emerging from SHGs. The evidence on the direct influence of SHG on women empowerment and capability broadening proves that public policy of creation of such groups has a major contribution toward gender development. The findings of the current and previous research studies suggest that to promote absolute empowerment, the government should create a congenial environment, a multi-dimensional support system which will develop an atmosphere for sustainability.

Link to PDF file

**Load-Date:** January 17, 2019

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[***FEDERAL REGISTER: Inviting Applications for Rural Cooperative Development Grants Pages 24726 - 24735 [FR DOC # 2018-11482]***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5SFK-8TH1-F0YC-N44F-00000-00&context=1516831)

Impact News Service

May 30, 2018 Wednesday

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**Length:** 10224 words

**Body**

Washington: Office of the Federal Register has issued the following notice:

DEPARTMENT OF ***AGRICULTURE*** ***Rural*** Business-Cooperative Service Inviting Applications for ***Rural*** Cooperative Development Grants AGENCY: ***Rural*** Business-Cooperative Service, USDA. ACTION: Notice. ----------------------------------------------------------------------- SUMMARY: This Notice announces that the ***Rural*** Business-Cooperative Service (Agency) is accepting fiscal year (FY) 2018 applications for the ***Rural*** Cooperative Development Grant (RCDG) program. The RCDG program is authorized under section 310B(e) of the Consolidated Farm and ***Rural*** Development Act (CONACT). The purpose of this program is to provide financial assistance to improve the economic condition of ***rural*** areas through cooperative development. Eligible applicants include a non-profit corporation or an institution of higher education.

[[Page 24727]] DATES: Completed applications must be submitted on paper or electronically according to the following deadlines: Paper applications must be postmarked and mailed, shipped, or sent overnight no later than July 30, 2018. You may also hand carry your application to one of our field offices, but it must be received by close of business on the deadline date. Late applications are not eligible for funding under this Notice and will not be evaluated. Electronic applications must be received by July 24, 2018, to be eligible for grant funding. Please review the Grants.gov website at [*http://grants.gov/applicants/organization\_registration.jsp*](http://grants.gov/applicants/organization_registration.jsp) For instructions on the process of registering your organization as soon as possible to ensure you are able to meet the electronic application deadline. Late applications are not eligible for funding under this Notice and will not be evaluated. ADDRESSES: You should contact a USDA ***Rural*** Development State Office (State Office) if you have questions. You are encouraged to contact your State Office well in advance of the application deadline to discuss your project and ask any questions about the application process. Contact information for State Offices can be found at   [*http://www.rd.usda.gov/contact-us/state-offices*](http://www.rd.usda.gov/contact-us/state-offices). Program guidance as well as application and matching funds templates may be obtained at   [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program). If you want to submit an electronic application, follow the instructions for the RCDG funding announcement located at   [*http://www.grants.gov*](http://www.Grants.gov) If you want to submit a paper application, send it to the State Office located in the State where you are headquartered. If you are headquartered in Washington, DC please contact the Grants Division, Cooperative Programs, ***Rural*** Business-Cooperative Service, at (202) 690-1374 for guidance on where to submit your application. FOR FURTHER INFORMATION CONTACT: Grants Division, Cooperative Programs, ***Rural*** Business-Cooperative Service, United States Department of ***Agriculture***, 1400 Independence Avenue SW, Mail Stop-3253, Room 4208- South, Washington, DC 20250-3253, (202) 690-1374. SUPPLEMENTARY INFORMATION Preface The Agency encourages applications that will support recommendations made in the ***Rural*** Prosperity Task Force report to help improve life in ***rural*** America.   [*www.usda.gov/ruralprosperity*](http://www.usda.gov/ruralprosperity). Applicants are encouraged to consider projects that provide measurable results in helping ***rural*** communities build robust and sustainable economies through ***strategic*** investments in infrastructure, partnerships and innovation. Key strategies include:  Achieving e-Connectivity for ***rural*** America  Developing the ***Rural*** Economy  Harnessing Technological Innovation  Supporting a ***Rural*** Workforce  Improving Quality of Life

Overview

    Federal Agency: ***Rural*** Business-Cooperative Service.     Funding Opportunity Title: ***Rural*** Cooperative Development Grants.     Announcement Type: Initial Notice.     Catalog of Federal Domestic Assistance Number: 10.771     Date: Application Deadline. Paper applications must be postmarked, mailed, shipped, or sent overnight no later than July 30, 2018, or it will not be considered for funding. You may also hand carry your application to one of our field offices, but it must be received by close of business on the deadline date. Electronic applications must be received by [*http://www.grants.gov*](http://www.Grants.gov) no later than midnight Eastern Time July 24, 2018, or it will not be considered for funding.

Paperwork Reduction Act

    In accordance with the Paperwork Reduction Act, the paperwork burden associated with this Notice has been approved by the Office of Management and Budget (OMB) under OMB Control Number 0570-0006.

A. Program Description

    The RCDG program is authorized under section 310B(e) of the Consolidated Farm and ***Rural*** Development Act (CONACT) (7 U.S.C 1932(e)) as amended by the ***Agricultural*** Act of 2014 (Pub. L. 113-79). You are required to comply with the regulations for this program published at 7 CFR part 4284, subparts A and F, which are incorporated by reference in this Notice. Therefore, you should become familiar with these regulations. The primary objective of the RCDG program is to improve the economic condition of ***rural*** areas through cooperative development. Grants are awarded on a competitive basis. The maximum award amount per grant is $200,000. Grants are available for non-profit corporations or higher education institutions only. Grant funds may be used to pay for up to 75 percent of the cost of establishing and operating centers for ***rural*** cooperative development. Grant funds may be used to pay for 95 percent of the cost of establishing and operating centers for ***rural*** cooperative development, when the applicant is a 1994 Institution as defined by 7 U.S.C 301. The 1994 Institutions are commonly known as Tribal Land Grant Institutions. Centers may have the expertise on staff or they can contract out for the expertise, to assist individuals or entities in the startup, expansion or operational improvement of ***rural*** businesses, especially cooperative or mutually-owned businesses. Definitions     The terms you need to understand are defined and published at 7 CFR 4284.3 and 7 CFR 4284.504 In addition, the terms ``***rural***'' and ``***rural*** area,'' defined at section 343(a)(13) of the CONACT (7 U.S.C 1991(a)), are incorporated by reference, and will be used for this program instead of those terms currently published at 7 CFR 4284.3 The term ``you'' referenced throughout this Notice should be understood to mean ``you'' the applicant. Finally, there has been some confusion on the Agency's meaning of the terms ``conflict of interest'' and ``mutually- owned business,'' because they are not defined in the CONACT or in the regulations used for the program. Therefore, the terms are clarified and should be understood as follows.     Conflict of interest--A situation in which a person or entity has competing personal, professional, or financial interests that make it difficult for the person or business to act impartially. Regarding use of both grant and matching funds, Federal procurement standards prohibit transactions that involve a real or apparent conflict of interest for owners, employees, officers, agents, or their immediate family members having a financial or other interest in the outcome of the project; or that restrict open and free competition for unrestrained trade. Specifically, project funds may not be used for services or goods going to, or coming from, a person or entity with a real or apparent conflict of interest, including, but not limited to, owner(s) and their immediate family members. An example of conflict of interest occurs when the grantee's employees, board of directors, or the immediate family of either, have the appearance of a professional or personal financial interest in the recipients receiving the benefits or services of the grant.     Mutually-owned business--An organization owned and governed by

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members who either are its consumers, producers, employees, or suppliers.

B. Federal Award Information

    Type of Award: Competitive Grant.     Fiscal Year Funds: FY 2018.     Total Funding: $5,800,000     Maximum Award: $200,000.     Anticipated Award Date: September 28, 2018.

C. Eligibility Information

    Applicants must meet all of the following eligibility requirements. Applications which fail to meet any of these requirements by the application deadline will be deemed ineligible and will not be evaluated further. 1. Eligible Applicants     You must be a nonprofit corporation or an institution of higher education to apply for this program. Public bodies and individuals cannot apply for this program. See 7 CFR 4284.507 You must also meet the following requirements:     a. An applicant is ineligible if they have been debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, ``Debarment and Suspension.'' The Agency will check the System for Award Management (SAM) to determine if the applicant has been debarred or suspended. In addition, an applicant will be considered ineligible for a grant due to an outstanding judgment obtained by the U.S in a Federal Court (other than U.S Tax Court), is delinquent on the payment of Federal income taxes, or is delinquent on Federal debt. See 7 CFR 4284.6 The applicant must certify as part of the application that they do not have an outstanding judgment against them. The Agency will check the Credit Alert Interactive Voice Response System (CAIVRS) to verify this.     b. Any corporation that has been convicted of a felony criminal violation under any Federal law within the past 24 months or that has any unpaid Federal tax liability that has been assessed, for which all judicial and administrative remedies have been exhausted or have lapsed, and that is not being paid in a timely manner pursuant to an agreement with the authority responsible for collecting the tax liability, is not eligible for financial assistance provided with funds appropriated by the Consolidated Appropriations Act, 2018 (Pub. L. 115- 141), unless a Federal agency has considered suspension or debarment of the corporation and has made a determination that this further action is not necessary to protect the interests of the Government. Applicants will be required to complete Form AD-3030, ``Representations Regarding Felony Conviction and Tax Delinquent Status for Corporate Applicants,'' if you are a corporation. Institutions of Higher Education are not required to submit this form.     c. Applications will be deemed ineligible if the application includes any funding restrictions identified under Section D.6.a and b. Inclusion of funding restrictions outlined in Section D.6.a and b. preclude the Agency from making a federal award.     d. Applications will be deemed ineligible if the application is not complete in accordance with the requirements stated in Section C.3.e 2. Cost Sharing or Matching     Your matching funds requirement is 25 percent of the total project cost (5 percent for 1994 Institutions). See 7 CFR 4284.508 When you calculate your matching funds requirement, please round up or down to whole dollars as appropriate. An example of how to calculate your matching funds is as follows:     a. Take the amount of grant funds you are requesting and divide it by .75 This will give you your total project cost.     Example: $200,000 (grant amount)/.75 (percentage for use of grant funds) = $266,667 (total project cost).     b. Subtract the amount of grant funds you are requesting from your total project cost. This will give you your matching funds requirement.     Example: $266,667 (total project cost) - $200,000 (grant amount) = $66,667 (matching funds requirement).     c. A quick way to double check that you have the correct amount of matching funds is to take your total project cost and multiply it by .25     Example: $266,667 (total project cost) x .25 (maximum percentage of matching funds requirement) = $66,667 (matching funds requirement).     You must verify that all matching funds are available during the grant period and provide this documentation with your application in accordance with requirements identified in Section D.2.e.8 If you are awarded a grant, additional verification documentation may be required to confirm the availability of matching funds.     Other rules for matching funds that you must follow are listed below.      They must be spent on eligible expenses during the grant period.      They must be from eligible sources.      They must be spent in advance or as a pro-rata portion of grant funds being spent.      They must be provided by either the applicant or a third party in the form of cash or an in-kind contribution.      They cannot include board/advisory council members' time.      They cannot include other Federal grants unless provided by authorizing legislation.      They cannot include cash or in-kind contributions donated outside the grant period.      They cannot include over-valued, in-kind contributions.      They cannot include any project costs that are ineligible under the RCDG program.      They cannot include any project costs that are unallowable under the applicable grant ``Cost Principles,'' including 2 CFR part 200, subpart E, and the Federal Acquisition Regulation (for-profits) or successor regulation.      They can include loan funds from a Federal source.      They can include travel and incidentals for board/advisory council members if you have established written policies explaining how these costs are normally reimbursed, including rates. You must include an explanation of this policy in your application or the contributions will not be considered as eligible matching funds.      You must be able to document and verify the number of hours worked and the value associated with any in-kind contribution being used to meet a matching funds requirement.      In-kind contributions provided by individuals, businesses, or cooperatives which are being assisted by you cannot be provided for the direct benefit of their own projects as USDA ***Rural*** Development considers this to be a conflict of interest or the appearance of a conflict of interest. 3. Other Eligibility Requirements a. Purpose Eligibility     Your application must propose the establishment or continuation of a cooperative development center concept. You must use project funds, including grant and matching funds for eligible purposes only (see 7 CFR 4284.508). In addition, project funds may be used for programs providing for the coordination of services and sharing of information among the centers (see 7 U.S.C 1932(e) (4) (C) (vi)). b. Project Eligibility     All project activities must be for the benefit of a ***rural*** area. c. Multiple Application Eligibility     Only one application can be submitted per applicant. If two applications are submitted (regardless of

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the applicant name) that include the same Executive Director and/or advisory boards or committees of an existing center, both applications will be determined not eligible for funding. d. Grant Period     Your application must include a one-year grant period, or it will not be considered for funding. The grant period should begin no earlier than October 1, 2018, and no later than January 1, 2019. Applications that request funds for a time period ending after December 31, 2019, will not be considered for funding. Projects must be completed within a one-year timeframe. Prior approval is needed from the Agency if you are awarded a grant and desire the grant period to begin earlier or later than previously discussed.     The Agency may approve requests to extend the grant period for up to an additional 12 months at its discretion. However, you may not have more than one active RCDG during the same grant period. Further guidance on grant period extensions will be provided in the award document. e. Completeness     Your application will not be considered for funding if it fails to meet an eligibility criterion by time of application deadline and does not provide sufficient information to determine eligibility and scoring. You must include all of the forms and proposal elements as discussed in the regulation and as clarified further in this Notice. Incomplete applications will not be reviewed by the Agency. For more information on what is required for an application, see 7 CFR 4284.510 f. Satisfactory ***Performance***     You must be performing satisfactorily on any outstanding RCDG award to be considered eligible for a new award. Satisfactory ***performance*** includes being up-to-date on all financial and ***performance*** reports as prescribed in the grant award, and current on tasks and timeframes for utilizing grant and matching funds as approved in the work plan and budget. If you have any unspent grant funds on RCDG awards prior to fiscal year 2017, your application will not be considered for funding. If your fiscal year 2017 award has unspent funds of 50 percent or more than what your approved work plan and budget projected, at the time that your fiscal year 2018 application is being evaluated, your application will not be considered for funding. The Agency will verify the ***performance*** status of FY 2017 awards and make a determination after the FY 2018 application period closes. g. Duplication of Current Services     Your application must demonstrate that you are providing services to new customers or new services to current customers. If your work plan and budget is duplicative of your existing award, your application will not be considered for funding. If your workplan and budget is duplicative of a previous or existing RCDG and/or Socially Disadvantaged Groups Grant (SDGG) award, your application will not be considered for funding. The Agency will make this determination. h. Indirect Costs     Your negotiated indirect cost rate approval does not need to be included in your application, but you will be required to provide it if a grant is awarded. Approval for indirect costs that are requested in an application without an approved indirect cost rate agreement is at the discretion of the Agency.

D. Application and Submission Information

1. Address to Request Application Package     For further information, you should contact your State Office at [*http://www.rd.usda.gov/contact-us/state-offices*](http://www.rd.usda.gov/contact-us/state-offices). Program materials may also be obtained at   [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program). You may also obtain a copy by calling 202-690-1374. 2. Content and Form of Application Submission     You may submit your application in paper form or electronically through Grants.gov If you submit in paper form, any forms requiring signatures must include an original signature. a. Electronic Submission     To apply electronically, you must use the Grants.gov website at   [*http://www.Grants.gov*](http://www.Grants.gov) You may not apply electronically in any way other than through Grants.gov     You can locate the Grants.gov downloadable application package for this program by using a keyword, the program name, or the Catalog of Federal Domestic Assistance Number for this program.     When you enter the Grants.gov website, you will find information about applying electronically through the site, as well as the hours of operation.     To use Grants.gov, you must already have a DUNS number and you must also be registered and maintain registration in SAM. We strongly recommend that you do not wait until the application deadline date to begin the application process through Grants.gov     You must submit all your application documents electronically through Grants.gov Applications must include electronic signatures. Original signatures may be required if funds are awarded.     After electronically applying through Grants.gov, you will receive an automatic acknowledgement from Grants.gov that contains a Grants.gov tracking number. b. Paper Submission     If you want to submit a paper application, send it to the State Office located in the State where your project will primarily take place. You can find State Office Contact information at:   [*http://www.rd.usda.gov/contact-us/state-offices*](http://www.rd.usda.gov/contact-us/state-offices). An optional-use Agency application template is available online at   [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program). c. Supplemental Information     Your application must contain all the required forms and proposal elements described in 7 CFR 4284.510 and as otherwise clarified in this Notice. Specifically, your application must include: (1) The required forms as described in 7 CFR 4284.510(b) and (2) the required proposal elements as described in 7 CFR 4284.510(c). If your application is incomplete, it is ineligible to compete for funds. Applications lacking sufficient information to determine eligibility and scoring will be considered ineligible. Information submitted after the application deadline will not be accepted. You are encouraged, but not required to utilize the application template found at   [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program). d. Clarifications on Forms      Standard Form (SF) 424--Your DUNS number should be identified in the ``Organizational DUNS'' field on SF 424, ``Application for Federal Assistance.'' In addition, you should provide the DUNS number and the Commercial and Government Entity (CAGE) code and expiration date under the applicant eligibility discussion in your proposal narrative. If you do not include the CAGE code and expiration date and the DUNS number in your application, it will not be considered for funding.      Form AD-3030, ``Representations Regarding Felony Conviction and Tax Delinquent Status for Corporate

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Applicants,'' if you are a corporation. A corporation is any entity that has filed articles of incorporation in one of the 50 States, the District of Columbia, the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands, or the various territories of the United States including American Samoa, Guam, Midway Islands, the Commonwealth of the Northern Mariana Islands, Puerto Rico, or the U.S Virgin Islands. Corporations include both for profit and non-profit entities. Institutions of Higher Education are not required to submit this form.      You can voluntarily fill out and submit the ``Survey on Ensuring Equal Opportunity for Applicants,'' as part of your application if you are a nonprofit organization. e. Clarifications on Proposal Elements     1. You must include the title of the project as well as any other relevant identifying information on the Title Page.     2. You must include a Table of Contents with page numbers for each component of the application to facilitate review.     3. Your Executive Summary must include the items in 7 CFR 4284.510(c) (3), and discuss the percentage of work that will be performed among organizational staff, consultants, or other contractors. It should not exceed two pages.     4. Your Eligibility Discussion must not exceed two pages and cover how you meet the eligibility requirements for applicant, matching funds, and other eligibility requirements.     5. Your Proposal Narrative must not exceed 40 pages and should describe the essential aspects of the project.     i. You are only required to have one title page for the proposal.     ii. If you list the evaluation criteria on the Table of Contents and specifically and individually address each criterion in narrative form, then it is not necessary for you to include an Information Sheet. Otherwise, the Information Sheet is required under 7 CFR 4284.510(c)(ii).     iii. You must include the following under Goals of the Project:     A. A statement that substantiates that the Center will effectively serve ***rural*** areas in the United States;     B. A statement that the primary objective of the Center will be to improve the economic condition of ***rural*** areas through cooperative development;     C. A description of the contributions that the proposed activities are likely to make to the improvement of the economic conditions of the ***rural*** areas for which the Center will provide services. Expected economic impacts should be tied to tasks included in the work plan and budget; and     D. A statement that the Center, in carrying out its activities, will seek, where appropriate, the advice, participation, expertise, and assistance of representatives of business, industry, educational institutions, the Federal government, and State and local governments.     iv. The Agency has established annual ***performance*** evaluation measures to evaluate the RCDG program. You must provide estimates on the following ***performance*** evaluation measures.      Number of groups who are not legal entities assisted.      Number of businesses that are not cooperatives assisted.      Number of cooperatives assisted.      Number of businesses incorporated that are not cooperatives.      Number of cooperatives incorporated.      Total number of jobs created as a result of assistance.      Total number of jobs saved as a result of assistance.      Number of jobs created for the Center as a result of RCDG funding.      Number of jobs saved for the Center as a result of RCDG funding.     It is permissible to have a zero in a ***performance*** element. When you calculate jobs created, estimates should be based upon actual jobs to be created by your organization because of the RCDG funding or actual jobs to be created by cooperative businesses or other businesses as a result of assistance from your organization. When you calculate jobs saved, estimates should be based only on actual jobs that would have been lost if your organization did not receive RCDG funding or actual jobs that would have been lost without assistance from your organization.     v. You can also suggest additional ***performance*** elements for example where job creation or jobs saved may not be a relevant ***indicator*** (e.g housing). These additional criteria should be specific, measurable ***performance*** elements that could be included in an award document.     vi. You must describe in the application how you will undertake to do each of the following. We would prefer if you described these undertakings within proposal evaluation criteria to reduce duplication in your application. The specific proposal evaluation criterion where you should address each undertaking is noted below.     A. Take all practicable steps to develop continuing sources of financial support for the Center, particularly from sources in the private sector (should be presented under proposal evaluation criterion j., utilizing the specific requirements of Section E.1.j );     B. Make arrangements for the Center's activities to be monitored and evaluated (should be addressed under proposal evaluation criterion number h. utilizing the specific requirements of Section E.1.h ); and     C. Provide an accounting for the money received by the grantee in accordance with 7 CFR part 4284, subpart F. This should be addressed under proposal evaluation criterion number a., utilizing the specific requirements of Section E.1.a     vii. You should present the Work Plan and Budget proposal element under proposal evaluation criterion number h., utilizing the specific requirements of Section E.1.h of this Notice to reduce duplication in your application.     viii. You should present the Delivery of Cooperative development assistance proposal element under proposal evaluation criterion number b., utilizing the specific requirements of Section E.1.b of this Notice.     ix. You should present the Qualifications of Personnel proposal element under proposal evaluation criterion number i., utilizing the specific requirements of Section E.1.i of this Notice.     x. You should present the Local Support and Future Support proposal elements under proposal evaluation criterion number j., utilizing the requirements of Section E.1.j of this Notice.     xi. Your application will not be considered for funding if you do not address all the proposal evaluation criteria. See Section E.1 of this Notice for a description of the proposal evaluation criteria.     xii. Only appendices A-C will be considered when evaluating your application. You must not include resumes of staff or consultants in the application.     6. You must certify that there are no current outstanding Federal judgments against your property and that you will not use grant funds to pay for any judgment obtained by the United States. To satisfy the Certification requirement, you should include this statement in your application: ``[INSERT NAME OF APPLICANT] certifies that the United States has not obtained an unsatisfied judgment against its property, is not delinquent on the payment of Federal income taxes, or any Federal debt, and will not use grant funds to pay any judgments obtained by the United

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States.'' A separate signature is not required.     7. You must certify that matching funds will be available at the same time grant funds are anticipated to be spent and that expenditures of matching funds are pro-rated or spent in advance of grant funding, such that for every dollar of the total project cost, not less than the required amount of matching funds will be expended. Please note that this Certification is a separate requirement from the Verification of Matching Funds requirement. To satisfy the Certification requirement, you should include this statement in your application: ``[INSERT NAME OF APPLICANT] certifies that matching funds will be available at the same time grant funds are anticipated to be spent and that expenditures of matching funds shall be pro-rated or spent in advance of grant funding, such that for every dollar of the total project cost, at least 25 cents (5 cents for 1994 Institutions) of matching funds will be expended.'' A separate signature is not required.     8. You must provide documentation in your application to verify all of your proposed matching funds. The documentation must be included in Appendix A of your application and will not count towards the 40-page limitation. Template letters are available for each type of matching funds contribution at [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program).     a. If matching funds are to be provided in cash, you must meet the following requirements.      You: The application must include a statement verifying (1) the amount of the cash and (2) the source of the cash. You may also provide a bank statement dated 30 days or less from the application deadline date to verify your cash match.      Third-party: The application must include a signed letter from the third party verifying (1) how much cash will be donated and (2) that it will be available corresponding to the proposed grant period or donated on a specific date within the grant period.     b. If matching funds are to be provided by an in-kind donation, you must meet the following requirements.      You: The application must include a signed letter from you or your authorized representative verifying (1) the nature of the goods and/or services to be donated and how they will be used, (2) when the goods and/or services will be donated (i.e , corresponding to the proposed grant period or to specific dates within the grant period), and (3) the value of the goods and/or services. Please note that most applicant contributions for the RCDG program are considered applicant cash match in accordance with this Notice. If you are unsure, please contact your State Office because identifying your matching funds improperly can affect your scoring.      Third-Party: The application must include a signed letter from the third party verifying (1) the nature of the goods and/or services to be donated and how they will be used, (2) when the goods and/or services will be donated (i.e , corresponding to the proposed grant period or to specific dates within the grant period), and (3) the value of the goods and/or services.     To ensure that you are identifying and verifying your matching funds appropriately, please note the following:      If you are paying for goods and/or services as part of the matching funds requirement, the expenditure is considered a cash match, and you must verify it as such. Universities must verify the goods and services they are providing to the project as a cash match and the verification must be approved by the appropriate approval official (i.e , sponsored programs office or equivalent).      If you have already received cash from a third-party (i.e , Foundation) before the start of your proposed grant period, you must verify this as your own cash match and not as a third-party cash match. If you are receiving cash from a third-party during the grant period, then you must be verifying the cash as a third-party cash match.      Board resolutions for a cash match must be approved at the time of application.      You can only consider goods or services for which no expenditure is made as an in-kind contribution.      If a non-profit or another organization contributes the services of affiliated volunteers, they must follow the third-party, in-kind donation verification requirement for each individual volunteer.      Expected program income may not be used to fulfill your matching funds requirement at the time you submit your application. However, if you have a contract to provide services in place at the time you submit your application, you can verify the amount of the contract as a cash match.      The valuation processes you use for in-kind contributions does not need to be included in your application, but you must be able to demonstrate how the valuation was derived if you are awarded a grant. The grant award may be withdrawn, or the amount of the grant reduced if you cannot demonstrate how the valuation was derived.     Successful applicants must comply with requirements identified in Section F, Federal Award Administration. 3. Dun and Bradstreet Data Universal Numbering System (DUNS) and System for Awards Management (SAM)     To be eligible (unless you are excepted under 2 CFR 25.110(b), (c) or (d), you are required to:     (a) Provide a valid DUNS number in your application, which can be obtained at no cost via a toll-free request line at (866) 705-5711;     (b) Register in SAM before submitting your application. You may register in SAM at no cost at   [*https://www.sam.gov/portal/public/SAM/*](https://www.sam.gov/portal/public/SAM/). You must provide your SAM CAGE Code and expiration date or evidence that you have begun the SAM registration process at time of application, and     (c) Continue to maintain an active SAM registration with current information at all times during which you have an active Federal award or an application or plan under consideration by a Federal awarding agency.     If you have not fully complied with all applicable DUNS and SAM requirements, the Agency may determine that the applicant is not qualified to receive a Federal award and the Agency may use that determination as a basis for making an award to another applicant. Please refer to Section F.2 for additional submission requirements that apply to grantees selected for this program. 4. Submission Dates and Times     Application Deadline Date: July 30, 2018.     Explanation of Deadlines: Complete applications must be submitted on paper or electronically according to the following deadlines:     Paper applications must be postmarked and mailed, shipped, or sent overnight no later than July 30, 2018, to be eligible for grant funding. The Agency will determine whether your application is late based on the date shown on the postmark or shipping invoice. You may also hand carry your application to one of our field offices, but it must be received by close of business on the deadline date. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day. Late applications will automatically be deemed ineligible.     Electronic applications must be received by   [*http://www.grants.gov*](http://www.Grants.gov) no later than midnight Eastern Time July 24, 2018, to be eligible for grant funding. Please review the Grants.gov website at http:// grants.gov/applicants/

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organization\_registration.jsp for instructions on the process of registering your organization as soon as possible to ensure you can meet the electronic application deadline. Grants.gov will not accept applications submitted after the deadline. 5. Intergovernmental Review of Applications     Executive Order (E.O ) 12372, ``Intergovernmental Review of Federal Programs,'' applies to this program. This E.O requires that Federal agencies provide opportunities for consultation on proposed assistance with State and local governments. Many States have established a Single Point of Contact (SPOC) to facilitate this consultation. For a list of States that maintain a SPOC, please see the White House website: [*https://www.whitehouse.gov/wp-content/uploads/2017/11/SPOC-Feb.-2018.pdf*](https://www.whitehouse.gov/wp-content/uploads/2017/11/SPOC-Feb.-2018.pdf) If your State has an SPOC, you may submit a copy of the application directly for review. Any comments obtained through the SPOC must be provided to your State Office for consideration as part of your application. If your State has not established an SPOC, or if you do not want to submit a copy of the application, our State Offices will submit your application to the SPOC or other appropriate agency or agencies. 6. Funding Restrictions     a. Project funds, including grant and matching funds, cannot be used for ineligible grant purposes (see 7 CFR 4284.10). Also, you shall not use project funds for the following:      To purchase, rent, or install laboratory equipment or processing machinery;      To pay for the operating costs of any entity receiving assistance from the Center;      To pay costs of the project where a conflict of interest exists;      To fund any activities prohibited by 2 CFR part 200; or      To fund any activities considered unallowable by 2 CFR part 200, subpart E, ``Cost Principles,'' and the Federal Acquisition Regulation (for-profits) or successor regulations.     b. In addition, your application will not be considered for funding if it does any of the following:      Focuses assistance on only one cooperative or mutually- owned business;      Requests more than the maximum grant amount; or      Proposes ineligible costs that equal more than 10 percent of total project costs. The ineligible costs will NOT be removed at this stage to proceed with application processing. For purposes of this determination, the grant amount requested plus the matching funds amount constitutes the total project costs.     We will consider your application for funding if it includes ineligible costs of 10 percent or less of total project costs, if the remaining costs are determined eligible otherwise. However, if your application is successful, those ineligible costs must be removed and replaced with eligible costs before the Agency will make the grant award, or the amount of the grant award will be reduced accordingly. If we cannot determine the percentage of ineligible costs, your application will not be considered for funding. 7. Other Submission Requirements     a. You should not submit your application in more than one format. You must choose whether to submit your application in paper or electronically. Applications submitted on paper must be mailed or hand- delivered to the State Office located in the State where you are headquartered. You can find State Office contact information at:   [*http://www.rd.usda.gov/contact-us/state-offices*](http://www.rd.usda.gov/contact-us/state-offices). To submit an application electronically, you must follow the instruction for this funding announcement at   [*http://www.grants.gov*](http://www.Grants.gov) A password is not required to access the website.     b. National Environmental Policy Act.     All recipients under this Notice are subject to the requirements of 7 CFR part 1970. However, technical assistance awards under this Notice are classified as a Categorical Exclusion according to 7 CFR 1970.53(b), and usually do not require any additional documentation.     The Agency will review each grant application to determine its compliance with 7 CFR part 1970. The applicant may be asked to provide additional information or documentation to assist the Agency with this determination.     c. Civil Rights Compliance Requirements.     All grants made under this Notice are subject to Title VI of the Civil Rights Act of 1964 as required by the USDA (7 CFR part 15, subpart A) and Section 504 of the Rehabilitation Act of 1973.

E. Application Review Information

    The State Offices will review applications to determine if they are eligible for assistance based on requirements in 7 CFR part 4284, subparts A and F, this Notice, and other applicable Federal regulations. If determined eligible, your application will be scored by a panel of USDA employees in accordance with the point allocation specified in this Notice. Applications will be funded in rank order until the funding limitation has been reached. Applications that cannot be fully funded may be offered partial funding at the Agency's discretion. 1. Scoring Criteria     Scoring criteria will follow criteria published at 7 CFR 4284.513 as supplemented below including any amendments made by the Section 6013 of the Food, Conservation, and Energy Act of 2008 (Pub. L. 110-234), which is incorporated by reference in this Notice. The regulatory and statutory criteria are clarified and supplemented below. You should also include information as described in Section D.2.e.5.vi if you choose to address these items under the scoring criteria. Evaluators will base scores only on the information provided or cross-referenced by page number in each individual evaluation criterion. The maximum amount of points available is 110. Newly established or proposed Centers that do not yet have a track record on which to evaluate the following criteria should refer to the expertise and track records of staff or consultants expected to perform tasks related to the respective criteria. Proposed or newly established Centers must be organized well-enough at time of application to address its capabilities for meeting these criteria.     a. Administrative capabilities (maximum score of 10 points). A panel of USDA employees will evaluate your demonstrated track record in carrying out activities in support of development assistance to cooperatively and mutually owned businesses. At a minimum, you must discuss the following administrative capabilities:     1. Financial systems and audit controls;     2. Personnel and program administration ***performance*** measures;     3. Clear written rules of governance; and     4. Experience administering Federal grant funding no later than the last 5 years, including but not limited to past RCDGs. Please list the name of the Federal grant program(s), the amount(s), and the date(s) of funding received.     You will score higher on this criterion if you can demonstrate that the Center has independent governance. For applicants that are universities or parent organizations, you should demonstrate that there is a separate board of directors for the Center.     b. Technical assistance and other services (maximum score of 10 points). A panel of USDA employees will evaluate your demonstrated expertise no later than the last 5 years in providing

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technical assistance and accomplishing effective outcomes in ***rural*** areas to promote and assist the development of cooperatively and mutually owned businesses. You must discuss at least:     1. Your potential for delivering effective technical assistance;     2. The types of assistance provided;     3. The expected effects of that assistance;     4. The sustainability of organizations receiving the assistance; and     5. The transferability of your cooperative development strategies and focus to other areas of the U.S     A chart or table showing the outcomes of your demonstrated expertise based upon the ***performance*** elements listed in Section D.2.e.5.iv or as identified in your award document on previous RCDG awards. At a minimum, please provide information for FY 2014-FY 2016 awards. We prefer that you provide one chart or table separating out award years. The intention here is for you to provide actual ***performance*** numbers based upon award years (fiscal year) even though your grant period for the award was for the next calendar or fiscal year. Please provide a narrative explanation if you have not received a RCDG award.     You will score higher on this criterion if you provide more than 3 years of outcomes and can demonstrate that the organizations you assisted within the last 5 years are sustainable. Additional outcome information should be provided on RCDG grants awarded before FY 2014. Please describe specific project(s) when addressing 1-5 of this paragraph. To reduce duplication, descriptions of specific projects and their impacts, outcomes and roles can be discussed once under criterion b or c. However, you must cross-reference the information under the other criterion.     c. Economic development (maximum score of 10 points). A panel of USDA employees will evaluate your demonstrated ability to facilitate:     1. Establishment of cooperatives or mutually owned businesses;     2. New cooperative approaches (i.e , organizing cooperatives among underserved individuals or communities; an innovative market approach; a type of cooperative currently not in your service area; a new cooperative structure; novel ways to raise member equity or community capitalization; conversion of an existing business to cooperative ownership); and     3. Retention of businesses, generation of employment opportunities or other factors, as applicable, that will otherwise improve the economic conditions of ***rural*** areas.     You will score higher on this criterion if you provide economic measurements showing the impacts of your past development projects no later than 5 years old and identify your role in the economic development outcomes.     d. Past ***performance*** in establishing legal business entities (maximum score of 10 points). A panel of USDA employees will evaluate your demonstrated past ***performance*** in establishing legal cooperative business entities and other legal business entities during January 1, 2015-December 31, 2017. Provide the name of the organization(s) established, the date of formation and your role in assisting with the incorporation(s) under this criterion. In addition, documentation verifying the establishment of legal business entities must be included in Appendix C of your application and will not count against the 40- page limit for the narrative. The documentation must include proof that organizational documents were filed with the Secretary of State's Office (i.e , Certificate of Incorporation or information from the State's official website naming the entity established and the date of establishment); or if the business entity is not required to register with the Secretary of State, a certification from the business entity that a legal business entity has been established and when. Please note that you are not required to submit articles of incorporation to receive points under this criterion. You will score higher on this criterion if you have established legal cooperative businesses. If your State does not incorporate cooperative business entities, please describe how the established business entity operates like a cooperative.     e. Networking and regional focus (maximum score of 10 points). A panel of USDA employees will evaluate your demonstrated commitment to:     1. Networking with other cooperative development centers, and other organizations involved in ***rural*** economic development efforts, and     2. Developing multi-organization and multi-State approaches to addressing the economic development and cooperative needs of ***rural*** areas.     You will score higher on this criterion if you can demonstrate the outcomes of your multi-organizational and multi-State approaches. Please describe the project(s), partners and the outcome(s) that resulted from the approach.     f. Commitment (maximum score of 10 points). A panel of USDA employees will evaluate your commitment to providing technical assistance and other services to under-served and economically distressed areas in ***rural*** areas of the United States. You will score higher on this criterion if you define and describe the underserved and economically distressed areas within your service area, provide economic statistics, and identify past or current projects within or affecting these areas, as appropriate.     g. Matching Funds (maximum score of 10 points). A panel of USDA employees will evaluate your commitment for the 25 percent (5 percent for 1994 Institutions) matching funds requirement. A chart or table should be provided to describe all matching funds being committed to the project. However, formal documentation to verify all the matching funds must be included in Appendix A of your application. You will be scored on how you identify your matching funds.     1. If you met the 25 percent (5 percent for 1994 Institutions) matching requirement, points will be assigned as follows:      In-kind only--1 point,      Mix of in-kind and cash--3-4 points (maximum points will be awarded if the ratio of cash to in-kind is 30 percent and above of matching funds), or      Cash only--5 points.     2. If you exceeded the 25 percent (5 percent for 1994 Institutions) matching requirement, points will be assigned as follows:      In-kind only--2 points,      Mix of in-kind and cash--6-7 points (maximum points will be awarded if the ratio of cash to in-kind is 30 percent and above of matching funds), or      Cash only--10 points.     h. Work Plan/Budget (maximum score of 10 points). A panel of USDA employees will evaluate your work plan for detailed actions and an accompanying timetable for implementing the proposal. The budget must present a breakdown of the estimated costs associated with cooperative and business development activities as well as the operation of the Center and allocate these costs to each of the tasks to be undertaken. Matching funds as well as grant funds must be accounted for in the budget.     You must discuss at a minimum:     1. Specific tasks (whether it be by type of service or specific project) to be completed using grant and matching funds;     2. How customers will be identified;     3. Key personnel; and     4. The evaluation methods to be used to determine the success of specific tasks and overall objectives of Center operations. Please provide qualitative methods of evaluation. For example,

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evaluation methods should go beyond quantitative measurements of completing surveys or number of evaluations.     You will score higher on this criterion if you present a clear, logical, realistic, and efficient work plan and budget.     i. Qualifications of those Performing the Tasks (maximum score of 10 points). A panel of USDA employees will evaluate your application to determine if the personnel expected to perform key tasks have a track record of:     1. Positive solutions for complex cooperative development and/or marketing problems; or     2. A successful record of conducting accurate feasibility studies, business plans, marketing analysis, or other activities relevant to your success as determined by the tasks identified in the work plan; and     3. Whether the personnel expected to perform the tasks are full/ part-time employees of your organization or are contract personnel.     You will score higher on this criterion if you demonstrate commitment and availability of qualified personnel expected to perform the tasks.     j. Local and Future Support (maximum score of 10 points). A panel of USDA employees will evaluate your application for local and future support. Support should be discussed directly within the response to this criterion.     1. Discussion on local support should include previous and/or expected local support and plans for coordinating with other developmental organizations in the proposed service area or with state and local government institutions. You will score higher if you demonstrate strong support from potential beneficiaries and formal evidence of intent to coordinate with other developmental organizations. You may also submit a maximum of 10 letters of support or intent to coordinate with the application to verify your discussion. These letters should be included in Appendix B of your application and will not count against the 40-page limit for the narrative.     2. Discussion on future support will include your vision for funding operations in future years. You should document:     (i) New and existing funding sources that support your goals;     (ii) Alternative funding sources that reduce reliance on Federal, State, and local grants; and     (iii) The use of in-house personnel for providing services versus contracting out for that expertise. Please discuss your strategy for building in-house technical assistance capacity.     You will score higher if you can demonstrate that your future support will result in long-term sustainability of the Center.     k. Administrator Discretionary Points (maximum of 10 points). The Administrator may choose to award up to 10 points to an eligible non- profit corporation or institution of higher education who has never previously been awarded an RCDG grant; and whose workplan and budget seeks to help ***rural*** communities build robust and sustainable economies through ***strategic*** investments in infrastructure, partnerships and innovation. Eligible applicants who want to be considered for discretionary points must discuss how their workplan and budget supports one or more of the five following key strategies:     Achieving e-Connectivity for ***Rural*** America;     Improving Quality of Life;     Supporting a ***Rural*** Workforce;     Harnessing Technological Innovation; and     Economic Development. 2. Review and Selection Process     The State Offices will review applications to determine if they are eligible for assistance based on requirements in 7 CFR part 4284, subparts A and F, this Notice, and other applicable Federal regulations. If determined eligible, your application will be scored by a panel of USDA employees in accordance with the point allocation specified in this Notice. The Administrator may choose to award up to 10 Administrator priority points based on criterion (k) in section E.1 of this Notice. These points will be added to the cumulative score for a total possible score of 110. Applications will be funded in highest ranking order until the funding limitation has been reached. Applications that cannot be fully funded may be offered partial funding at the Agency's discretion. If your application is evaluated, but not funded, it will not be carried forward into the next competition.

F. Federal Award Administration Information

1. Federal Award Notices     If you are selected for funding, you will receive a signed notice of Federal award by postal mail from the State Office where your application was submitted, containing instructions on requirements necessary to proceed with execution and ***performance*** of the award.     If you are not selected for funding, you will be notified in writing via postal mail and informed of any review and appeal rights. You must comply with all applicable statutes, regulations, and notice requirements before the grant award will be approved. There will be no available funds for successful appellants once all FY 2018 funds are awarded and obligated. See 7 CFR part 11 for USDA National Appeals Division procedures. 2. Administrative and National Policy Requirements     Additional requirements that apply to grantees selected for this program can be found in 7 CFR part 4284, subpart F; the Grants and Agreements regulations of the Department of ***Agriculture*** codified in 2 CFR parts 180, 400, 415, 417, 418, 421; 2 CFR parts 25 and 170; and 48 CFR 31.2, and successor regulations to these parts.     In addition, all recipients of Federal financial assistance are required to report information about first-tier subawards and executive compensation (see 2 CFR part 170). You will be required to have the necessary processes and systems in place to comply with the Federal Funding Accountability and Transparency Act of 2006 (Pub. L. 109-282) reporting requirements (see 2 CFR 170.200(b), unless you are exempt under 2 CFR 170.110(b)).     The following additional requirements apply to grantees selected for this program:      Agency-approved Grant Agreement.      Letter of Conditions.      Form RD 1940-1, ``Request for Obligation of Funds.''      Form RD 1942-46, ``Letter of Intent to Meet Conditions.''      Form AD-1047, ``Certification Regarding Debarment, Suspension, and Other Responsibility Matters-Primary Covered Transactions.''      Form AD-1048, ``Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion-Lower Tier Covered Transactions.''      Form AD-1049, ``Certification Regarding Drug-Free Workplace Requirements (Grants).''      Form RD 400-4, ``Assurance Agreement.''      SF LLL, ``Disclosure of Lobbying Activities,'' if applicable.      Form AD-3031, ``Assurance Regarding Felony Conviction or Tax Delinquent Status for Corporate Applicants.'' Must be signed by corporate applicants who receive an award under this Notice. Institutions of Higher Education do not need to submit this form.

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3. Reporting     After grant approval and through grant completion, you will be required to provide the following:     a. An SF-425, ``Federal Financial Report,'' and a project ***performance*** report will be required on a semiannual basis (due 30 working days after end of the semiannual period). The project ***performance*** reports shall include the following: A comparison of actual accomplishments to the objectives established for that period;     b. Reasons why established objectives were not met, if applicable;     c. Reasons for any problems, delays, or adverse conditions, if any, which have affected or will affect attainment of overall project objectives, prevent meeting time schedules or objectives, or preclude the attainment of particular objectives during established time periods. This disclosure shall be accompanied by a statement of the action taken or planned to resolve the situation; and     d. Objectives and timetable established for the next reporting period.     e. Provide a final project and financial status report within 60 days after the expiration or termination of the grant.     f. Provide outcome project ***performance*** reports and final deliverables.

G. Agency Contacts

    If you have questions about this Notice, please contact the appropriate State Office at [*http://www.rd.usda.gov/contact-us/state-offices*](http://www.rd.usda.gov/contact-us/state-offices). Program guidance as well as application and matching funds templates may be obtained at   [*http://www.rd.usda.gov/programs-services/****rural****-cooperative-development-grant-program*](http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program). If you want to submit an electronic application, follow the instructions for the RCDG funding announcement located at   [*http://www.grants.gov*](http://www.Grants.gov) You may also contact National Office staff: Natalie Melton, RCDG Program Lead, [*natalie.melton@wdc.usda.gov*](mailto:natalie.melton@wdc.usda.gov), or call the main line at 202-690-1374.

H. Nondiscrimination Statement

    In accordance with Federal civil rights law and U.S Department of ***Agriculture*** (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.     Persons with disabilities who require alternative means of communication for program information (e.g , Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.     To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at [*http://www.ascr.usda.gov/complaint\_filing\_cust.html*](http://www.ascr.usda.gov/complaint_filing_cust.html) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:     (1) Mail: U.S Department of ***Agriculture***, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue SW, Washington, DC 20250-9410;     (2) Fax: (202) 690-7442; or     (3) Email: [*program.intake@usda.gov*](mailto:program.intake@usda.gov)

    Dated: May 22, 2018. Bette B. Brand, Administrator, ***Rural*** Business-Cooperative Service. [FR Doc. 2018-11482 Filed 5-29-18; 8:45 am]  BILLING CODE 3410-XY-P

**Load-Date:** May 31, 2018

**End of Document**



[***Rating upgraded/reaffirmed for pass through certificates (PTCs) under two micro loan securitisation transactions originated by Belstar Investment and Finance Private Limited (Belstar)***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S72-MS71-F19S-P2WF-00000-00&context=1516831)

SeeNews Debt

April 30, 2018 Monday 7:05 PM EEST

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**Body**

Belstar Investment and Finance Private Limited

April 27, 2018

Summary of rated instruments

Trust Name Instrument\*

Initial Amount  (Rs. Crore)

Amount after  Mar-18 payout  (Rs. crore)

Rating Action

Heron IFMR Capital 2017

PTC Series A1 29.80 6.25

Rating upgraded from [ICRA]A-(SO) to [ICRA] AA-(SO)

PTC Series A2 0.69 0.69

Rating upgraded from [ICRA] BBB-(SO) to [ICRA] A-(SO)

Vivriti Trebor 010 2017

PTC Series A1 21.98 16.71

Rating upgraded from [ICRA]A(SO) to [ICRA]A+(SO) PTC Series A2 1.93 1.93 Rating reaffirmed at [ICRA]BBB(SO) \*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded/reaffirmed ratings to PTCs issued under 2 securitisation transactions originated by Belstar Investment and Finance Private Limited (Belstar), as tabulated above. The PTCs are backed by micro loan receivables originated by Belstar. The receivables have been assigned to the respective trusts at par and each trust has issued PTCs backed by the same.

Rationale  The rating upgrade/reaffirmation is driven by good collection efficiencies and low to moderate level of delinquencies witnessed in these pools. A summary of the ***performance*** of the pool till March 2018 payout month (February 2018 collection month) has been tabulated below.

Pool ***Performance*** Summary

Parameter

Heron IFMR Capital 2017

Vivriti Trebor 010 2017 Months post securitization 9 3

Pool Amortization 73.62% 20.52%

PTC Amortization

PTC A1

PTC A2

79.03%

0.00%

24.00%

0.00%

Monthly Collection Efficiency1 for Feb-18 100.05% 100.00%

Monthly Collection Efficiency for Jan-18 100.25% 100.75%

Monthly Collection Efficiency for Dec-17 103.63% 99.25%

Cumulative Collection Efficiency2 99.82% 100.00%

Loss cum 0+ dpd3 (% of initial Pool) 1.08% 0.00%

Loss cum 30+ dpd4 (% of initial Pool) 0.74% 0.00%

Cumulative Cash Collateral Utilization 0.00% 0.00% Breakeven Collection Efficiency5 for PTC A1 47.25% 69.45%

Credit Collateral (% of Balance Pool) 18.96% 5.03%

Principal Subordination (% of Balance Pool) for PTC A1 31.62% 18.24% Excess Interest Spread (% of Balance Pool) for PTC A16 5.69% 12.01%

Key rating drivers

Credit Strengths  Moderate to high amortization of senior PTCs resulting in moderate Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts;  High collection efficiency and low delinquency level in the pools;

1 (Total Current and Overdue collections for the month as a % of Total Billing for the month) 2 (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction) 3 Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal 4 Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 30 days, as a % of Initial Pool Principal 5 (Balance Cashflows payable to investor- Cash collateral available)/ Balance Pool Cashflows 6 (Pool Cashflows - Cashflows to PTC A1 - PTC A2 principal - originator's residual share)/ Pool Principal outstanding

Credit Challenges  High geographical concentration of the contracts in the pools.

Description of key rating drivers highlighted above: The ***performance*** of the pools has been good till the collection month of February 2018, with the cumulative collection efficiencies above 99.8% for both the pools. There has been no credit collateral utilisation in both the pools. The loss cum 30+ dpd (as a % of initial pool principal) remained low at less than 1% (as on February 2018 collection month) for both the pools. The senior PTCs have amortised significantly in case of Heron IFMR Capital 2017 pool resulting in build up of credit enhancement for the balance tenure of the PTC payouts. Further, in both the transactions, principal amount is promised to the PTC investors only on the final maturity date (only the interest amount is promised on a monthly basis). This imparts significant liquidity to the transaction in the interim period.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to upgrade/reaffirm the ratings in both the transactions. ICRA will continue to monitor closely the ***performance*** of these transactions. Any further rating action will be based on the ***performance*** of the pools and the availability of credit enhancement relative to ICRA's expectations.

The geographical concentration of the loan contracts in both the pools is high with top state i.e. Tamil Nadu constituting ~93% and ~84% of the pool principal for the Heron IFMR Capital 2017 and Vivriti Trebor 010 2017 transactions, respectively.

Key rating assumptions ICRA's cash flow modeling for surveillance of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past ***performance*** of the Originator's portfolio and rated pools, and also the ***performance*** and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the ***performance*** of the underlying pool contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No Transaction

Name

Expected Loss

(% of initial pool principal)

Prepayment

1 Heron IFMR Capital 2017 1.0% - 2.0% 2% - 5% p.a.

2 Vivriti Trebor 010 2017 3.0% - 4.0% 2% - 5% p.a.

Analytical approach: The rating actions are based on the ***performance*** of the pools till March 2018 (payout month), the present delinquency profile of the pool contracts, ***performance*** expected over the balance pool tenure, and the credit enhancement available in these transactions.

Links to applicable criteria:

Rating Methodology for Securitisation Transactions

About the company:  Belstar Investment and Finance Private Limited (Belstar) was incorporated in January 1988 at Bangalore and the Company was registered as NBFC with the RBI in March 2001. The Company has been reclassified as "NBFC-MFI" by RBI effective 11th December 2013. Belstar was acquired by the Hand in Hand group in September 2008 to provide microfinance services to entrepreneurs nurtured by the Hand in Hand India (HIH) Self Help Group (SHG) program. HIH is an NGO promoted by Dr Kalpana Sankar in 2002 as a public charitable trust based in Tamil Nadu.

Belstar started its micro lending operations in Tamil Nadu and Karnataka in April 2009. In the first five years of its operations post acquisition by HIH, Belstar primarily relied on taking over the existing groups formed by HIH. Belstar provides loans towards ***agriculture***, animal husbandry and micro-enterprises in the semi-urban and ***rural*** districts under SHG/JLG-based lending model. During FY2017, Muthoot Finance Limited has made a ***strategic*** equity investment of Rs 40 crore in the company and also acquired the entire stake from the foreign Investors. Currently, Muthoot Finance Ltd holds 64.6% stake in the company.

As on December 31, 2017, Belstar was operating with 215 branches in eight states and union territories and had a loan portfolio of Rs. 945 crore extended to 438,765 individual borrowers. 76% of the company's portfolio as on December 31, 2017, was in Tamil Nadu.

Key financial ***indicators*** (audited)

FY 2016 FY 2017 H1 FY 2018\* Net worth (Rs. Cr.) 39.90 90.35 100.92 Operating Profit (Rs. Cr.) 9.78 19.75 21.99 PBT (Rs. Cr.) 9.18 15.97 18.04 PAT (Rs. Cr.) 6.11 10.44 11.84 Gross NPA (Rs. Cr.) 0.97 0.56 0.56 Provisions (Rs. Cr.) 0.25 0.48 0.48 Net NPA (Rs. Cr.) 0.72 0.08 0.08 Tier I Capital (%) 12.60% 13.15% 11.56% Tier II Capital (%) 4.06% 3.85% 5.75% CRAR (%) 16.66% 17.00% 17.31% \*Provisional Source: ICRA research and company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument

Current Rating (FY2019)

Chronology of Rating History for the past 3 years

Type

Rated Amount Amount Outstanding (Rs. Crore)

Date & Rating

Date & Rating in FY2018

Date & Rating in FY2018

Date & Rating in FY2017

(Rs. crore) Apr-18 Sep-17 Jul-17\* -

1

Heron IFMR Capital 2017

PTC Series A1

29.80 6.25

[ICRA]AA(SO)

[ICRA]A(SO)

Provisional  [ICRA]A-(SO)

-

PTC Series A2

0.69 0.69 [ICRA]A-(SO)

[ICRA]BBB(SO)

Provisional [ICRA]BBB-(SO)

-

\*Initial Ratings assigned

Instrument

Current Rating (FY2019)

Chronology of Rating History for the past 3 years

Type

Rated Amount Amount Outstanding (Rs. Crore)

Date & Rating

Date & Rating in FY2018

Date & Rating in FY2018

Date & Rating in FY2017

(Rs. crore) Apr-18 Feb-18 Jan-18\* -

2

Vivriti Trebor 010 2017

PTC Series A1

21.98 16.71 [ICRA]A+(SO) [ICRA]A(SO)

Provisional  [ICRA]A(SO)

-

PTC Series A2

1.93 1.93 [ICRA]BBB(SO)

[ICRA]BBB(SO)

Provisional [ICRA]BBB(SO)

-

\*Initial Ratings assigned

Complexity level of the rated instrument: Highly Complex  ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [*www.icra.in*](http://www.icra.in)

Annexure-1: Instrument Details

Sl. Trust Name Instrument

Date of Issuance

Coupon Rate

Scheduled Maturity Date#

Rated Amount (Rs. crore)

Current Rating

1

Heron IFMR Capital 2017

PTC Series A1 June 2017 8.40% Nov 2018 6.25 [ICRA]AA-(SO)

PTC Series A2 June 2017 13.00% Nov 2018 0.69  [ICRA]A-(SO)

2

Vivriti Trebor 010 2017

PTC Series A1

December 2017

8.85% Sep 2019 16.71 [ICRA]A+(SO)

PTC Series A2

December 2017

13.50% Sep 2019 1.93  [ICRA]BBB(SO) # the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

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Ms. Naznin Prodhani Tel: +91 124 4545 860 [*naznin.prodhani@icraindia.com*](mailto:naznin.prodhani@icraindia.com)

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[*info@icraindia.com*](mailto:info@icraindia.com)

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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\*\*\*\*\*\*

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**Load-Date:** April 30, 2018

**End of Document**



[***Ratings assigned to pass through certificates (PTCs) issued under a Micro loan receivables securitisation transaction originated by Belstar Investment and Finance Private Limited (Belstar)***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RDD-M5T1-JDVR-025D-00000-00&context=1516831)

SeeNews Debt

January 5, 2018 Friday 12:00 AM EEST

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**Length:** 1770 words

**Byline:** SeeNews

**Body**

January 04, 2018 Belstar Investment and Finance Private Limited

Summary of Rated Instruments Sl. Trust Name Instrument\* Initial Issued Amount (Rs. crore1) Rating action 1 Vivriti Trebor 010 2017 PTC Series A1 21.98 Provisional [ICRA]A(SO) Assigned PTC Series A2 1.93 Provisional [ICRA]BBB(SO) Assigned

\*Instrument details are provided in Annexure I

Rating Action

ICRA has assigned Provisional [ICRA]A(SO) and Provisional [ICRA]BBB(SO) ratings to PTC Series A1 and PTC Series A2 respectively under a securitisation transaction originated by Belstar Investment and Finance Private Limited (Belstar). The PTCs are backed by receivables from a Rs. 25.71 crore pool of micro loans.

Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts, Belstar's portfolio ***performance***, the available credit enhancement and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Belstar would assign to an SPV (Trust) namely Vivriti Trebor 010 2017, the future receivables arising from a selected pool of 10,953 micro loan contracts. The transfer would be at par. The trust will issue two series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC Series A1 to the Trustee will be 85.50% of the pool principal i.e. Rs. 21.98 crore while that payable by PTC Series A2 to the Trustee will be 7.50% of the pool principal i.e. Rs. 1.93 crore.

Key rating drivers

Credit Strengths

 Availability of credit enhancement in the form of Principal Subordination, Excess Interest Spread (EIS) and Credit Collateral;

 The underlying contracts in the pool are current as on cut-off date;

 Higher share of Self Help Group (SHG) loans (~90%) in the pool as compared to Joint Liability Group (JLG) loans;

Credit Weakness

 High geographical concentration of the contracts in the pool.

1 100 lakh = 1 crore = 10 million

Description of key rating drivers highlighted above:

The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 14.50% of the pool principal (includes principal payable to PTC A2 and over collateralization). After PTC A1 has been fully paid, subordination of 7.00% of the pool principal will be available for PTC A2.

Further credit support in the transaction is available through credit collateral equivalent to 4.00% of the initial pool principal amount (Rs. 1.03 crore). The credit collateral will be in the form of a fixed deposit maintained with a bank, from Belstar. In the event of shortfall in meeting the promised PTC payouts during any month, the trustee will utilize the credit collateral to meet the shortfall. Additionally, EIS available in the structure will also provide credit enhancement support.

There are no overdues in the pool as on the cut-off date and the contracts have remained current since their first EMI due dates till the pool cut off date. The pool consists of loans that are moderately seasoned with weighted average seasoning of 30 weeks, and moderate pre-securitisation amortisation of around 28%. Consequently, the door to door residual tenure of the contracts is low at 73 weeks. The contracts have an average ticket size of Rs. 32,684 which is slightly higher as compared with industry standards.

The geographical concentration of the loan contracts in the current pool is high with top state constituting about 84% of the pool principal and the top three districts constituting 38% of the pool principal.

Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the current macro economic situation as well as any industry specific factors that ICRA believes could impact the ***performance*** of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 2.0% - 4.0% per annum.

Analytical approach:

The rating action is based on the profile of the current pool, ***performance*** of Belstar's portfolio till September 2017, ***performance*** expected over the balance pool tenure, and the credit enhancement available in the current transaction.

Links to applicable Criteria

Rating Methodology for Securitisation Transactions

About the Company:

Belstar Investment and Finance Private Limited (Belstar) was incorporated in January 1988 at Bangalore and the Company was registered as NBFC with the RBI in March 2001. The Company has been reclassified as "NBFC-MFI" by RBI effective 11th December 2013. Belstar was acquired by the Hand in Hand group in September 2008 to provide microfinance services to entrepreneurs nurtured by the Hand in Hand India (HIH) Self Help Group (SHG) program. HIH is an NGO promoted by Dr Kalpana Sankar in 2002 as a public charitable trust based in Tamil Nadu.

Belstar started its micro lending operations in Tamil Nadu and Karnataka in April 2009. In the first five years of its operations post acquisition by HIH, Belstar primarily relied on taking over the existing groups formed by HIH. Belstar provides loans towards ***agriculture***, animal husbandry and micro-enterprises in the semi-urban and ***rural*** districts under SHG/JLG-based lending model. During FY2017, Muthoot Finance Limited has made a ***strategic*** equity investment of Rs 40 crore in the company and also acquired the entire stake from the foreign Investors. Currently, Muthoot Finance Ltd holds 64.6% stake in the company.

As on September 30, 2017, Belstar was operating with 200 branches in eight states and union territories and had a loan portfolio of Rs. 797 crore extended to 3,78,871 individual borrowers. 78% of the company's portfolio as on September 30, 2017, was in Tamil Nadu.

Key Financial ***Indicators***

Particulars

H1 FY2018\*

FY 2017#

FY 2016#

Net worth (Rs. Cr.)

100.92

90.35

39.90

Operating Profit (Rs. Cr.)

21.99

19.75

9.78

PBT (Rs. Cr.)

18.04

15.97

9.18

PAT (Rs. Cr.)

11.84

10.44

6.11

Gross NPA (Rs. Cr.)

0.56

0.56

0.97

Provisions (Rs. Cr.)

0.48

0.48

0.25

Net NPA (Rs. Cr.)

0.08

0.08

0.72

Tier I Capital (%)

11.56%

13.15%

12.60%

Tier II Capital (%)

5.75%

3.85%

4.06%

CRAR (%)

17.31%

17.00%

16.66%

#Audited

\*Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No.

Name of Instrument

Current Rating

Chronology of Rating History for the past 3 years

Type

Rated amount (Rs. Crores)

Month-year &

Rating

January 2018

Month- year & Rating in FY2016

Month- year & Rating in FY2015

Month- year & Rating in FY2014

1

Vivriti Trebor 010 2017

PTC Series A1

21.98

Provisional

[ICRA]A(SO)

-

-

-

PTC Series A2

1.93

Provisional [ICRA]BBB(SO)

-

-

-

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [*www.icra.in*](http://www.icra.in)

Annexure I

Details of Instruments

Sl.

Trust Name

Instrument

Date of Issuance

Coupon Rate

Scheduled Maturity Date#

Rated Amount (Rs. crore)

Current Rating

1

Vivriti Trebor 010 2017

PTC Series A1

December 2017

8.85%

Sep 2019

21.98

Provisional

[ICRA]A(SO)

PTC Series A2

13.50%\*

1.93

Provisional [ICRA]BBB(SO)

# the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

\* Calculated on XIRR basis

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**Load-Date:** January 14, 2018

**End of Document**



[***Population and attendance growth provide opportunities for Egypt's education sector***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5WS6-C4X1-DXYV-74HG-00000-00&context=1516831)

Oxford Business Group: Articles

March 2018

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**Length:** 2150 words

**Body**

Since the socialist reform era of the 1950s under President Gamal Abdel Nasser, Egypt has engaged in a decades-long effort to provide equal access to quality education across the country. Now, as Egypt seeks to jumpstart the economy after the political turbulence of recent years, educational reform is to play a vital role in preparing a skilled and educated workforce. Although challenges persist - especially as institutions and personnel are struggling to meet the needs of a rapidly growing population - the increased demand has created opportunities for a variety of players to fill critical gaps.

**Basic *Indicators***

As outlined in the World Economic Forum (WEF) "2017 Global Competitiveness Report", Egypt is trending positively on certain key educational ***indicators***, making strides in primary education and higher education and training from previous years. According to the most recent data from UNESCO, total literacy for Egyptians 15 years of age and older stands at 75.06%. This rate is higher among the large youth demographic at 92.02%, for those between 15 and 24 years of age.

However, there is room for improvement. Research from the Egypt Network for Integrated Development cites Ministry of Education (MoE) figures that place out-of-school children at the primary level at 15.9%, with net enrolment rates at the public primary school level reported at 87%. The same research highlights the inequality of access across income levels, with only 20% of children from the poorest 20% completing basic education, compared to 80% of the wealthier students. Once children are in school, 23% of the poorest children fail at these basic levels, compared to only 9% of children in the rest of the population. The urban-***rural*** divide persists as well; as noted in a 2016 paper from US-based think tank the Brookings Institution, at 43%, more than twice as many women in ***rural*** Upper Egypt are illiterate compared to urban Upper Egypt at 20%.

**Government Updates**

As a start to improving these ***indicators***, Egypt's constitution, updated most recently in January 2014, commits the government to spending no less than 4% of annual GDP on education. According to UNICEF, in FY 2014/15, 4.7% of GDP and 12% of total government expenditure went towards education. In 2015 the minister of finance announced the government aimed to further increase spending on education, up to 6% of GDP during FY 2016/17. This target - if fully achieved - would make Egypt one of the higher spenders on education as a proportion of GDP in the region; World Bank data lists 2013 spending levels for Lebanon at 3% and Qatar at 4%, for example.

In a parallel effort to stimulate innovation and advance higher education, and as part of the knowledge, innovation, and scientific research pillar of Egypt Vision 2030, the government has announced plans to build a Knowledge City in the New Administrative Capital. With branches of foreign universities and research centres, the city would follow the model of cities in the region like Doha and Abu Dhabi. This would be a critical step for Egypt to achieve its stated goal of becoming a regional centre of innovation; in the WEF "2017 Global Competitiveness Report" Egypt ranks 128 out of 138 countries when it comes to the quality of research institutions and 135 for capacity for innovation.

**University Placement**

One of the notable shifts in education was the August 2017 announcement from the minister of education, Tarek Shawki, that Egypt plans to replace the longstanding *ThanaweyaAmma*university placement exam with a new evaluation system, scheduled to begin in September 2018. Currently, in most of the Arab world, university placements are decided by a single, final exam, with the score determining who receives prestigious placements at universities and who will have to pay for a diploma at a lower-tier, often costly institution. Instead, as reported in regional higher education platform Al Fanar Media, Egypt's new system would consider students' ***performance*** throughout their three years of secondary school, culminating in a certificate that could be used for university admission. Much like in the US, universities would set selection criteria - which could include grades, interviews or demonstration of extracurricular interest - to select students based on a holistic assessment. Ideally, the new proposed system will relieve pressure on students and parents, who often pay costly tutoring fees focused on preparing for the current placement exam. The change to a new evaluation system would also incorporate the use of technology, allowing for multiple-choice exams that could be graded electronically. Regardless of the well-intentioned rationale for the proposed changes, some are sceptical of this approach.

Ghada Barsoum, associate professor at the Department of Public Policy and Administration at the American University in Cairo told OBG, "We don't yet know the details of this new system. This shift, if implemented, could mean increased tutoring costs associated with an even longer process and students could end up with three years of extended pressure."

**Private Costs**

Private tutoring, long a controversial solution for both children in Egypt's underresourced public schools and teachers earning low salaries that they often supplement with tutoring income, faced further resistance in 2017. As has been the trend in recent years, the most up-todate figures from Egypt's Central Agency for Public Mobilisation and Statistics (CAPMAS) note that in 2015 households with members enrolled in educational institutions spent a larger percentage of income on private tutoring (39.4%) than actual school fees (31.9%). The British Council estimates the country's annual expenditure on private tuition at over $2bn each year. The need for supplementary education, particularly for children in public schools, is unlikely to change soon, especially given the July 2017 announcement from Shawki that international school fees - already up to $24,000 each year - will be increased by 14% for the 2017/18 school year and another 7% annually starting from the year after that. The fact that the MoE even sets the price for private school tuition has been a source of frustration for some, who argue that this can deter additional private players from entering a space that desperately needs more facilities and investment. This lack of autonomy over fees was felt especially acutely given operating cost increases in 2017, including water and electricity. However, the MoE has remained firm on maintaining control, closing schools that do not adhere to standards.

**Primary & Secondary Schooling**

As of 2015, UNESCO reports that children aged 14 and younger made up 33% of the total population, translating into almost 4m pre-primary-aged students, 10.9m primary students, and 9.7m secondary-aged students. UNICEF's 2017 "Children in Egypt Statistical Digest" reports Egypt has made significant strides in expanding access to basic primary education to meet this sizeable demand. The latest figures estimate a net enrolment rate in primary education of 92% and 60% in secondary school. While it is promising that more children are attending school, it creates a challenge of overcrowded classrooms and a lack of resources. According to CAPMAS, primary classroom density was 45.4 students per class during the 2015/16 school year, up from 44.2 in 2013/14. In these same primary schools, there was one teacher for every 25.4 students in 2015/16. For general secondary school classrooms, density was 39.6 in 2015/16, up from 37.3 in 2013/14.

Part of the challenge in addressing this issue, as outlined in the MoE's "***Strategic*** Plan for Pre-University Education 2014-2030" and echoed by private players, is that the population distribution makes it difficult to acquire land for new facilities in highly populated areas near the Nile, as much of it is currently for ***agricultural*** use. This overcrowding means that the percentage of students repeating grades in early years is low. This issue may have rippling effects. As Barsoum told OBG, "The existential problem you have in the system is that there are so many students in a classroom each year that you cannot allow children to repeat. When repetition is not a part of the culture and passing is guaranteed, it hurts the overall quality of the education system."

**Religious Studies**

Each year, Egyptian students may choose to participate in the 12-year Al Azhar system. Students enrolled in the Islamic studies-focused programme, which is separate from the national school system, are taught in single-sex classrooms and automatically admitted for study at the Al Azhar University upon graduation. According to CAPMAS, in 2014/15 there were 1.9m students enrolled in the pre-university Al Azhar system compared to 19.9m enrolled in other pre-university education. The Upper Egypt provinces of Shuarqia and Suhag had the largest percentage of students in the Al Azhar system, with 11.7% and 8.9%, respectively.

**Higher Education And Research**

Despite the presence of historically prestigious institutions like Al Azahar University and Cairo University, WEF's "2017 Global Competitiveness Report" ranked Egypt 112 out of 138 countries for higher education and 137th in university-industry collaboration in the field of research and development. Science graduates make up only 10.2% of graduates, social sciences, business and law graduates (36.2%), humanities and arts (14.6%), and health and social services (14.%).

Increasing the availability of resources and encouraging student interest will be important to advancing the scientific sector. In the 2015/16 academic year, 1.8m students were enrolled in public universities across the country compared to 83,423 across 19 private universities, with a split of 36,347 women and 47,076 men. A British Council report lists 24 state universities with 51 state non-university tertiary institutions focused on technical education. In the private sector there are 105 institutions, including private universities and lower-tier private institutions that cover trades like computer science, administrative services and accounting.

**Outside Engagement**

Education continues to be an active sector for international investment and engagement, through both traditional donor-based initiatives and private sector investments.

In February 2017, the MoE announced the piloting of *Tokkatsu* - the Japanese Tokubetsu Katsudo "whole child" education model - in 12 Egyptian schools, building on trials ongoing in elementary schools since 2015. In the 2018/2019 academic year the ministry announced its intention to expand the programme by establishing 100 new Egyptian-Japanese schools. In addition, February 2017 saw the UK's secretary of state for foreign and commonwealth affairs, Boris Johnson announce - through the British Council, - that the UK would sign 70 new UK-Egypt university partnerships, adding to the 30 signed in 2016, bringing the total to 100.

In July 2017 regional press announced a three-year, $2m project under the umbrella of Mohammed Bin Rashid Al Maktoum Global Initiatives, targeting the development and improvement of the educational environments for 15,000 students and their teachers in Upper Egypt by supporting and funding extracurricular activities and teacher training.

Recently, the door has also opened to increasing private sector involvement. In 2016 the Ministry of Finance's Public Private Partnership Central Unit released a call for submissions for contracts to "finance, design, build, operate, use and maintain" schools on land provided by the government for 40 years before ownership was transferred to the MoE.

**Technology**

With the pressure Egypt's large and growing population places on physical classroom space, recent years have seen a turn toward technology, seeing the implementation of digital education in line with international trends. For example, global education company Discovery Education has been working closely with the MoE on standardising digital educational content being provided as part of the Egyptian Knowledge Bank, the online library archive and resource project that is free for all Egyptian citizens. In addition, start-up online platforms like Tyro and Tutorama connect students with instructors for individual online sessions - despite geography - and have received funding for expansion.

**Outlook**

The demand for quality education continues to rise and Egyptian families have demonstrated a willingness to pay, providing opportunities for public and private players to enter the sector. In particular, the ministry of education's February 2017 acknowledgement that a free education for all Egyptian students may no longer be sustainable further opens the door and conversations to private providers. As Barsoum told to OBG, "this is a country with so many children - with this demographic profile, education will always be a sustainable business."

**Load-Date:** March 12, 2020

**End of Document**



[***Bank of China reports 2017 interm results***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RGT-0TW1-JC0X-H0GW-00000-00&context=1516831)

MarketLine NewsWire (Formerly Datamonitor)

August 30, 2017 Wednesday 12:00 AM GMT

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**Section:** FINANCIAL SERVICES

**Length:** 1775 words

**Highlight:** The Board of Directors of the Bank has announced the unaudited results of the Bank and its subsidiaries for the six months period ended 30 June 2017.

**Body**

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report . The 2017 Interim Report and the 2017 Interim Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 30 August 2017. The number of directors who should attend the meeting is eleven, with eleven directors attending the meeting in person. Eleven directors of the Bank exercised their voting rights at the meeting. Some supervisors and senior management members of the Bank attended the meeting as non-voting attendees.The 2017 interim financial statements prepared by the Bank in accordance with Chinese Accounting Standards ("CAS") and International Financial Reporting Standards ("IFRS") have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with the Chinese and international standards on review engagements, respectively . Chairman of the Board of Directors CHEN Siqing, Executive Vice President responsible for the Bank's finance and accounting ZHANG Qingsong and General Manager of the Accounting and Information Department ZHANG Jianyou warrant the authenticity, accuracy and completeness of the financial statements in this report. During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and procedures.In the first half of 2017, the Bank followed the policies and arrangements made by the CPC Central Committee regarding financial and economic works, implemented its development strategy of "Serving Society, Delivering Excellence" and adhered to the overall theme of seeking progress while maintaining stability.

Furthermore, it made solid progress towards key tasks related to "innovation, transformation, mitigation and management and control" in pursuit of the sustainable and healthy development of all businesses. As a result, the Bank realised a steady improvement in its overall ***performance*** .Steady improvement in financial ***performance*** By upholding the concepts of sound operation and the guidelines of seeking progress while maintaining stability, the Bank steadily promoted business development and continued to strengthen internal management, all of which contributed to positive ***performance*** of its main financial ***indicators***. As at 30 June 2017, the Group's assets totalled RMB19,425.980 billion, and its liabilities stood at RMB17,898.108 billion, up by 7.04% and 7.42% respectively compared with the prior year-end. In the first half of 2017, the Group recorded a profit for the period of RMB110.549 billion, an increase of 3.02% compared with the same period of the prior year. It realised a profit attributable to equity holders of the Bank of RMB103.690 billion, an increase of 11.45% compared with the same period of the prior year. It achieved a net interest income of RMB165.042 billion and net fee and commission income of RMB49.187 billion, an increase of 6.58% and 2.84% respectively compared with the same period of the prior year .New progress in serving the real economy Following its mission of serving the real economy, the Bank adhered closely to national development strategies, gave full play to its professional advantages and supported the transformation and upgrading of the national economy. As at 30 June 2017, the Group's loans and advances to customers amounted to RMB10,650.703 billion, an increase of RMB677.341 billion or 6.79% compared with the prior year-end. The Bank accelerated the building of the financial artery of the "Belt and Road" initiative, followed up on a total of 470 major projects and provided financing support of more than USD 80.0 billion. It continued to enhance its overseas institutions network, which now covers 51 countries and regions across the six continents, including 20 countries along the "Belt and Road".The Bank issued two tranches of "Belt and Road" theme bonds, raising funds of approximately USD3.6 billion, and held "Belt and Road" international financial communication and cooperation seminars for eight Pacific Island countries. It also qualified as an official Banking Partner of the Olympic and Paralympic Winter Games Beijing 2022. It promoted cross-border investment matchmaking services for small and medium-sized enterprises (SMEs) by holding 35 cross-border matchmaking events. The Bank continuously improved its credit structure, focusing on micro and small-sized enterprises, ***agriculture***, farmers and ***rural*** areas, the "mass entrepreneurship and innovation" initiative, and other areas. In addition, the Bank devoted great efforts to carrying out targeted poverty alleviation, intensified its provision of poverty alleviation aid to designated areas, and established a characterized welfare sharing platform.New results achieved in financial risk prevention and control The Bank continued to adhere to the bottom line of risk, focused more attention on risk prevention and actively enhanced its comprehensive risk management, thus continually enhancing its risk prevention and control capacity. Closely tracking changes in economic and financial conditions and regulatory requirements, it strengthened credit asset quality management and enhanced country risk management. On this basis, the Bank maintained relatively stable asset quality. As at 30 June 2017, the Group 's outstanding non-performing loans (NPLs) stood at RMB147.025 billion, with an NPL ratio of 1.38%. It stepped up efforts to collect and resolve NPLs, developed innovative means to eliminate NPLs and launched the Bank' s first securitisation product for its personal housing mortgage and credit card NPLs. Furthermore, the Bank continued to improve the "three lines of defence" mechanism for internal control, further clarified the positioning and duties of each line, and continued to enhance compliance management to ensure compliant operations.New features in financial reform efforts Driven by innovation and transformation, the Bank promoted the prudent reform of its institutional mechanisms so as to provide lasting momentum for business development. In completing the equity transfer of Chiyu Banking Corporation Limited, it reduced overlap in its regional operations and improved financial services efficiency. At the same time, its ASEAN regional development progressed smoothly, with its Malaysia, Thailand and Jakarta businesses now successfully transferred to BOCHK. It devoted greater efforts to developing inclusive finance, establishing the Inclusive Finance Department so as to build a market-oriented, specialised inclusive financial services system. The Bank also pushed forward ***strategic*** merger and acquisition (M&A) of village banks, completing the equity acquisition of 15 village banks from China Development Bank, thus building the largest village bank group in the Chinese mainland.Financial ReviewEconomic and Financial Environment In the first half of 2017, the global economy continued to recover and international trade picked up. The US economy maintained mild growth, with its unemployment rate remaining on at the downward trend. The Eurozone economy experienced a steady recovery and political and economic risks gradually reduced. Japan's economy continued to recover, with exports growing at a faster pace. Growth momentum in emerging economies was strong and countries such as Russia and Brazil moved out of recession. International financial markets became more stable and policy uncertainty decreased to a certain extent. Regarding interest rate, the US Federal Reserve raised its benchmark interest rate twice, but inflation was lower than expected and US long-term interest rates declined rather than increased.Regarding exchange rate, the US dollar index fell from a high point at the beginning of the year; the Euro jolted upwards and emerging market currency exchange rates experienced an overall rise. The stock markets of the world's major economies performed well, while bulk commodity markets recorded differentiated ***performances***. China's economy maintained stable and on a positive track, and its economic efficiency improved. The country's economic ***performance*** rebounded, demonstrating a sound pattern of steady employment, stable prices and improved balance of payments. Significant progress was made in supply-side structural reform, industrial structure optimisation and updating forged ahead, new growth drivers gradually gained momentum. In the first half of 2017, gross domestic product (GDP) grew by 6.9% year-on-year and the consumer price index (CPI) rose by 1.4%.Total retail sales of consumer goods (TRSCG) increased by 10.4%. Total fixed asset investments (TFAI) grew by 8.6%. China's trade surplus increased to RMB1.28 trillion. The Chinese government continued to implement a sound monetary policy and strengthened deleveraging and the prevention of financial risks. Financial markets opened up at an accelerated pace, and a bond trading link between Hong Kong and the Chinese mainland ("Bond Connect") was launched. Financial markets functioned smoothly, monetary credit realised steady growth and the RMB exchange rate remained stable. As at 30 June 2017, the broad money supply (M2) was RMB163.13 trillion, an increase of 9.4% year-on-year, and the balance of RMB deposits was RMB159.66 trillion, an increase of 9.2% year-on-year.In the first half of 2017, RMB loans increased by RMB7.97 trillion, RMB0.4362 trillion more than that of the same period of the prior year. The balance of all-system financing increased by RMB11.17 trillion, RMB1.36 trillion more than that of the same period of the prior year. As at 30 June 2017, the USD/RMB middle rate was 6.7744, up 2.4% from the end of the prior year; the SSE Composite Index rose by 89 points and the floating market value of the Shanghai and Shenzhen stock markets increased by 5.7% compared with the prior year-end.In the first half of 2017, the Group achieved a profit for the period of RMB110.549 billion, an increase of 3.02% compared with the same period of the prior year. It realised a profit attributable to equity holders of the Bank of RMB103.690 billion, an increase of 11.45% compared with the same period of the prior year. Return on average total assets (ROA) was 1.18%, and return on average equity (ROE) was 15.20%.

**Load-Date:** February 13, 2018

**End of Document**



[***Committee on the Rights of the Child considers report of Panama***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RFG-21P1-F0YC-N3H5-00000-00&context=1516831)

Impact News Service

January 18, 2018 Thursday

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**Length:** 4661 words

**Body**

Wellington: Office of the United Nations High Commissioner for Human Rights has issued the following news release:

The Committee on the Rights of the Child today concluded its consideration of the combined fifth and sixth periodic report of Panama under the Convention on the Rights of the Child.

Introducing the report, Yazmin Cardenas, Director of the National Secretariat of Childhood, Adolescence and Family of Panama, stated that Panama continued to develop activities seeking to ensure effective implementation of the Convention, and redefining its public policies, programmes and services based on the principle of the best interest of the child.  The National Committee for Deinstitutionalization, comprised of Government and civil society representatives, had been set up to define actions to ensure the systematic protection of the rights of girls, boys and adolescents, and to advance the process of deinstitutionalization of children.  The Government also strengthened inter-institutional coordination in order to define actions to prevent violence against children, and for the first time it had established a formal mechanism of permanent consultation with children.  Panama had also managed to reduce the number of girls and boys who worked.  It had defined a ***strategic*** health plan for infants, children and adolescents 2016-2025, and it was making great efforts to improve the education system and to make it free of charge for all children.

In the ensuing discussion, Committee Experts commended Panama’s progress in reducing poverty, and various plans and bills in the area of children’s rights.  However, they reminded that Panama lacked a comprehensive bill on the rights of children and adolescents, and systematic data compilation on child-related issues.  They further inquired about budget lines for children, dissemination of the Convention, the impact of businesses on children’s rights, in particular on the rights of indigenous children, and discrimination against indigenous children, children of African descent, children with disabilities, and lesbian, gay, bisexual, transgender and intersex children.  Questions were raised on the participation of children in administrative proceedings, children in foster care and shelters, juvenile justice, adoption laws, the minimum age of marriage, violence against children and corporal punishment, helplines for victims of violence, child labour, child trafficking, the minimum age of criminal responsibility, birth registration, freedom of expression and association, the curfew policy, cohabitation of young girls with older men and resulting teenage pregnancies, educational coverage and quality of education, sexual and reproductive health education, breastfeeding, asylum-seeking and refugee children, mental health, and environmental health.

In concluding remarks, Ann Marie Skelton, Committee Expert and head of the task force on Panama, commended the fact that Panama had ratified all three Optional Protocols and that it had made additional budgetary allocations to children’s programmes.  However, she cautioned that the Government had to carefully think of its investments, budgeting and spending, and she expressed hope that the advancement of children’s rights would be a continuous endeavor that would not stop because of the change of political leadership.

Ms. Cardenas thanked the Committee for all the recommendations and observations, noting that the dialogue was an opportunity for the Government to take stock of the advancements, efforts and challenges. She reiterated Panama’s commitment to continue a constructive and participative dialogue with the Committee and other United Nations treaty bodies.

Renate Winter, Committee Chairperson, thanked the delegation and asked it to communicate the Committee’s best regards to Panama’s children.       The delegation of Panama included representatives of the Ministry of Social Development, the Ministry of Foreign Affairs, the Ministry of Labour and Labour Development, the Ministry of Health, the Ministry of Economy and Finance, the Ministry of Governance, and the Permanent Mission of Panama to the United Nations Office at Geneva.

The Committee will next meet in public at 3 p.m today when it will start its review of the combined fifth and sixth periodic report of Seychelles (CRC/C/SYC/5-6).

Report The Committee is considering the combined fifth and sixth periodic report of Panama (CRC/C/PAN/5-6). Presentation of the Report

YAZMIN CARDENAS, Director of the National Secretariat of Childhood, Adolescence and Family of Panama, stated that Panama continued to develop activities seeking to ensure the effective implementation of the Convention, and redefining its public policies, programmes and services based on the principle of the best interest of the child.  The Government had drafted the National ***Strategic*** Plan 2015-2019 entitled “A single country” in order to ensure social development and improve the quality of life for all citizens by strengthening inclusive economic growth.  The plan contained six goals linked with the Sustainable Development Goals and an inter-institutional commission had been set up to implement the plan, with the participation of civil society.  Ms. Cardenas highlighted significant progress made in terms of the wellbeing of girls, boys, adolescents and their families.  The National Committee for Deinstitutionalization, which was made up of Government and civil society representatives, had been set up to define actions to ensure the systematic protection of the rights of girls, boys and adolescents, and to advance the process of the deinstitutionalization of children.

The Government had also strengthened inter-institutional coordination in order to define actions to prevent violence against children.  It had created spaces of participation for children in order to hear their opinions.  For the first time, Panama had established a formal mechanism of permanent consultation with children.  In terms of child labour, Panama had managed to reduce the number of girls and boys who worked.  The Government systematically involved local authorities and civil society in its efforts aimed at eliminating child labour.  The State had defined a ***strategic*** health plan for infants, children and adolescents 2016-2025, and it was making great efforts to improve the education system and to make it free of charge for all children, given the many challenges in that area.  Ms. Cardenas emphasized that peace, tolerance and respect were the pillars of national development in Panama, which achieved economic growth of 5.6 per cent in 2017.  The goal of the Government was to focus those resources to guarantee the best interest of the child.

Questions by the Committee Experts

JORGE CARDONA LLORENS, Committee Expert and Rapporteur for Panama, commended the progress made by Panama, namely the zero poverty strategy, and various plans and bills in the area of children’s rights.  He reminded that Panama was almost the only country in the region without a comprehensive bill on the rights of children and adolescents.  When would it come to fruition and what were the barriers to its adoption?

It seemed that childhood was a not a policy priority.  Did the Government have budget lines for children?  In addition, there was no up and running system for systematic data compilation on child-related issues.  What were the public policies on the dissemination of the Convention, training of public officials, and awareness raising campaigns?  How was the Convention disseminated to indigenous peoples?

Turning to businesses and children’s rights, Mr. Cardona Llorens welcomed the adoption of the law no. 81 of 2016 which stipulated the requirement for businesses to seek prior and informed consent of indigenous peoples.  However, there was a lack of inclusion of indigenous children in such consultations.  What kind of measures had been adopted to offset the negative effect of business activities, including the increasing sex tourism industry?

Mr. Cardona Llorens commended the Government for having raised the minimum age of marriage to 18.  In which instances were marriages with minors considered valid?  Had the Government looked into the existence of forced marriage in ***rural*** areas?

Mr. Cardona Llorens drew attention to discrimination against indigenous children, children of African descent, children with disabilities, and lesbian, gay, bisexual, transgender and intersex children.  He reminded that the poverty rate among indigenous peoples stood at 60 per cent, whereas the rest of the population had a much lower poverty rate.  He also questioned the usefulness of the curfew for adolescents.

How did children participate in administrative proceedings?  How were child victims, especially those of sexual abuse, heard?

Panama was one of 10 countries in the world where children encountered a high risk of violence, Mr. Cardona Llorens reminded.  Some 45 per cent up to the age of 14 were subjected to corporal punishment, and 53 per cent of children experienced bullying in schools.

ANN MARIE SKELTON, Committee Expert and Rapporteur for Panama, inquired about the measures to improve birth registration and the functioning of issuing identity documents to youth.  As for freedom of expression, was it true that the right to form student groups had been withdrawn?

The curfew was a breach of the freedom of association and its efficacy was in doubt.  How was keeping the curfew for adolescents justified?  Thousands of children had been detained as a result of the curfew policy.  Some parents could not afford to pay for their release, leaving a great number of adolescents in detention.

CEPHAS LUMINA, Committee Expert and Rapporteur for Panama, raised questions about the measures taken by the Government to monitor local and provincial budgets, to ensure allocative efficiency, and to ensure that the budget was not wasted through poor procurement processes.

CLARENCE NELSON, Committee Expert and Rapporteur for Panama, drew attention to the issues of abuse and neglect.  There was no overall national strategy to address all forms of violence against children and adolescents.  What were the budgetary and personnel resources available in that respect?  Were helplines operated 24 hours/seven days a week?  What kind of training did helpline personnel receive?  Did awareness raising campaigns about the helplines exist?

As for torture and cruel punishment, had a bill on the training of personnel working in juvenile prisons been adopted?  There was information that female genital mutilation was performed in some parts of the country.  What steps had been taken to address that problem?  Was cohabitation of young girls with older men, often resulting in teenage pregnancies, a common occurrence?

Replies by the Delegation

YAZMIN CARDENAS, Director of the National Secretariat of Childhood, Adolescence and Family of Panama, explained that even though there was no comprehensive bill on the rights of children and adolescents, a bill on the system of guarantees and comprehensive protection for children and adolescents had been submitted to the Cabinet and it should be adopted soon.

Panama was currently adopting ***indicators*** on child poverty, in line with its zero poverty plan.  The ***indicators*** would focus on nutrition, self-management, family planning and production, entrepreneurship, culture and sports.  In 2017, 18,000 people had benefited from the “Guardian Angel” project for children with disabilities.  Another programme targeting poverty was the “Network of Opportunities.”  Other programmes provided scholarships, housing, healthcare, sanitation units, and drinking water, Ms. Cardenas said.

With respect to the dissemination of the Convention, Ms. Cardenas noted that the Government had declared 2017 as the year of children and had launched awareness raising campaigns geared at parents and guardians on various aspects of children’s rights.

Consultation with children began in September 2017 at the municipal level across the country, with the support of UNICEF and civil society.  The consultative councils would have an impact on plans, projects and programmes at the local level.  Children’s views in administrative proceedings concerning them were taken into account, Ms. Cardenas noted.

The National Strategy for the Prevention of Violence against Children and Adolescents was being drafted as part of the Sustainable Development Goals, focusing on family, schools, communities, society, and ***strategic*** and systematic information.  Adolescents and children participated in the drafting through consultations.  Several helplines for victims were operational, with one specifically designed for child victims.  All protection institutions were linked with the helplines, Ms. Cardenas explained.

As for the curfew, the Government had been reviewing the situation and it had drafted a note to all provincial governors where that administrative measure was in place, informing that the curfew violated children’s rights, Ms. Cardenas clarified.

Responding to the question about the cohabitation of young girls with older men, often resulting in teenage pregnancies, Ms. Cardenas said that the Government focused on preventing early pregnancies.

The delegation explained that the social public spending earmarked for Government bodies had grown considerably.  Some 25 per cent of the budget was geared for child-related programmes.  The Ministry of Economy and Finance assessed various children’s programmes and their impact, most notably in tackling poverty.  Panama strove to combat corruption at all levels and to channel budget resources to the most vulnerable sectors of society.

The Government had rolled out several measures for children in conflict with the law, which was a part of the deep overhaul of the penitentiary system.  A hierarchical, merit-based system would be introduced.  Transition centres had been set up for children in conflict with the law who reached the age of majority.

The delegation stated that it was not aware that female genital mutilation existed in Panama, and it asked the Committee to provide more information in order to conduct an investigation.

Second Round of Questions by the Committee Experts   ANN MARIE SKELTON, Committee Expert and Rapporteur for Panama, inquired about alternative options for children deprived of a family environment, noting that the number of children in shelters remained high, even though they retained contact with their extended families.  They stayed in shelters due to socio-economic factors and due to the long deinstitutionalization process.  Did the authorities plan to get more budget and staff to deal with this?  How was foster care understood?

What kind of care and programmes did children in shelters receive?  Information had been received that the Government’s plan on regular oversight visits to shelters would only encompass those shelters run by civil society.  How would monitoring of Government-run shelters be handled?  Could children in shelters file complaints to the Ombudsman?

Ms. Skelton reminded that the Adoption Law had been amended, but wondered why the Government would adopt a new law before the previous one had been adapted.  Turning to children of incarcerated parents, was there any law or legal precedents that directed courts to use non-custodial sentences?

As for educational coverage, in some ***rural*** areas a regression could be observed and an increase in the level of dropout.  What was the plan to deal with that problem?  How would the new programmes reach the most marginalized groups?  With respect to the quality of education, had the Government determined the causes for its poor quality?  There was a great inequality among schools, mirroring the situation in the overall society in Panama.  Ms. Skelton noted that the fact that Panama spent only 3.3 per cent of GDP on education was very low.

Ms. Skelton regretted that Panama had not raised the minimum age of criminal responsibility, adding that the Government was going in the wrong way, toughening up its criminal juvenile justice and not using relevant statistical data.  What was the situation with respect to free legal aid for children in conflict with the law?

JORGE CARDONA LLORENS, Committee Expert and Rapporteur for Panama, asked about cross-cutting policies on children with disabilities in all spheres.  What investment had been made in training teachers and what kind of services were provided to children with disabilities?  How would inclusive education be ensured?

What measures had been adopted to ensure greater pre-natal and natal care?  Mr. Cardona Llorens expressed concern about the lack of sexual and reproductive health education in schools, the high level of teenage pregnancies, and the high prevalence of HIV.

Extreme poverty had hardly fallen in recent years.  What measures had the Government taken to eradicate it?

An Expert reminded that the rate of breastfeeding stood at only 21.5 per cent.  Why was that problem more exacerbated in ***rural*** areas and among indigenous communities?   In terms of mental health, were there qualified workers to provide psychological support to children? What kind of public policies were implemented?

What was the scope of the plan on drinking water and environmental health?  Did it cover ***rural*** areas?

As for asylum-seeking and refugee children, was there any intention to establish a child-friendly assessment process?  What was the availability of scholarships and education to asylum-seeking and refugee children?  Since Panama was a corridor for migrant families, what efforts was the Government undertaking concerning reception, repatriation and return?

What progress had been made in monitoring the prevalence of child labour?  What was the update on aligning the definition of child trafficking with the Palermo Protocol?

Replies by the Delegation

The delegation explained that Panama had redoubled its efforts to elaborate the initial report on the Optional Protocol on the sale of children, child prostitution and child pornography.  The report was in the final phase and it had already been presented to civil society.

The delegation confirmed that the minimum age of marriage was 18.  The Government was currently reviewing an article that seemed to contain a contradiction concerning the prohibition of marriage between minors.  No marriage between minors could be recorded.

The Ministry of Social Development provided guidelines for the development of marginalized communities, and it designed social assistance policies in order to implement the Sustainable Development Goals and to achieve zero poverty.  Aware of the importance of policies on children and adolescents, on 16 January 2018 the Ministry of Social Development had presented an act on guarantees and protection for children and adolescents.

Regarding data collection of ***indicators*** on children and adolescents, the delegation explained that the national census provided general information about the population.  Furthermore, surveys that took place every two years provided information on education and health.  The Government was working on strengthening the national statistical system, including on the Sustainable Development Goals related to children and adolescents.

Levels of poverty had generally improved, including extreme poverty.  In 2016, 21.2 per cent of the population lived in poverty.  In the past five years, more than 100,000 people had emerged from poverty due to the overhaul of the social protection system.  The average drop in the levels of poverty in the past several years was 1.7 per cent per year.  The Government had launched a decree on an index that would help improve the allocation of budget lines to the most needy sectors of the country, and to create decentralized actions and solutions for diverse regions.

Commenting on a Committee Expert’s comment that Panama invested only 3.3 per cent of the GDP to education, the delegation stated that the country had increased investment in real terms.  As for combatting corruption in public policies, Panama had signed regional and international instruments and it had a corruption judge to ensure the transparency of public procurement.

In terms of dissemination of the Convention, various entities organized training on child rights in cooperation with universities and the High Judicial Institute.  There were also modules on inclusive justice throughout the judiciary, and a digital repository on different legal proceedings.

There was no national system on analyzing data on violence.  However, there was a statistical record of complaints.  The Government had put in place an adversarial criminal system and it was implementing a statistical tool to capture data with more precision.  The Secretariat on the Protection of Witnesses had a comprehensive protection system for victims, especially victims of sexual crimes.  With respect for safeguards for pregnant girls, holistic care was provided to them through new laws and plans of action.

Turning to child labour, the delegation clarified that in practice Panama did not grant permission to children who were under the age of 15 and had not completed primary education.  But it did grant permission for supervised work to those who did.  There were municipal strategies to eliminate child labour, as well as a department on combatting child labour.  As for the harmonization of child labour laws, Panama recognized that it still needed to work on that problem.  It was true that the minimum working age for children working in the ***agriculture*** sector was 12, and that challenges in that sector remained.

On child trafficking and migration, Panama did not penalize regular migration and it was developing a draft protocol for humanitarian cases.  The national trafficking policy addressed organized crime and the Government was able to break down 16 organized trafficking networks in the past several years.  A unit had been set up for identifying victims of trafficking and for their care.

As for youth identification cards, the delegation explained that if youth did not carry those documents with them, they would not be detained.  The youth police were trained in children’s rights and would immediately assess who their parents were and where they lived.  Children could only be detained in case they found themselves in a situation of risk, or if they broke the curfew time.  Curfews had been in place in Panama for many years, but parents were not asked to pay a fine in order to get their children back.

YAZMIN CARDENAS, Director of the National Secretariat of Childhood, Adolescence and Family of Panama, clarified that not all children in shelters were there because they had been abandoned.  The authorities kept channels of communication with the family open and tried to exhaust all the means for providing children with their right to live with their biological families.  People who wanted to be foster parents had to meet specific requirements.  Foster families provided temporary solutions, not permanent institutionalization.         Ms. Cardenas stressed that according to the Committee’s recommendations, the Government applied a humanitarian outreach approach to the treatment of minors in new adoption laws in order to avoid potential trafficking risks.  The Government aimed to strengthen the principle of hearing the child’s opinion in the adoption process.

The delegation stated that the health insurance coverage was almost universal.  The Ministry of Health was planning to carry out a national nutrition survey since the last one took place in 2008.  The rate of chronic malnutrition had fallen from 28 to 19 per cent.  However, it was higher in indigenous areas – 62 per cent.  Child mortality had been falling and it stood at 13.9 per 1,000 live births in 2016.  “Contigo” was a strategy to address the problem of child mortality, including in indigenous areas.  As for the rate of maternal mortality, it had fallen.  Between 2014 and 2016 there had been a drop in the number of teenage pregnancies.  The Government was trying to use preventive programmes and adolescent-friendly information in order to combat teenage pregnancies.

Panama had developed breastfeeding activities through the activities of the Breastfeeding Commission which met every month.  In 2011 the first monitoring of the breastfeeding activities had been carried out, assessing the manufacturers of breastmilk substitutes.  Some 35 breastfeeding rooms were available in the country, as well as three hospitals that had breastmilk banks.  There was early ***intervention*** to tackle any malnutrition problems, as well as nutritional guides for minors in order to promote healthy eating.

The Government had initiated a project for the training of mental health staff in three institutions.  There were 18 psychiatrists specialized in children’s psychology.  A national mental health plan promoted specific modules for children.  As for environmental health, in 2016 there was an order to build a drinking water line in the Mendoza area.

There was a programme aimed at eliminating the so-called “classroom huts” and to build new standardized classrooms in indigenous and ***rural*** areas.  The goal was to expand educational coverage at the primary level and to reach 90 per cent by 2019.  With a programme of care through tutors for children, the authorities aimed to reduce school dropout and to implement differentiated teaching.  In order to bolster data collection on school enrolment, the Government was developing an information ***indicator*** and verifying system.  Improving the quality of education was a policy priority.

Panama had begun a process at the highest level to develop activities and a work plan for children with disabilities.  The Government had recognized special vulnerabilities of children with disabilities, particularly of indigenous children with disabilities.  The Government would focus on gathering statistical data on children with disabilities and on their institutionalization.

Juvenile justice provided for alternative sentencing and conditional suspension of criminal proceedings.  Non-custodial sentences were preferred and more than 60 per cent of juveniles in conflict with the law received such sentencing.  Currently, there was no overcrowding in juvenile detention centers.

Concluding Remarks

ANN MARIE SKELTON, Committee Expert and head of the task force on Panama, thanked the delegation for the answers to the often tough questions posed by the Committee.  The Committee Experts had aired their concerns and they had received more clarity on the situation in the country.  Ms. Skelton commended the fact that Panama had ratified all three Optional Protocols and that it had made additional budgetary allocations to children’s programmes.  However, she cautioned that the Government had to carefully think of its investments, budgeting and spending.  Ms. Skelton expressed hope that the Government would make good use of the Committee’s concluding observations, and that the advancement of children’s rights would be a continuous endeavour that would not stop because of the change of political leadership.

YAZMIN CARDENAS, Director of the National Secretariat of Childhood, Adolescence and Family of Panama, thanked the Committee for all the recommendations and observations.  The dialogue was an opportunity for the Government to take stock of the advancements, efforts and challenges.  Ms. Cardenas added that the Government was aware that it needed to improve its monitoring and data collection on children’s issues.  She reiterated Panama’s commitment to continue a constructive and participative dialogue with the Committee and other United Nations treaty bodies.

RENATE WINTER, Committee Chairperson, thanked the delegation and asked it to communicate the Committee’s best regards to Panama’s children.

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CONCLUSIONS ............................................................................................................................. 29 3 EXECUTIVE SUMMARY Sustainable energy is fundamental to social and economic development and to power sustainable growth.

It is needed to improve livelihoods in developing countries, ensuring access to clean water, cooking, education and healthcare for their people. Energy poverty is also among root causes of migration in search of better livelihoods, whereas sustainable energy powers industry and ***agriculture***. It gives rise to novel business models and services, to creating prosperity, jobs and opportunities at home. At the same time, ensuring that energy is sustainable is essential to protect ecosystems and public health. 'Empowering development' constitutes a response to this complex challenge: it contributes simultaneously to Sustainable Development Goal (SDG) 7 —'access to affordable, reliable, sustainable and modern energy for all by 2030'— as well as to SDG 13 on climate action and the Paris Agreement1. This Staff Working Document (SWD) explains how energy cooperation contributes to the implementation of the new European Consensus on Development2. In particular, it takes forward the special focus the new Consensus puts on the close coordination of the 2030 Agenda for Sustainable Development3 (2030 Agenda) key themes for People: increasing access to affordable energy, Prosperity: benefitting from the high potential of the sustainable energy sector for growth and job creation, both directly (sustainable energy value chain) and through productive uses; and Planet: tackling climate change and addressing environmental degradation. The SWD also draws on the new Consensus Partnership objective, through fostering common action of the EU and its Member states and inclusive multi-stakeholder partnerships for the implementation of the 2030 Agenda. Good examples are the renewed impetus of the Africa-EU Partnership4, the Global Strategy on the EU's Foreign and Security Policy5, and the Energy Union6, including its research and innovation pillar. The SWD also takes into account the Council Conclusions adopted on 28 November 20167 and 6 March 20178. Although the approach laid out in this SWD applies to all development cooperation countries, particular attention is paid to the cooperation with Africa, which represents a privileged 1 United Nations — Framework Convention on Climate Change (2015) Adoption of the Paris Agreement, 21st Conference of the Parties, Paris: United Nations. 2 The New European Consensus on Development — Our World, Our Dignity, Our Future — Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the European Commission, 7 June 2017. Official Journal of the European Union, C 210, 30.6.2017 3 Transforming our world: the 2030 Agenda for Sustainable Development — Resolution 70/1 adopted by the General Assembly of the United Nations on 25 September 2015. 4 For a renewed impetus of the Africa-EU Partnership — Joint Communication to the European Parliament and the Council, JOIN(2017) 17, 4.5.2017 5 Shared Vision, Common Action: A Stronger Europe — A Global Strategy for the European Union's Foreign And Security Policy, 56 p., June 2016. ([*https://europa.eu/globalstrategy*](https://europa.eu/globalstrategy)). 6 Energy Union package — A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, COM(2015) 80. See, in particular, Accelerating Clean Energy Innovation, COM(2016) 763. 7 Energy and Development — Council of the European Union 14839/16, 28.11.2016 8 Implementing the EU Global Strategy — strengthening synergies between EU climate and energy diplomacies and elements for priorities for 2017, Council of the European Union 6981/17, 6.3.2017 4 partner. Europe and Africa's fates are interlinked. Africa is as close as 15 kilometres to Europe. Access to affordable and reliable energy services is limited and remains a critical challenge to economic growth and industrialisation in the continent. Africa's energy sector presents vast business and investment opportunities and thus a significant potential for boosting growth and jobs, both domestically as well as in Europe, for example in the field of renewable energy technologies where the EU aspires to be a global leader. In 2014 in sub-Saharan Africa, 609 million people (6 out of 10) do not have access to electricity9 despite substantial progress being made. Furthermore, 75 % of the global population without electricity access will concentrate in ***rural*** areas of sub-Saharan Africa by 204010. Sustainable growth in partner countries is promoted through the energy sector, highlighting three areas of particular focus: increase access to energy; increase renewable energy generation and energy efficiency; and contribute to the fight against climate change. These preferences are supported by three drivers: political ownership and partnerships on sustainable energy; unlocking the potential of indigenous sustainable energy resources through adequate regulatory frameworks, market reforms and improvement of the governance of the energy sector; and boosting investments in renewable energy generation and interconnections, notably through innovative financial instruments. Under the 2014-2020 financial perspective, EUR 3.7 billion have been allocated to sustainable energy cooperation for development11 to contribute to the three EU global objectives by 2020 of providing access to energy to about 40 million people, increasing renewable energy generation by about 6.5 gigawatt and contribute to fighting climate change, by saving about 15 million tons of CO2e/year. Of this budget, around EUR 2.7 billion have been allocated to sub-Saharan Africa contributing to the provision of access to energy to about 30 million people, about 5 gigawatt of renewable energy generation, and to saving about 11 million tons of CO2e/year12. Given the size of the investments needed to achieve a universal access to energy, it is necessary to crowd in additional funds, including through the involvement of the private sector. Further efforts are therefore oriented to support the governance of the energy sector and to provide innovative financial mechanisms (blending) to leverage private sector finance. The European External Investment Plan (EIP)13 is expected to significantly leverage the efforts already launched in this crucial sector. 9 World Bank — State of electricity access report 2017. 10 International Energy Agency —   [*http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessprojections/*](http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessprojections/) 11 Indicative allocations done in accordance with existing Commission's Decisions (National and regional indicative programmes, European Development Fund (intra-ACP) and Development Cooperation Instrument (Global public goods and challenges programme). 12 Joint Communication to the European Parliament and the Council for a renewed impetus of the Africa-EU Partnership, JOIN(2017) 17, 4.5.2017 13 Strengthening European Investments for jobs and growth — Towards a second phase of the European Fund for ***Strategic*** Investments and a new European External Investment Plan, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM(2016) 581, 14.9.2016 5 1. INTRODUCTION: ENERGY IN THE DEVELOPMENT CONTEXT Without access to energy, there is no development. Increasing sustainable energy services in the developing world offers the opportunity to address poverty, create additional jobs, allow for education, reduce pollution, improve human health and conservation of ecosystems while contributing to climate change mitigation. Energy poverty is one root cause of migration. It is also critical for meeting the targets contained in the Paris Agreement on climate change. 1.1 Billion people in energy poverty Worldwide, about 1.2 billion people have no access to electricity, mainly in ***rural*** areas. Up to a billion more have access only to unreliable electricity networks. Women disproportionately bear the burden of energy poverty. The biggest challenges are located on the African continent, where access to electricity in ***rural*** areas can be as low as 10-15 % in some countries. Africa is also the only region where, because of demographic pressure, the number of energy poor is increasing over time despite international efforts. Nevertheless, the issue is global and affects many other parts of the world (Figure 1). Modernising economies, demographic growth, changing lifestyles and expectations together with the need for reliable, clean and affordable energy access are expected to require tripling of the electricity supply across Africa by 203014. Figure 1: Trends in population lacking access to electricity (2000-2014). Sub-Saharan Africa is not keeping up with population growth for electricity access (State of electricity access report 2017, International Bank for Reconstruction and Development / World Bank). More than 2.7 billion people, mostly in Asia and Africa, still rely on wood, charcoal, animal dung, crop waste and coal, for cooking and heating. According to the World Health Organisation15, over four million people die prematurely every year from illness attributable to the household air pollution from cooking with solid fuels. The use of such fuels also poses a major burden on sustainable development. Fuel gathering consumes considerable time for women and perpetuate child labour, limiting other productive activities (e.g income generation) and taking children away from school (Figure 2). In less secure environments, women and children are at risk of injury and violence during fuel gathering. Last but not least, black carbon (sooty particles) and methane emitted by inefficient 14 IRENA Africa 2030. 15 WHO — Household air pollution and health, Fact sheet N°292, Updated February 2016. 6 stove combustion are a recognized cause of health impacting indoor pollution and also contributing to climate change16 while wood collection done in a non-sustainable manner risks leading to deforestation and land degradation. At the same time, women are largely absent in the industries that produce modern sources of renewable energy, comprising only 20 per cent of the workforce17. There are also negative impacts from various types of predominantly large scale energy production: carbon emissions and impacts on air quality, but also loss of land from dam construction and distribution networks, and risks of accidents and spills from storage facilities, amongst others. The focus on sustainable and renewable energy therefore is important to ensure maximum benefits with few trade-offs in other areas. As it is for access to electricity, demographic growth makes the universal adoption of clean cooking facilities also a moving target. Figure 2: Time spent on average per day on firewood collection in Africa. Source: Clean and improved cooking in sub-Saharan Africa — A Landscape Report, World Bank, 2014 (second edition, November 2014). 1.2 Climate change as a global challenge to sustainable development The challenge of climate change threatens development gains and disproportionately affects the poor, thus being 'one of the greatest challenges of our time … Its adverse impacts undermine the ability of all countries to achieve sustainable development'18. Climate change is already exacerbating environmental impacts more than ever before in terms of water crisis, land degradation, food shortage, and affects economic growth, societal cohesion and security19. Energy security is also impacted by climate change – for example hydropower generation can be jeopardised by droughts and energy-related infrastructure could be damaged 16 World Health Organization — Household air pollution and health, Fact sheet N°292, Updated February 2016. 17 UN WOMEN data —   [*http://www.unwomen.org/en/news/stories/2017/6/press-release--un-women-at-expo-2017*](http://www.unwomen.org/en/news/stories/2017/6/press-release--un-women-at-expo-2017). 18 2030 Agenda for Sustainable Development — para. 14. 19 World Economic Forum — Global Risks Report 2016. 7 by severe weather conditions. At the same time, the energy sector represents roughly two-thirds of all anthropogenic greenhouse gases emissions20. Effective action towards a safe and sustainable low-carbon climate-resilient energy system is, consequentially, essential to tackling climate change. 1.3 Unlocking the potential of the energy sector Developing countries are often among those richest on sustainable energy resources, yet experience the highest levels of energy poverty. In most of the developing countries a series of barriers impede the energy sector from benefiting from investments, in particular from private actors that would ensure a rapid expansion of access and renewable energy generation. The EU sustainable energy cooperation is intended to unlock the energy potential of developing partners, by supporting their efforts to overcome barriers to transparent and well-functioning markets and investment-enabling governance. Shared efforts with developing partners would be needed, for example, in order to: • Make legislative frameworks clearer and more predictable and introduce more transparency in the planning of the necessary infrastructures (electricity generation and grid expansion master plans) ; • Encourage private sector involvement by tackling public control and vertical integration of the energy supply chain; • Enhance the accountability of the sector institutions and operators; Strengthen the financial stability of energy utilities thus alleviating the burden on the government's budget by improving payment recovery and phasing out non-cost-reflective tariffs (Figure 3); an associated issue is a customer base often lacking financial solvency, with low energy consumptions per capita and limited purchasing power, contributing to the low profitability of the sector; • Boost investment in renewables and other climate change mitigation actions by phasing out inefficient subsidies (production and consumption); • Pricing-in pollution, climate change and other negative externalities; • Improve institutional capacities of energy administrations; • Facilitate credit for local investments by enhancing experience/knowledge of the energy sector by local financial institutions; • Enhance technical qualifications of workforce; • Promote cross-border interconnections, as well as harmonised regulations and standards, curtailing the options for international power exchange and regional integration; • Strengthen understanding and knowledge of the potential of energy efficiency, particularly in fossil fuel producing regions. • Fill the gaps in research and innovation capacities in order to support transition to and steady implementation of a low-carbon energy system in developing countries. 20 IEA's 2015 World Energy Outlook — Special Report on Energy and Climate Change. The Energy sector refers to energy supply, energy transformation (including power generation) and energy consuming sectors (including buildings, industry, transport and ***agriculture***). 8 Figure 3: Comparison of electric supply costs with cash collected in 2014 U.S dollars per kWh billed. Most African utilities do not collect enough cash to cover costs. Source: Masami Kojima and Chris Trimble. Making power affordable for Africa and viable for its utilities. World Bank, 2016. 9 1.4 The cost of the required investments More than USD 1 trillion of annual investment from both public and private sectors will be needed to achieve the goals of universal access to modern energy services and doubling the share of renewable energy and energy efficiency in the global mix by 203021. 21 SE4All Advisory Board's Finance Committee Report Scaling up Finance for Sustainable Energy Investments, 2015,   [*http://www.se4all.org/sites/default/files/SE4All-Advisory-Board-Finance-Committee-Report.pdf*](http://www.se4all.org/sites/default/files/SE4All-Advisory-Board-Finance-Committee-Report.pdf) Annual investment needed to achieve the universal access to modern energy services and doubling the share of energy efficiency and renewable energy in the global mix (   [*http://www.se4all.org/sites/default/files/SE4All-Advisory-Board-Finance-Committee-Report.pdf*](http://www.se4all.org/sites/default/files/SE4All-Advisory-Board-Finance-Committee-Report.pdf)). • USD 50 billion (2011 annual spending was an estimated USD 9 billion) to provide universal energy access mainly in Sub-Saharan Africa, South Asia and East Asia & Pacific. • USD 442-650 billion to double the share of renewable energy from a current baseline of USD 258 billion. Except for Europe all regions need to increase investment to meet targets. The largest annual funding gap by far is in developing Asia. • USD 560 billion to doubling the rate of improvement in energy efficiency (current spending is USD 130 billion). Energy efficiency investment needs to increase by 4.3 relative to current levels, with the greatest opportunities in Europe, developing Asia and North America. IEA's latest estimates indicate that fossil-fuel consumption subsidies worldwide amounted to USD 493 billion in 2014, over four-times the value of subsidies to renewable energy. 10 2. THE EU IN THE GLOBAL DEVELOPMENT ARENA 2.1 The 2030 Agenda for Sustainable Development Sustainable energy has become a high topic of interest for the EU as well as for the international community, as acknowledged by the fact that one of the 17 Sustainable Development Goals (SDG 7, ensure access to affordable, reliable, sustainable and modern energy for all) is specifically dedicated to this objective. In addition, the achievement of SDG 7 is closely linked to that of several other SDGs. The EU is also fully committed to support partner countries in their energy transition towards sustainable energy, low carbon growth and the achievement of SDG 7 and SDG 13. 2.2 The Paris Agreement The Paris Agreement22, which entered into force on 4 November 2016, points to the need of accelerating energy system transformation and creating new opportunities for jobs and growth. Implementation of the Nationally Determined Contributions (NDCs)23 will be closely linked with the achievements of the 2030 Sustainable Development Agenda. The EU has been at the forefront of international efforts towards a global climate deal and will continue to support action to reduce emissions and build resilience to climate change impacts in developing countries. 2.3 Addis Ababa Action Agenda (Financing for Development) The Addis Ababa declaration on Financing for development24, an integral part of the 2030 Agenda, sets out a vision of how development financing should evolve, bringing together a full range of mutually reinforcing means of implementation, including domestic resources, aid and investment. It also put an emphasis on the use of international public finance, including official development assistance, to catalyse additional resource mobilisation from other sources, public and private. The private sector is recognised as a key driver for inclusive growth and job creation25. An appropriate regulatory environment and innovative ways of financing, are recognised to play an important role in leveraging resources —an area in which the EU has been a pioneer. 22 United Nations — Framework Convention on Climate Change (2015) Adoption of the Paris Agreement, 21st Conference of the Parties, Paris: United Nations. 23 The EU Foreign Affairs Council conclusions on European climate diplomacy after COP21 (15 February 2016) recognised the importance to be placed on securing ambitious global implementation of NDCs and identified support for the INDCs as one of the main strands of work to maintain the positive momentum from Paris, taking into account third countries' strategies and circumstances. The EU Environment Council (4 March 2016) also stressed the importance of supporting the implementation of the NDCs. 24 The Addis Ababa Action Agenda of the Third International Conference on Financing for Development (July 2015). 25 A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries — Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2014) 263, 13.5.2014 11 The Africa-EU ***strategic*** partnership for energy: 'Energising Africa' The Joint Africa-EU Strategy (JAES) is the formal channel through which the European Union and the African continent work together. It contributes also to the ongoing reflection, launched through the Joint Communication on a renewed partnership with the countries of Africa, the Caribbean and Pacific26. In May 2017, in order to renew the impetus of the Africa-EU partnership27, the EU proposed to take the partnership a step further, and in the energy sector, committed to (i) spur public and private investments in sustainable energy in Africa, in particular in the context of the proposed EIP and (ii) deepen ***strategic*** alliances and collaboration. The African Union-European Union Summit of November 2017 envisages a stronger, deeper and more action-oriented ***strategic*** partnership for more prosperity and stability on the two continents. One of the proposed actions for 2018 to 2020 and beyond, to be coordinated and strengthened with EU Member States and further developed jointly with African partners, in response to Africa's own Agenda 2063, is 'Energising Africa', in which three flagships are proposed: support to the Africa Renewable Energy Initiative (AREI), a high-level platform to facilitate EU and African public-private cooperation, and a new Partnership on Research and Innovation on climate change and sustainable energy. The first flagship is the EU's contribution to the Africa Renewable Energy Initiative (AREI) targets (10 GW) of renewable energy generation capacity by 2020. The objective is to increase Africa's renewable energy generation and access to sustainable energy, in support to the implementation of countries' Nationally Determined Contributions and the objectives of SDG 7, SDG 13 and the Paris Agreement. The second flagship intends to facilitate EU and African public-private cooperation on increased investment in Africa's sustainable energy sector. A high-level platform will be established to improve the business climate and de-risk private investment. In addition it will facilitate knowledge-sharing on innovative business, financing models and best practice on public finance leveraging. The third flagship is the AU-EU Partnership on Research and Innovation on climate change and sustainable energy, which provides a long term framework for cooperation for jointly funded and co-owned climate and energy actions and aims to boost alignment and consolidation of relevant Research and Innovation activities. The roadmap for its implementation foresees five main action fields for joint research in the energy sector (development and integration of renewable energy in the energy system; planning and modelling future sustainable energy systems; including society as an important stakeholder; market, pricing and business models for future sustainable energy systems; strengthening basic research and technology development) combined with cross-cutting capacity building activity. 26 A renewed partnership with the countries of Africa, the Caribbean and the Pacific — Joint Communication to the European Parliament and the Council, JOIN(2016) 52, 22.11.2016 27 For a renewed impetus of the Africa-EU Partnership — Joint Communication to the European Parliament and the Council, JOIN(2017) 17, 4.5.2017 12 2.4 Global Strategy on the European Union's Foreign and Security Policy (EUGS)28 EU climate and energy diplomacies are fundamental instruments to implement the EU Global Strategy on the European Union's Foreign and Security Policy29. European investments in the field of renewable energy and energy efficiency in Africa will build stronger links between trade, development and security policies in Africa, and blend development efforts with actions notably on energy and climate. As recalled in the Council Conclusions of 6 March 201730, EU climate and energy diplomacies must continue to encourage and back initiatives in vulnerable countries that are affected by the impacts of climate change as well as from lack of or uneven access to, safe and sustainable energy. 2.5 The international dimension of the EU Energy Union The framework strategy for a resilient Energy Union with a forward-looking climate change policy31 calls on the European Union to improve its ability to project its weight on global energy markets and to become number one in renewables. In addition, together with its major partners, the European Union works towards improved global energy architecture, leading to more competitive, transparent and sustainable global energy markets. ***Strategic*** documents implementing the EU energy policy32 emphasise the need for sustainable energy production, efficient energy use, research and innovation activities on climate and clean technologies and modern and adequate infrastructure. The EU is committed to devoting (from 2014 to 2020) at least 20 % of the EU budget to climate change-related actions33. The Commission aims to ensure coherence and complementarity of development actions in the field of energy with efforts in related EU policy areas, such as trade, environment, 28 Shared Vision, Common Action: A Stronger Europe — A global strategy for the European Union's foreign and security policy, High Representative of the Union for Foreign Affairs and Security Policy, June 2016; see Council conclusions on the Global Strategy on the European Union's foreign and security policy, Council of the European Union, 17.10.2016 (13202/16). 29 The Global Strategy for the European Union's Foreign and Security Policy states that, in light of 'the growing interconnections between North and sub-Saharan Africa, as well as between the Horn of Africa and the Middle East, the EU will support cooperation across these sub-regions. This includes fostering triangular relationships across the Red Sea between Europe, the Horn and the Gulf to face shared security challenges and economic opportunities. It means systematically addressing cross-border dynamics in North and West Africa, the Sahel and Lake Chad regions through closer links with the African Union, the Economic Community of Western African States (ECOWAS) and the G5 Sahel'. 30 Implementing the EU Global Strategy — strengthening synergies between EU climate and energy diplomacies and elements for priorities for 2017. Council of the European Union 6981/17, 6.3.2017 31 A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy — COM(2015) 80. 32 The European Union and its Member States were the first major economy to communicate their INDC on 6 March 2015, setting a target of at least 40 % domestic reduction in greenhouse gases emissions by 2030 compared to 1990. - Energy 2020 — A strategy for competitive, sustainable and secure energy. COM(2010) 639. - A policy framework for climate and energy in the period from 2020 to 2030. COM(2014) 15. - Energy Roadmap 2050, COM (2011)885. - Clean Energy For All Europeans, COM(2016) 860 and EU legislation energy package of 30.11.2016 33 A Budget for Europe 2020. Communication from the

commission to the European Parliament, the Council, the European economic and social Committee and the Committee of the regions — COM(2011) 500, 29.6.2011 This target was recalled when signing the Paris Agreement. 13 migration, employment, ***agriculture*** and research34. In the context of the implementation of the Energy Union package, the EU institutions cooperate in order to ensure a better Policy Coherence for Development. For instance, regarding innovation35, the Energy Union focuses on strengthening ***strategic*** research partnerships and exchanging knowledge, expertise, technology and qualified personnel to support developing and emerging countries in their energy transition. Similarly, the EU uses its trade policy instruments and related technical assistance to encourage third countries to adopt climate-neutral solutions. 2.6 Sustainable energy in the EU policies for development 2.6.1 New European Consensus on Development The new European Consensus on Development36 proposes a shared vision and framework for development cooperation for the EU and its Member States, aligned with the 2030 Agenda. Particular emphasis is put on cross-cutting drivers of development, such as gender equality and youth, sustainable energy and climate action, investment, migration and mobility. Development cooperation will support improving the access for all to clean and affordable energy without damaging the environment. Cooperation with all relevant parties, including the private sector, will be increased on energy demand management, energy efficiency, renewable energy generation and clean technology development and transfer. The new Consensus framework for action reflects the key themes of the 2030 Agenda37. The key theme People encourages supporting the poorest communities in improving access for clean, affordable and sustainable energy, while avoiding any damaging effects on the environment, increasing cooperation with all relevant stakeholders, including the private sector. The mobilisation of private resources for development for safe and clean energy is also relevant for the key theme Prosperity as the sector has significant transformation potential for sustainable development. Energy is a critically important development enabler and is central to solutions for a sustainable Planet in order to fostering the transition to renewable energy to tackle climate change and address environmental degradation. 2.6.2 Council conclusions on energy and development On the 28 November 2016, the Council adopted conclusions on energy and development38, stressing the need for strengthened cooperation and development in energy and setting the objectives of this cooperation. 34 In particular through Horizon 2020 important investments are already foreseen in the years 2018-2020 in line with the recently adopted roadmap for the AU-EU Research and Innovation Partnership for climate change and sustainable energy, to support climate services for climate adaptation in Africa and for the launch of a joint programme in the area of renewable energy. 35 Accelerating Clean Energy Innovation, COM(2016) 763. 36 The new European Consensus on Development — Our World, Our Dignity, Our Future — Joint Statement by the Council and the Representatives of the Governments of the Member States Meeting within the Council, the European Parliament and the European Commission, 7.6.2017 37 The new European Consensus on Development sets 4 key themes, a framework for common action for the EU and its Member States: People, Planet, Prosperity, and Peace. 38 Energy and Development — Council of the European Union, 14839/16, 28.11.2016 14 2.6.3 European External Investment Plan39 (EIP) As part of the broader efforts the EU is pursuing on the basis of the new Partnership Framework, the EIP complements the Union's development aid, strengthens its partnerships, promotes a new model of active participation of the private sector and contributes to achieving the Sustainable Development Goals. The purpose of the European External Investment Plan is to provide an integrated and comprehensive structure to finance investments in Africa and the EU neighbourhood. The EIP is based on three pillars: (i) the European Fund for Sustainable Development (EFSD)40, (ii) technical assistance and (iii) improved investment climate and overall policy environment. The EFSD constitutes the integrated financial package of the EIP, combining regional blending facilities and an EFSD Guarantee, backed by an EFSD Guarantee Fund. The EFSD Guarantee follows the same logic as the European Fund for ***Strategic*** Investments (EFSI): use of public funding as a guarantee to attract public and private investment. The European Commission singles out five areas of investment, so-called 'investment windows', in which the first actions of the EIP will be implemented. One of the windows is dedicated to 'Sustainable Energy and Connectivity' – to attract investments in renewable energy, energy efficiency and transport41. 39 Strengthening European Investments for jobs and growth — Towards a second phase of the European Fund for ***Strategic*** Investments and a new European External Investment Plan, Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM(2016) 581, 14.9.2016 40 Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund. 41 The first four other investment windows are: - 'Micro, Small and Medium Sized Enterprises (MSMEs) Financing' – to improve MSME's access to finance. Such businesses are the main employers in Africa and the EU Neighbourhood, and offer important and more sustainable alternatives to the informal economy. - 'Sustainable ***Agriculture***, ***Rural*** Entrepreneurs and Agribusiness' – to provide better access to finance for smallholders, cooperatives and micro, small and medium sized enterprises agribusiness, allowing to address food security issues. - 'Sustainable Cities' – to mobilise investments in sustainable urban development of municipal infrastructure, including urban mobility, water, sanitation, waste management, renewable energy services. - 'Digital for Development' – to promote investments in innovative digital solutions for local needs, financial inclusion and decent job creation. 15 3. EMPOWERING DEVELOPMENT The challenges of energy poverty and climate change (addressing SDG 7 and 13) and the opportunities to strengthen the energy sector in developing partner countries are addressed through three 'thematic bets' and three 'methodological drivers'. 3.1 The three 'big bets' for Empowering Development In order for the EU to reach its commitments, implementation of the European Consensus on Development in the area of sustainable energy will focus on: Access to energy Renewable energy generation and energy efficiency Contribution to the fight against climate change 3.1.1 Access to energy Currently, there is not a common internationally agreed definition of 'access to energy' yet42. While acknowledging the work of international partners on a common definition, for the purposes of this document, energy access is considered in a broad sense, taking into account direct new access from new connections or off-grid technologies as well as improved and inferred access resulting from grid rehabilitation, new generation or extension of transmission lines. The objective is to increase access, especially for vulnerable customers (e.g women, youth and the poor), to electricity and modern energy services, including lighting as well as clean/improved cooking systems. Regarding electrification, both grid extensions, including cross-border interconnections and off-grid solutions (from mini-grids to stand-alone systems) are supported. The provision of electricity for productive uses (creation and improvement of economic activities and employment, such as energy for agri-business value chains, MSMEs) is prioritised. In order to ensure quality and sustainability of the energy services that are supported, as a general principle, cost-reflective business models are privileged. The role of natural ecosystems that provide services essential to renewable energy production, such as water provision and regulation for hydropower plants, must be promoted in all energy programs. Robust environmental impact assessments and ***strategic*** impact assessment can help ensure that projects have reduced environmental footprints. 42 IEA 2017 defines energy access as 'a household having reliable and affordable access to both clean cooking facilities and to electricity, which is enough to supply a basic bundle of energy services initially, and then an increasing level of electricity over time to reach the regional average'. The World Bank42 'multi-tier energy access tracking' redefines energy access from a binary count to a multi-dimensional definition as 'the ability to obtain energy that is adequate, available when needed, reliable, of good quality, affordable, legal, convenient, healthy and safe for all required energy applications across households, productive enterprises, and community institutions'. Energy access is measured in the tiered-spectrum, from Tier 0 (no access) to Tier 5 (the highest level of access, that most citizens enjoy in developed countries). 16 Grid extension and off-grid development in Africa Grid extension of the electricity backbones and additional on-grid distribution are crucial actions for increasing access to modern energy, enabling regional integration of power markets (for example African Power Pools), and allowing transboundary energy trade, connecting resources with demand hot spots, optimising return on investments, achieving system efficiencies and balancing consumption and production from variable sources like renewables as well as reinforcing security of power supply. Granting universal access to electricity in a vast continent like Africa cannot realistically be achieved only by extending the electricity grid. The cost of connecting remote villages and sparsely populated areas to the national grid is disproportionally high, while low consumption from village households would yield very little revenue for utilities. Such an option would be too expensive and seriously jeopardise the financial health of utilities in the mid-long term. In addition, many countries apply a subsidised tariff policy instead of a cost reflective tariff policy, with the effect that energy utilities are often in a dire financial situation. The planning for electrification should take into account financial and technical realities. As a consequence, populations in remote areas risk to be left behind without basic energy services while waiting for the grid to arrive. Innovative solutions allows now for covering most of the electricity needs of remote villages in a sustainable and autonomous way. These solutions range from independent local mini and micro grids, to community managed systems, and stand-alone solar home systems (SHS) combined with portable photovoltaic appliances for light. These systems overcome the distance barrier as they utilise local renewable resources such as hydropower, wind, renewable biogas and in most instances solar power. They can become the main energy source or can be used to hybridise existing power sources (such as diesel generators). Community involvement is important to handle demand side management as well as maintenance, production and distribution aspects. Grid extension and ***rural*** electrification planning should be realistic and predictable in order to allow for evidence-based decision-making (for example, reducing the risk of off-grid investments losing value because the area has been electrified sooner than it was expected). Planning of ***rural*** electrification should carefully define suitable areas for off-grid systems development based on economic and proximity to energy resource criteria. The framework for ***rural*** electrification businesses should be conducive to attract local entrepreneurs and private investments as part of a government strategy. Electricity tariffs (on- and off-grid) should be cost covering in order to unlock investments in decentralised electrification—the so called 'off-grid utilities'. Lastly, it is important that local ownership and capacities are developed within the communities. Figure 4: A growing role for mini grids and renewable energy. Opportunities for grid extension, mini grids and distributed renewable energy systems. EUEI PDF and REN21. 17 3.1.2 Renewable energy generation and energy efficiency As a global leader in fostering low carbon economy, the EU considers the development of renewable energy and energy efficiency as part of the solution to fight against climate change and preserve the environment, reduce the air pollution burden on human health, as well as a source of creation of quality jobs. The increased use of renewable energy and energy efficiency is further enhanced by progress achieved in technological development and transfer, including significant cost reductions and digitalisation, and allows a consumer-centred approach. In particular, many developing countries have significant renewable energy potential. According to the international renewable energy agency (IRENA)43, the potential for solar, geothermal, hydro and wind energy in Africa is among the highest in the world. Optimising the use of these resources would shield economies from price volatility of fossil fuels and from foreign currency drain, allowing them to diversify their energy supply and leapfrog the energy transition. With more renewable energy in the energy mix, sustainable growth could be decoupled from harmful emissions causing climate change. Renewable energy is also important to provide energy access through off-grid or mini-grid solutions in both ***rural*** and peri-urban areas. Energy efficiency keeps in check growing energy demand and frees up capacity to increase access for those in need. Partner countries are supported in their efforts to increase the energy generation capacity from renewables, and diversify the energy mix by exploiting various renewable energy sources and technologies, according to the most appropriate and efficient solutions available. A particular care is given to ensure the sustainable use of natural resources (including water, land, forests, biomass), especially when possible risks of competition exist, such as for hydro or bioenergy projects. Ensuring consistency with EU policies on environmental and social sustainability is essential in that regard. Circular economy approaches, for instance, contribute to efficient use of resources44 and to reducing energy demand, for example, through increased recycling or efficient use. Beyond energy generation, energy efficiency measures are a key complement tool to reduce energy and resources needs and improve the quality of life. Of course, just as within the EU's borders, partner countries remain in charge of choices on the energy mix that best responds to their energy needs. However, policy dialogue plays a crucial role in supporting sustainable low carbon energy transitions, and the bulk of available financial support, dedicated to increase the capacity of energy generation, is reserved for sustainable renewable energy projects and hybridisation of existing systems towards more renewables. Setting up conductive and stable regulatory frameworks, building capacity, improving governance and the business environment benefit the entire energy sector. 3.1.3 Contribution to the fight against climate change For many countries, the elaboration of the NDC was the first opportunity to articulate a programmatic vision for low greenhouse gas emissions in line with national development 43 Africa 2030 — Roadmap for a renewable energy future, IRENA, 72 p., 2015. 44 As mentioned in the Report on the implementation of the Circular Economy Action Plan — COM(2017) 33: 'on 30 November 2016, in its recast of the Renewable Energy Directive as part of the package on Clean Energy for all Europeans, the Commission adopted sustainability criteria for all bioenergy uses. In order to limit pressure on limited biomass resources, the Commission proposed that only efficient conversion of biomass to electricity should receive public support. This will facilitate synergies with the circular economy in the uses of biomass and particularly wood, which can be used for a range of products as well as for energy'. 18 plans and aspirations. In addition, population growth and rampant urbanisation rates in developing countries create a specific challenge and mega cities remain major hotspots of vulnerability to the impacts of climate change. Local authorities and Mayors are therefore critical partners in a bottom-up transition to global low-carbon and climate resilient economies and societies. The support to partner countries in the development of sustainable energy projects and in the implementation of their NDCs involves reducing greenhouse gas emissions from the energy system while satisfying the increasing demand for energy e.g fostering energy efficiency of products, systems and buildings, including grid and power plant rehabilitation. Encouraging low carbon technology deployment covers the support to additional renewable energy generation or replacing/hybridising fossil fuel generation with renewable energy. Smart energy uses and energy efficiency solutions are prioritised in urban and peri-urban areas, where currently most of the economic activities take place and most greenhouse gas emissions are generated. Support is provided to strengthening capacities, fostering twinning arrangements and building a network of local authorities and cities for climate action on a global scale. This contribution from the energy sector comes in addition to other measures taken to fight climate change in other sectors of cooperation. 3.1.4 Crosscutting issue: women and sustainable energy The opportunities for human development and economic growth arising from progress in the energy sector often do not offer equal participation and impact between men and women. Benefiting women and girls requires more than just providing energy. Improved sustainable energy access is most beneficial to women if their status is raised and they can make decisions in the household and in their communities, if they have access to resources like credit, if they are involved in helping design energy access projects, and if they have opportunities to be employed in the energy sector. The social and economic rights and empowerment of girls and women are promoted as one of the pivotal areas of the EU as mentioned in the staff working document on Gender Equality and Women's Empowerment: transforming the lives of girls and women through EU external relations 2016-202045, in particular ensuring equal access and control over energy resources as well as equitable engagement in their management. Existing energy projects, programmes and policies explicitly recognise imbalances and intentionally strive to reduce inequalities. Women are not only energy users for domestic purposes or for economic activities. They should also contribute actively in the energy value chains, in particular in promoting renewable energies distribution and increasing access to energy and energy services. As supporting the empowerment of women contributes to sustainable and inclusive growth, the EU mainstreams gender equality in all development actions. In the energy sector, specific programmes are designed to foster women involvement in the energy value chain, increase their technical and business capacity and strengthen their role as energy entrepreneurs. 45 Gender Equality and Women's Empowerment — Transforming the Lives of Girls and Women through EU External Relations 2016-2020, SWD(2015) 182. 19 3.2 The three methodological drivers for Empowering Development Transparent and efficient energy markets and well-functioning energy institutions are an important enabler for universal access to affordable, reliable, sustainable and modern energy services. In order to attract public-private investments in renewable energy and energy efficiency, the business environment should be conducive and the legislative/regulatory framework and governance adequate. It is only then that the innovative financial instruments can be deployed to unlock and boost investments. Blending available resources is a way of reaching the investment level needed to achieve SDG 7 targets. Therefore, three main drivers are promoted in the implementation of the approach: Promoting political ownership & partnerships for implementation Improving governance and reforms of the energy sector Boosting investment through innovative financial instruments 3.2.1 Promoting political ownership & partnerships for implementation The EU works in close cooperation with partner countries, and bilateral development policy aligns to and complements as much as possible countries' and regions' own policies and plans. Ownership of the reform process is the most important precondition for any action to be successful and yield sustainable and durable impact. EU Delegations facilitate a structured dialogue on development cooperation in energy matters with national authorities, agreeing on specific ***interventions*** and projects, identify technical support needs, fostering sector coordination with all stakeholders — local and international. In some cases, political joint declarations on reinforced cooperation in the field of sustainable energy, agreed with governments or regional organisations and the most active donors in each country, provide a framework for strengthened cooperation and a stronger sense of ownership of the reform agenda to the partner country's governments. Africa is a privileged partner for the EU development cooperation. The continuous coordination with African Partners in the energy sector is organised in the context of the Africa-EU Energy Partnership46. Toolbox for promoting political ownership & partnerships EU Delegations and Offices around the world play a key role in the policy dialogue with stakeholders in partner countries. The policy dialogue on energy cooperation is promoted not only in the countries/regions where energy is a focal sector. It represents in fact an important tool to design all national and regional indicative programmes (NIPs and RIPs) together with the countries' governments and regional organisations, and to plan and implement a development programme fully aligned with partner's plans and strategies. In addition joint declarations on reinforced cooperation on sustainable energy have been signed with partner countries and regions. Budget support, through the Sector Reform Contracts, can be an important tool to promote reforms and economic governance in the energy sector through its comprehensive sector-wide dialogue and continuous 46 Joint Communication to the European Parliament and the Council for a renewed impetus of the Africa-EU Partnership, JOIN(2017) 17 of 4.5.2017 20 monitoring of the eligibility and ***performance*** criteria. It can be complementary to blending and technical assistance projects. In the energy sector the beneficiary government is supported through budget injection in the setting-up and implementation of sustainable energy policy with the aim of improving the enabling environment, attracting investments, reducing energy poverty and boosting sustainable growth. Budget support is applied when the governance and the capacity of the sector as well as political willingness are sound enough to engage in a constructive dialogue, to share all relevant information and to successfully implement the appropriate reforms and financial measures required for the sustainable development of the energy sector. Coordination with Member States and their implementing agencies on energy cooperation is fostered through the EU Energy Initiative (EUEI), a platform for regular information exchange on policy and programmes. The EU has been active in promoting the objectives of the SE4All initiative since its launch and remains committed to its objectives which are now translated into the objectives of SDG 7. The EU works closely with key partners, including in the frameworks of the G7 and G20 to contribute towards SDG7. As a result of a Memorandum of Understanding with the USA signed in 201647, the EU and USAID/Power Africa strengthened their relations with the common aim of increasing access to energy in sub-Saharan Africa. Areas of cooperation include scaling-up off-grid efforts to increase access to energy services, coordinate respective technical assistance activities and policy dialogue, work on energy efficiency. As a result of closer cooperation, Power Africa also contributed USD 10 million48 to the EU ElectriFI initiative49 (see below). A partnership with cities under the Covenant of Mayors in sub-Saharan Africa50 aims to increase the capacities of cities to provide access to sufficient, sustainable and safe energy services to urban and peri-urban populations, and to support actions at city-level to combat climate change and its impacts. This initiative is one of the Regional Covenants forming the Global Covenant of Mayors for Climate and Energy, a global coalition of cities and local governments with a shared long-term vision of moving to a low emission, resilient society. The EU supports, through the Technical Assistance Facility, the increasing number of African countries interested in joining the International Energy Charter51 which ultimate goal is 'to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments, thereby mitigating risks associated with energy-related investment and trade'. Amongst the signatories of the European Energy Charter (1991) are Burundi, Chad, Mauritania, Morocco, Niger. Amongst the signatories of the new International Energy Charter (2015) are Benin, Economic Community of West African States, Swaziland, Tanzania and Uganda. 3.2.2 Improving governance and reforms of the energy sector As described above, the energy sector in developing countries is often perceived by private investors as difficult and risky. Market distortions and non-cost-reflective tariffs (including non-inclusion of negative externalities) applied by national utilities and other key stakeholders can limit the effectiveness of investments in the sector. In some countries, legislation/regulations explicitly forbid the engagement of private sector. In addition, targeted and inefficient subsidies distort consumption patterns, drain public finances and lead to poor 47 Memorandum of understanding between the European Union and the United States of America for reducing energy poverty and increasing energy access in sub-Saharan Africa. Signed in Addis Ababa, 14 July 2015. European Commission, European Union and the U.S Power Africa Initiative Join Forces to Assist Partner Countries to Reduce Energy Poverty and Increase Access to Electricity in sub-Saharan Africa, 14 July 2015, [*https://ec.europa.eu/europeaid/sites/devco/files/web-release-power-africa-eumou-addis\_en.pdf*](https://ec.europa.eu/europeaid/sites/devco/files/web-release-power-africa-eumou-addis_en.pdf) 48 Commission implementing decision of 14.6.2016 amending Commission implementing Decision C(2014) 9451 of 15.12.2014 on the Annual Action Programme 2014 for Sustainable Energy under the Global Public Goods and Challenges, to be financed from the general budget of the European Union. 49 C(2016) 3788, C(2017) 7497. 50 C(2015) 7244, C(2016) 8086, C(2017) 7497. 51   [*http://www.energycharter.org/process/international-energy-charter-2015/overview/*](http://www.energycharter.org/process/international-energy-charter-2015/overview/) 21 ***performance*** in public utilities (apart from often working against stated objectives such as tackling climate change). In other cases, investors could simply lack the confidence to engage in the sector because of (real or perceived) risks and dysfunctions. In any case, investments need healthy public economic governance, clear rules and a stable environment with regard to sector policy legislation and regulations, ***strategic*** planning of investments, articulation with a stability-oriented macroeconomic policy and good public finance management (e.g procurement reforms, PPP risk management or asset monitoring). Institutional capacity and skills of workforces are also important factors. The starting point for a well-designed energy sector framework is the strategy level, where the policy direction must be defined on the basis of sound evidence and information. This includes, for example, long-term planning for renewable energy deployment, electrification and infrastructure development, as well as the definition of the sector objectives and structure. Primary regulation at legislative level sets the legal foundation and assigns roles and responsibilities to executive bodies. Key rules and provisions, essential elements for investment decisions of private developers, are set at the level of the secondary regulation, put in place by executive bodies (e. g. energy ministries and regulators). They define the framework that governs project development and guide investments according to the different business models. Policymakers may also design fiscal incentives or subsidy schemes tailored to steer and direct investment flows. Licensing, import regulations and taxation affect all market segments and can make a crucial difference to the viability of business models and entire markets. Generally, a close coordination with the NDCs under the Paris Agreement shall be sought. Going beyond national boundaries, an integrated regional energy market requires harmonisation of regulations and compatible standards. The EU supports partner countries and regions throughout the policy-definition process notably in providing —following partners' requests— support and expertise for drafting sector reforms and missing regulations, strengthening technical capacities of ministries and regulators, restructure utilities' financial situation. The main tools are policy dialogue and technical assistance. The expected improvement in efficiency and governance includes for instance the application of cost-reflective tariffs, better maintenance of energy infrastructure, more transparency in financial transactions and better process of award of concessions (such as support to define auction procedures). Beyond that, the EU's own sophisticated policy framework on energy and climate could be shared and benchmarked as an accelerator for domestic policy reforms. Progress regarding sustainable energy policies and regulation in Africa is needed. In the Regulatory ***Indicators*** for Sustainable Energy (RISE) 2016 Report52, which assesses national policy and regulatory frameworks for sustainable energy, score is moderate in 15 countries and few or no elements of a supportive policy framework have been enacted in 19 countries (see Figure 5). 52 RISE scores reflect a snapshot of a country's policies and regulations in the energy sector, organized by the three pillars of the SEforAll initiative: energy access, energy efficiency, and renewable energy. RISE 2016 Regulatory ***indicators*** for sustainable energy, A global scorecard for policy makers. 2017 International Bank for Reconstruction and Development / The World Bank (   [*http://rise.esmap.org*](http://rise.esmap.org)). 22 Figure 5: Assessment of national policy and regulatory frameworks for sustainable energy. Green: most elements of a strong policy framework to support sustainable energy are in place – Yellow: Significant opportunities exist – Red: Few or no elements of a supportive policy framework have been enacted (RISE 2016 report, World Bank). Improving the enabling and regulatory environment – the catalysing role of the EU's Technical Assistance Facility Through its Development Cooperation Instrument, the EU makes available a Technical Assistance Facility (TAF)53 to all partner countries to support them elaborating appropriate sector policies and reforms towards a better enabling environment. With a total budget of EUR 65 million for 48 months, the TAF helps developing countries to set up country action plans for energy and carry out the regulatory reforms needed to unblock the necessary private investments to implement these plans. The TAF Sub-Saharan Africa started in December 2013 and has implemented more than 100 missions in 34 countries. Since December 2014, the TAF covering Asia, Neighbourhood, Latina America, Caribbean and Pacific carried out 15 missions in 8 countries. TAF provides support upon request from the partners in countries, for the elaboration and implementation of national energy sector policies and reforms; capacity building in policy and regulatory framework; technical support in the programming and preparation of concrete investment projects; mobilisation of funds and facilitation of partnership (with particular emphasis on the private sector and the banking institutions); industrial and technology cooperation; project demonstration. In Côte d'Ivoire the TAF helped operationalising the renewable energy law by developing the detailed provision in the relevant decrees. Such actions created the relevant framework for private sector participation and for concessions in the electricity sector. In Rwanda the TAF provided support for the development of the electricity master plan for increased energy access. In Cameroun and Burkina Faso cooperation with the regulatory authorities and stakeholders created the framework for solar power generation at a large scale. In Kenya, the TAF team has been studying how EU funds can assist promising initiatives for off-grid solutions such as the Kenya's bio-digester programme. Support is also provided to the Department of Infrastructure and Energy of the African Union Commission on harmonising the different regulatory framework on the African continent. The EU TAF cooperates with other similar mechanisms as the Africa-EU renewable Energy Cooperation Programme, the EU Energy Initiative Partnership Dialogue Facility and the ElectriFI team, as for instance producing common studies54. 53 C(2012) 5436. 54 Enabling policies for addressing climate change and energy poverty through renewable energy investments in Africa, policy paper, 6 pages,2017 —   [*http://electrifi.org/wp-content/uploads/2016/12/Policy-Paper-ElectriFI-TAF-RECP-6pager-112016-single-page.pdf*](http://electrifi.org/wp-content/uploads/2016/12/Policy-Paper-ElectriFI-TAF-RECP-6pager-112016-single-page.pdf) 23 3.2.3 Boosting investment through innovative financial instruments Energy infrastructures require a high amount of investments which, in general, would bring together different sources of funding into complex financial arrangements. Projects need to be bankable to ensure sustainability. While energy could be a revenue-generating activity and can stimulate commercial interest, underlying market barriers and a perception of high risk still hamper the development and financing of renewable and energy efficient projects, especially in more fragile countries where additional uncertainties (of political, inflationary, security nature) enter into consideration. Financial risk mitigation schemes, such as guarantees, can be instrumental in making projects possible. Early stage/seed finance and support for project preparation are also crucial to bring more projects to maturity. Small projects need to be aggregated to make them more interesting for financing and attract the interest of mainstream investors. These are the areas where public ***intervention*** from international donors such as the EU is needed, to unblock and move forward investments that would have not happened otherwise. To address the investor's reluctance and unlock investments, the EU response introduced blending operations, which involves the combination of grant aid55 in various forms (including, when appropriate, reimbursable grants, early stage finance and provision of guarantees) and private or public sources of finance, such as loans, risk capital and/or equity. Partnerships with financial institutions such as the European Investment Bank (EIB) and with multiple other development banks, under the blending frameworks, aim at the provision of an efficient support to investments in sustainable energy. Toolbox on innovative financial instruments The use of blending in the external cooperation of the EU is promoted increasingly in order to unlock additional public and private resources and thereby increase the impact of EU development policy. Grants provided through blending can take a number of forms, most commonly direct investment grants and/or technical assistance. EU development aid contributes to the financing of large scale infrastructures, such as generation plants or transmission lines, through the EU regional blending facilities which are evolving into regional investment platforms within the context of the External Investment Plan (EIP). Additionally, the EIP includes the European Fund for Sustainable Development Guarantee to providing guarantees to eligible counterparts, which in turn would conclude agreements with co-financing private sector partners, financial intermediaries or final beneficiaries to cover the risks of different forms of support, such as loans, guarantees, equity and other credit enhancement products. A specific window dedicated to 'Sustainable Energy and Connectivity' is one of the EFSD investment windows. In addition to the regional blending facilities, and in order to support small and medium scale projects, the EU launched a dedicated financing initiative, ElectriFI, together with Member States, private sector actors, civil society and the involvement of European Development Financial Institutions (EDFIs). The aim of ElectriFI is to boost private sector investments providing access to reliable, affordable and renewable electricity and energy services in developing countries. To best address the needs of the market, all forms of support available under the blending facilities can also be provided under ElectriFI (i.e investment grants, equity, guarantees, local bank credit lines, currency risk mitigation, technical assistance). A number of partner countries have decided to earmark part of their National Indicative Programmes' energy allocations for dedicated ElectriFI 'country windows'56, with the objective of boosting in-country private sector participation in renewable energy projects. 55 Both thematic and EDF funds can be used for blending, with the agreement of partner countries. 56 As for instance Zambia, C(2017) 6314. 24 One of the first ElectriFI approved projects57 to be supported is NextGen Solawazi, a 5 MW solar photovoltaic power plant to be connected to the isolated mini-grid of Kigoma region to support the ***strategic*** ***rural*** electrification efforts of the Government of Tanzania. The solar plant will replace and complement diesel generators, having a positive impact not only on the environment but also on the cost price to the off-taker, the national power utility of Tanzania. Lowering the cost price for such isolated grids will make it more attractive to expand the distribution network to more remote areas. Another example of an ElectriFI funded project is the Sigora Haiti Northwest electrification project making it the first privately owned utility company in Haiti with the right to distribute electricity and collect payments from the population. It will expand the company's existing pilot grid network from 5,000 customers to 136,000 (27,000 accounts) and have a renewable energy capacity of 3.5 MW. The project deploys prepaid metering and revenue management technology designed to enable utilities in frontier markets to consistently and effectively collect revenue. Other financial instruments implemented through the Infrastructure Trust Fund (ITF)58 include the European Union-European Development Finance Institutions Private Sector Development Facility59, created in order to catalyse private investment in small and medium scale energy projects in Africa. The programme comprises a Guarantee Facility whereby the EU shares risk with EDFIs to enable the financing of riskier energy projects. It can also provide funding for early-stage development projects and technical assistance to build the capacity of private sector enterprises in the energy sector in Africa. The EU ITF contributes also to the Global Energy Efficiency and Renewable Energy Fund – GEEREF60, a fund-of-funds catalysing private sector capital into clean energy projects in developing countries and economies in transition. GEEREF, managed by the European Investment Bank, provides global risk capital through private investment for medium scale renewable energy and energy efficiency projects. The current portfolio of funds supports 525 MW of renewable capacity with the aim of reaching 1.83 GW by the end of the implementation period of the project. And finally, the EU ITF contributes up to EUR 30 million to the Geothermal Risk Mitigation Facility (GRMF)61 to support geothermal development in East Africa. GRMF provides financial support for surface studies, exploration drilling and testing programmes. It has supported for instance, notably with private developers, two drilling projects in Kenya, one surface study project and one drilling project in Ethiopia and one project in Comoros. The EU InnovFin Energy Demonstration Projects (EDP) Facility62, by which the European Commission provides guarantees for loans from the EIB to innovative projects in the area of renewable energy, is also open to projects with implementation in Africa. 57   [*http://electrifi.org*](http://electrifi.org)/ 58 C(2012) 8793,   [*http://www.eu-africa-infrastructure-tf.net*](http://www.eu-africa-infrastructure-tf.net)/ 59   [*http://www.eib.org/projects/regions/acp/index.htm*](http://www.eib.org/projects/regions/acp/index.htm) 60   [*http://geeref.com*](http://geeref.com)/ 61   [*http://www.grmf-eastafrica.org*](http://www.grmf-eastafrica.org)/ 62 Financed under the Horizon2020 programme. 25 4. FINANCIAL ASPECTS In the period 2014-2020, EUR 3.7 billion have been allocated from EU development funds to sustainable energy actions in developing countries63, out of it, around EUR 2.7 billion for sub-Saharan Africa64. More in detail, 30 partner countries65 either have energy as focal sector of cooperation with the EU or have significant allocations to the energy sector under other thematic sectors (such as ***rural*** development/***agriculture*** or sustainable infrastructure); of these countries, 17 are located in sub-Saharan Africa. In addition, energy is among the priority areas for EU cooperation with sub-Saharan African, ACP, Central Asia and Caribbean regions (through their regional indicative programmes and intra-ACP). Finally, sustainable energy is one of the five thematic areas under the Development Cooperation Instrument (DCI) thematic programme Global Public Goods and Challenges (GPGC) for 2014-202066. Figure 6: EU energy sector cooperation in sub-Saharan Africa at national level. 63 Indicative allocation done in accordance with existing Commission's decisions (national and regional indicative programmes, European Development Fund (intra-ACP) and Development Cooperation Instrument (Global public goods and challenges programme). 64 Including contributions of the Intra-ACP and global instruments, estimated. 65 Countries in the EU Neighbourhood (East and South) are not considered for the purposes of this SWD. In addition to Africa, countries that have chosen energy as focal sector of EU cooperation are Iraq, Philippines, Vietnam, Barbados, Belize, Dominica, St Kitts and Nevis, Marshall Islands, Micronesia, Nauru, Niue, Palau and Tonga. 66 C(2014) 5072 of 23.7.2014 26 5. IMPLEMENTATION 5.1 Estimation of impact of EU cooperation in sustainable energy By mean of a number of assumptions67 formulated on the likely implementation of sustainable energy programmes and projects for the amount foreseen in the current multi-annual financial framework, it can be estimated ex-ante that the EU would contribute to the three global objectives of access to energy, increasing renewable energy generation and contribute to fighting climate change, with the minimum following figures: Globally In sub-Saharan Africa Access to energy about 40 million people about 30 million people Renewable energy generation about 6.5 gigawatt68 about 5 gigawatt Contribution to the fight against climate change (emission savings) about 15 million tons CO2e saved per year about 11 million tons CO2e saved per year Substantial variation of these figures would be reached, considering the range of options in assumptions, as for instance the expected leverage of the support, the part of blending operations in the portfolio, the level of energy services reached by each projects or the costs of the involved technologies, all these factors being not yet known. An ex-post evaluation of impact of projects implemented under the current multi-annual financial framework will be prepared taking into account the methodological constraints mentioned below and in the next section. 5.2 Challenges faced Initial forecasts on the actions approved so far show that by September 2017 we are on track. Nevertheless a number of challenges are still to be faced: • Lack of mature projects submitted to the EU blending facilities by international financing institutions, especially in Eastern, Central and Southern Africa regions, addressed with an intensification of dialogue and cooperation with financial institutions active in the area. • Projects submitted to the investment facilities (especially in Africa), particularly to be financed under regional funds, are more often targeting transmission lines and interconnections rather than renewable energy generation plants. This trend has been reversed in most regions recently, thanks to improved cooperation with financial institutions. Yet for Central Africa the need for investments in renewable energy generation but also electrical grids too is huge. 67 Assumptions include: an average leverage factor of 4 applied to 60 % of the available budget (considering that 40 % is spent through modalities different than blending); a balanced portfolio of actions covering a mix of on- and off-grids operations and both projects contributing to increasing renewable energy generation and to access to energy (such as transmission and distribution lines), in line with NIP indications in the different countries; estimated number of direct and indirect beneficiaries; and average costs of technologies in line with market surveys. 68 Of which 5.8 gigawatt new generation and 0.7 gigawatt through energy savings initiatives. 27 • It is a challenge to aggregate forecasts on energy access, generation capacity and greenhouse gases emissions from various instruments, because of a lack of harmonised methodologies (this aspect is discussed in the next section). 5.3 Monitoring EU cooperation in sustainable energy Monitoring and measurement of the impact in partner's countries are considerable challenges. There might be a significant time lag between reporting of achieved results, since in some projects, access can only be counted once the last mile connection is operational, which could be years after the EU is no longer involved. It is also very complex to estimate greenhouse gas emission savings. Therefore, due to the complexity of the issue and the lack of internationally agreed methodologies, the EU is working with the international community on the definition of a shared methodology and a robust set of ***indicators***. The monitoring of the ongoing supports to the energy sector for internal purposes and for external communication69 has so far been implemented for each initiative in isolation and with standalone appropriate methodologies and indicators70. This prevent aggregation and consolidation of data, specifically for forecasting purpose or at the moment of ex-post evaluation of EU cooperation in the energy sector performed in the context of the EU result framework. EU aggregated ***indicators*** would have to cover different aspects of energy access (including on- and off-grid, direct and indirect access), renewable energy generation (capacity and production) and greenhouse gas savings, and be aligned and compatible with ***indicators*** selected for the tracking of progress towards the achievement of SDG 7 and SDG 13. Using the appropriate ***indicators*** would help streamlining incentives which will end up with a strong set of projects supporting the effectiveness of the ***intervention***. Data collection should start well in advance and be an explicit part of project preparation. A timely and accurate result reporting methodology is promoted throughout all ***interventions*** supported by the EU, to allow for a more efficient monitoring of results of EU energy cooperation. 69 For instance: the annual report where energy ***indicators*** are collected as part of the corporate result framework. 70 For example: the 9th and 10th EDF Energy Facility projects are monitored through a specific contract; the energy projects financed through the Africa Infrastructure Trust Fund (AITF) are monitored by the fund manager (EIB) which periodically reports to the Commission; each project financed through the African Investment facility is monitored in the framework of the specific PAGODA contract. 28 6. APPLYING THE EMPOWERING DEVELOPMENT APPROACH The implementation of the new European Consensus on development in energy cooperation is reinforced and further sharpened through numerous ongoing processes. • The EU policy agenda on EU sustainable energy cooperation is pursued with all interested developing partner countries, to ensure strengthening synergies and links between EU energy and climate diplomacies71; using policy dialogue as the primary instrument to address governance issues. • Mutually beneficial knowledge and technology-transfer with developing countries is implemented in line with the EU's commitments under the Paris Agreement and preferably by sharing the European stock of best practices in (e.g building a model of integrated market, promoting the interconnected pan-European infrastructures, increasing the share of the renewables in the energy mix and of clean technologies, promoting innovative energy efficiency measures), taking due account of partner's specific needs and circumstances. • Innovation in sustainable energy and climate change in developing countries is fostered by the EU working closely with its Member States. To this end, research and innovation programmes targeting developing countries in the areas of renewable energy have been launched, with a focus on Africa as a privileged partner and participant72. • The deployment of technical assistance can be sharpened, including by better coordinating it with relevant research and analysis. That way, it contributes even more to: i) creating an environment conducive for mobilising private sector stakeholders into energy investments in developing countries, ii) providing services dedicated to project development and pipeline boosting, available to financing institutions as well as private developers, to work in synergy with other financial instruments such as ElectriFI; iii) integrating climate and disaster risk management into energy sector ***interventions*** to build resilience and to safeguard future gains. • Strengthening the coordination of actions with international partners active in the energy cooperation sector so as to pass consistent messages on sustainable energy and ensure consistent monitoring methodologies. This is all the more true for the interaction with EU Member States' actions. Coordination with EU Member States continues and can be reinforced through the EUEI mechanism. • In line with the Joint Communication on a renewed partnership with Africa, the unique relationship with Africa in the area of sustainable energy must be highlighted in the context of the African Union-European Union Summit process. The Summit of November 2017 offered the opportunity for reiterating the crucial role played by sustainable energy for the future of the African continent and for securing political backing at the highest level from countries and institutions. 71 In line with Council of the European Union 6981/17, 6.3.2017 72 C(2017) 7124 of 27.10.2017 29 • Partnerships with the private sector continue. To this aim, a High-Level Public-Private Platform on Sustainable Energy Investments, in particular with Africa, is promoted73, with the aim to support private sector engagement and foster public-private cooperation to improve the business climate and help de-risk investments in African countries. • Regional and thematic blending instruments adjusted to offer financial support (convertible grants, equity, junior loans, guarantees, etc.) tailored according to the specific needs of the energy sector (type of promoter, scale of the project, level of associated risks, etc.) are used in development cooperation. • In order to reflect the crucial role of cities in taking actions, deepen ***strategic*** alliances and collaboration, by partnering with local authorities in a bottom-up transition to a global low-carbon and climate-resilient economy and society, including through initiatives such as the Global Covenant of Mayors (which builds on the successful EU Covenant of Mayors) and the further extension of its regional Africa components. • In cooperation with partner countries, their statistical capacity, production and analysis of data should be strengthened in order to further inform policy and decision-making. • Addressing energy nexuses providing cross-sector responses to complex situations should be reinforced, in line with the European Consensus on Development. For instance, climate objectives under the NDCs are further integrated into national energy strategies. The water-energy-food nexus, energy and ecosystem services (in particular in and around protected areas), energy-science, energy-mobility-ICT for smart cities, and the opportunities offered by digital communications for development, which can facilitate access to the electricity market by mobile devices and facilitate grid management operations and demand side management. 7. CONCLUSIONS The EU is committed to reinforcing its sustainable energy cooperation with the objectives of (i) increasing access to energy, (ii) increasing renewable energy generation capacity and (iii) contributing to the fight against climate change in developing countries, in line with international commitments. This is planned to be achieved through a well-coordinated and targeted set of measures, with a three-fold approach working at the same time on the political ownership and partnership of actions, on the improvement of energy sector governance and on the deployment of innovative financial instruments able to catalyse additional investments particularly from private sector. Empowering Development is not implemented in isolation, but in synergy and coordination with relevant stakeholders: first and foremost partner countries, regions and cities, EU Member States, international donors, financial institutions, sector bodies and institutions, private sector operators, civil society, in the common strive to achieve the targets of SDG 7 and a sustainable development powered by sustainable energy. The monitoring system is progressively adapted and made more consistent in order to regularly report on development cooperation on sustainable energy in line with the global commitment of the EU. 73 Joint Communication to the European Parliament and the Council for a renewed impetus of the Africa-EU Partnership, JOIN(2017) 17, 4.5.2017

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[***Farming for the next generation***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RB9-6X31-F12F-F48J-00000-00&context=1516831)

UK Government News

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**Body**

U.K., Jan. 4 -- The UK Government made the following announcement:

Secretary of State Michael Gove sets out his vision on the future of our farming industry at the Oxford Farming Conference 2018

Updated: This has now been checked against delivery.The age of acceleration

For anyone wondering what the focus of this year's &lt;a rel="external" href="[*https://www.ofc.org.uk*](https://www.ofc.org.uk)/"&gt;Oxford Farming Conference&lt;/a&gt; might be, it was The Archers provided an answer just before Christmas.

Brian Aldridge asked his step-son, Adam, whether he might be attending the conference. Adam replied wearily. 'I think I'll give it a miss this year. It's probably going to be all about Brexit. I get enough of that at home.'

I know how he feels.

I suspect everyone in this room knows how he feels.

And, of course, I'll say something in a moment about the specific opportunities and challenges for ***agriculture*** on leaving the European Union.

But if we're going to make the most of those opportunities and overcome those challenges it's critical that we recognise that there is much, much, more that is changing in our world than our relationship with the EU.

As we saw in the presentation at the beginning of this session, the world's population is growing at an unprecedented rate, with a worldwide migration from ***rural*** areas to cities and a growth in the global middle class which is driving demand for more, and better quality, food.

Technological change is at an inflection point. Developments in big data, artificial intelligence and machine learning mean that processes which would have required the intellect and effort of thousands of humans over many hours in the past can be accomplished automatically by digital means in seconds.

These technological breakthroughs raise political and moral questions as we consider how we deal with the transformation of a huge range of existing jobs. And alongside these changes in the world of information technology there are bio-tech changes coming which also challenge us to think about the future, and how best to shape it. Gene editing technology could help us to remove vulnerabilities to illness, develop higher yielding crops or more valuable livestock, indeed potentially even allow mankind to conquer the diseases to which we are vulnerable.

Food in abundance, improved health, greater longevity: these are all goals to which our species has aspired since the first farmers waited for the first harvest. But in attempting to shape evolution more profoundly than any plant or animal breeder ever has done before are we biting off much more than we can chew?

And these are not the only changes coming. Our global environment is affected as never before by the population growth I've referred to, and the consequent growth in demand for nutritious food, safe drinking water, comfortable housing, reliable energy and new consumer goods.

The growth in trade which will meet those needs will depend on more packaging, more journeys by air, land and sea, more logistics hubs and more work by designers, marketers and, yes, regulators.

The pressures placed on our global environment by this growth I've sketched briefly out will be formidable - whether it's greenhouse gas emissions in our atmosphere contributing to global warming, desertification and soil erosion reducing the space for cultivation, deforestation leading to the disappearance of valuable carbon sinks and precious habitats, air pollution from traditional industry and intensive ***agriculture*** adding to health costs, waste poisoning our oceans or iconic landscapes under threat from the need for further development.

Without action we face the progressive loss of the natural capital on which all growth - natural, human and economic - ultimately depends.

So the imperative to husband, indeed wherever possible, enhance our natural capital - safeguarding our oceans, cleaning our rivers, keeping our soils fertile, protecting biodiversity - has to be at the heart of any plan for our country and our world.

Because we cannot expect to live prosperous and civilised lives in the future unless we recognise that we have to care for that which gives us all life - our planet.

And that knowledge is itself a catalyst for further change. The need to protect our planet better is already accelerating innovation- with entrepreneurs exploring how to develop autonomous electric vehicles, how to change the energy mix we all rely on, how to reduce our reliance on plastics, how to derive more protein from plants rather than animals, how to grow produce, whether hydroponically or by other means, which leaves a lighter imprint on the earth, how to use distributed ledger technology to protect habitats and so much more.

So the reality of our times is not just change as the only constant but accelerating change as the new normal. Which is why the title of this conference - Embracing Change - is so appropriate.

Because the changes which are shaping all our futures are so historically significant, technologically revolutionary and economically transformative that we have no choice but to embrace them and try to shape them in a progressive and judicious way.

A state without the means of change is without the means of conservation

Now I know there is, of course, a natural human desire to stick with what we know, trust to experience and hope things can go on much as before. To prefer the tried to the untried. You hear it when some in industry, and indeed some in the farming industry, say that what we need most at the moment is certainty.

I understand that sentiment all too well. As I think does almost everyone in politics.

But the truth is that if we try to avoid change, hold the future at bay and throw up barriers to progress then we don't stop change coming, we simply leave ourselves less equipped to deal with change as it arrives.

The history of nationalised industries, state subsidies for particular sectors, guilds to restrict access to trades, high tariff walls and all the other tools of so-called economic "protection" is a melancholy one. The road is paved with good intentions - preserving ***strategic*** assets, insulating communities from change, protecting our home market, guaranteeing a supply of essentials.

But the path inevitably involves higher costs for consumers, lower productivity from producers, less pressure to husband scarce resources, less concern about sustainability, more rent-seeking and capital accumulation, less investment in innovation, less dynamism and ultimately, less security as others forge ahead economically, scientifically and socially.

If we want to preserve that which we cherish - a thriving ***agriculture*** sector, a healthy ***rural*** economy, beautiful landscapes, rich habitats for wildlife, a just society and a fair economy - then we need to be able to shape change rather than seeking to resist it.

And the best way to deal with change is to develop adaptability. As we know from the natural world, the best way to thrive in a new environment is to evolve. What we should, therefore be looking for in ***agriculture*** policy, indeed in all economic policy, is not an illusory fixity or a false sense of certainty, which by definition future events we cannot foresee will always upend.

What we should instead be seeking to cultivate are the resources, policies and people that will allow us to adapt, evolve and embrace change as an ally.

Taking back control

Which takes me to Brexit.

Of course Brexit will mean change.

But, critically, what it means most of all is that we can once more decide how we shape change and how we meet the challenges ahead.

It means we don't need any longer to follow the path dictated by the Common ***Agricultural*** Policy. We can have our own - national - food policy, our own ***agriculture*** policy, our own environment policies, our own economic policies, shaped by our own collective interests.

The &lt;abbr title="Common ***Agricultural*** Policy"&gt;CAP&lt;/abbr&gt; was designed, like so many aspects of the EU, for another world, the post-war period when memories of food shortages were hauntingly powerful and the desire to support a particular model of land use was wrapped up with ideas of a stable countryside that seemed reassuringly attractive after the trauma of industrial-scale conflict.

Of course, the &lt;abbr title="Common ***Agricultural*** Policy"&gt;CAP&lt;/abbr&gt; has evolved, and indeed improved, over time. But it is still a fundamentally flawed design.

Paying land owners for the amount of ***agricultural*** land they have is unjust, inefficient and drives perverse outcomes.

It gives the most from the public purse to those who have the most private wealth.

It bids up the price of land, distorting the market, creating a barrier to entry for innovative new farmers and entrenching lower productivity.

Indeed, perversely, it rewards farmers for sticking to methods of production that are resource-inefficient and also incentivises an approach to environmental stewardship which is all about mathematically precise field margins and not truly ecologically healthy landscapes.

As recent scholarship has shown, the so-called greening payments in Pillar One have scarcely brought any environmental benefits at all.

We can, and must, do better.

Reform begins at home

And by we, I mean Defra most of all.

Now I don't want anyone to get hold of the wrong end of the stick.

The Department I am privileged to lead has some of the finest public servants in the country working for it.

Whether it's the policy professionals, economic analysts, vets, IT engineers, botanists and horticulturalists or hydrologists and geologists, it is a pleasure to work with such dedicated, idealistic and passionate people.

But while the people are brilliant, some of the processes are not.

The ways in which we provide financial support to farmers have been far too bureaucratic - not helped by the ludicrous rules and red tape of the &lt;abbr title="Common ***Agricultural*** Policy"&gt;CAP&lt;/abbr&gt; that Defra must try to enforce.

The ***Rural*** Payments Agency has historically taken far too long to get money from Government to farmers.

And the Countryside Stewardship schemes we have run have been dizzyingly complex to apply for - I have made my views on this clear.

All this when it's our stated aim to allocate more funding for agri-environment schemes.

We have taken action in the last few months to drive change in these areas, and will seize opportunities to develop a different regulatory culture once we have left the European Union.

I am encouraged so far that the &lt;abbr title="***Rural*** payments Agency"&gt;RPA&lt;/abbr&gt; paid over 91% of farmers their basic payment for this year by the end of December 2017. Encouraged but not satisfied. Which is why I am looking for a new chair of the &lt;abbr title="***Rural*** payments Agency"&gt;RPA&lt;/abbr&gt; to work with the Chief Executive and his team to drive further improvement.

On Countryside Stewardship, I want schemes simplified to the extent that any farmer - any farmer - can complete an application in a working day. Starting at the computer after breakfast the whole process has to be able to be finished by six o'clock when it will be time for a well-deserved pint.

I'm pleased that Andrew Sells and his team have responded to the challenge with a set of simplified offers which have, already, received a warm response. But, again, we need to go further and develop a much more responsive and efficient model.

And that's not all we need to change.

Related to the whole question of how we allocate support, we also in Defra need to change our approach to inspection.

We inspect too often, too ineffectively and in far too many cases for the wrong things. At any moment, a farmer could be visited by the ***Rural*** Payments Agency, Natural England, The Animal Plant and Health Agency, the Environment Agency or their local authority. Each body may ask for slightly different information, or even the same information in a slightly different way. Each visit adds to the burden on farmers, yet there is much overlap without proper coordination. The &lt;abbr title="Common ***Agricultural*** Policy"&gt;CAP&lt;/abbr&gt;'s inflexibilities, including the ever present fear of disallowance, means we inspect rigidly for precise field margin dimensions and the exact locations of trees in a near-pointless exercise in bureaucratic box-ticking while, at the same time, we inspect haphazardly and inefficiently for genuine lapses such as poor slurry management or inadequate animal welfare.

That is why I hope to look at how we can reduce the number of inspections overall, make them more genuinely risk-based and have them focus on those, limited, areas where standards are not where they should be.

And there is much more we need to change across the board to make the Department more effective.

Processes far beyond support payments and inspections are ripe for modernisation.

Take our guidance on the provision of export health certificates still requires the use of carbon paper. While IT systems have been improved we are still some way away from exploiting advances in data analytics which we can use to shape and refine policy and delivery.

And even at the most basic level we are not the champion we need to be for British food and farming. Despite hugely energetic efforts by my predecessors, we can still do more to improve the procurement of British food across the public sector.

But I am determined to drive that change. Energetically. And across Government.

As well as making Defra a more efficient, focused and, above all, innovative department I also want to drive change in 4 specific areas.

I want to ensure we develop a coherent policy on food - integrating the needs of ***agriculture*** businesses, other enterprises, consumers, public health and the environment.

Second, I want to give farmers and land managers time and the tools to adapt to the future, so we avoid a precipitate cliff edge but also prepare properly for the changes which are coming.

Third, I want to develop a new method of providing financial support for farmers which moves away from subsidies for inefficiency to public money for public goods.

And finally, I want to ensure that we build natural capital thinking into our approach towards all land use and management so we develop a truly sustainable future for the countryside.

A lot on our plate

On food, first of all, I want to underline that I recognise the heart of almost all farming businesses is food production. And a core element of Defra's mission is supporting farmers in the provision of competitively-priced, healthy, sustainable and nutritious food, and pursuing greater market access.

But I believe it's critical as we think of food production and the role of farming in the future that we develop policy which looks at the food-chain as a whole, from farm to fork, and we also recognise the economic, health and environmental forces shaping the future of food.

That's why I'm glad that my colleague Greg Clark, the Business Secretary, announced the creation of a Food and Drink Sector Council in his recent &lt;a href="[*https://www.gov.uk/government/topical-events/the-uks-industrial-strategy*](https://www.gov.uk/government/topical-events/the-uks-industrial-strategy)"&gt;Industrial Strategy White Paper&lt;/a&gt;, whose first task will be to develop the emerging proposals for a food and drink manufacturing Sector Deal. The White Paper also committed to a new challenge fund to transform food production. This will help support farmers and food manufacturers to improve the sustainability and nutritional benefit of food.

Food and Drink is the UK's biggest manufacturing sector and one of its fastest growing with an increase of 8% in exports to the EU and 10% in exports outside the EU in the first three quarters of last year alone.

That success has been built on a reputation for quality and provenance, on the knowledge that we have among the highest environmental and animal welfare standards of any nation on earth. So people know when they're buying British they're buying food which is guaranteed to be high quality and more sustainable.

That's why it would be foolish for us to lower animal welfare or environmental standards in trade deals, and in so doing undercut our own reputation for quality. We will succeed in the global market place because we are competing at the top of the value chain not trying to win a race to the bottom.

And Government can help in that process by under-writing that reputation for quality.

Which is why I want us, outside the EU, to develop new approaches to food labelling. Not just badging food properly as British, but also creating a new gold-standard metric for food and farming quality.

There are already a number of ways in which farmers can secure recognition for high animal welfare or environmental standards from the Red Tractor scheme to the Leaf mark. But while they're all impressive and outstanding there's still no single, scaled, measure of how a farmer or food producer performs against a sensible basket of ***indicators***, taking into account such things as soil health, control of pollution, contribution to water quality as well as animal welfare. We've been in discussion with a number of farmers and food producers about how we might advance such a scheme and I think that, outside the EU, we could establish a measure of farm and food quality which would be world-leading.

Because while price will always be a factor in the choices consumers make, they are also increasingly making choices based on other factors too. If we look at some of the fastest growing food brands, providing the most value added for both consumers and producers, then it's being able to provide certainty over origins, traceability of ingredients, integrity in production and a distinctiveness in taste which matter more and more. Whether its Belvoir soft drinks or Botanist Gin, organic milk or West Country Farmhouse Cheddar, grass-fed beef from Devon or Welsh lamb, Cumberland sausages or Melton Mowbray pork pies, Tyrell's crisps or Forman's London cured smoked salmon, the future profits in food production lie in distinctive quality produce.

And Government can help, by acting as a champion for British produce in foreign markets, operating a better procurement policy at home, keeping existing market access open and securing new free trade deals for producers.

I understand that people in this room, and beyond, particularly want to know what will happen to access to our biggest export market - the EU 27. By definition, we cannot yet know the final outcome of a trade negotiation which is about to get underway, and Defra is preparing for every eventuality. But we are confident of building a new economic partnership with the EU that guarantees tariff-free access for agri-food goods across each other's borders. We know that we have a deficit in ***agricultural*** and horticultural produce with the EU 27. Irish beef farmers, French butter and cheese producers, Dutch market gardeners and Spanish salad growers all have an interest just as, if not more acute, than Welsh sheep farmers or Ulster dairy farmers in securing continued tariff-free access between the UK and the EU.

But we should be, and we are, more ambitious than that. Securing greater access to, and penetration of, other markets will be important to British ***agriculture***'s further success. Increasing exports to, for example, China is not just a good in itself in trade terms it also helps the business model of many farmers to work even better. There are, as we all know, parts of the pig for example which don't find favour with the British consumer but which are delicacies in China. Satisfying that demand means other parts of the carcase can be used to meet demand at home, or indeed elsewhere in Europe, which is currently met by Dutch and by Danish farmers. Pursuing new trade opportunities outside Europe can make us more competitive with Europe.

Which is why it is so encouraging that my colleague Liam Fox has made boosting our trade in food and drink a central priority for 2018.

Government can also intervene closer to home where there is market failure. When, for example some powerful players in the food chain use the scale of their market presence to demand low prices from primary producers who are much smaller and dis-aggregated. That is why my colleague George Eustice is looking now at overall fairness in the supply chain.

We can ensure that our ***interventions*** as Government are designed to generate growth are applied fairly. So, for example, we can look at how the apprenticeship levy works to see how money identified for improving skills training can be spent more effectively across supply chains - helping smaller businesses as well as larger concerns.

We can, and should, invest in both technology and infrastructure. We can direct public money to the public goods of scientific innovation, technology transfer and, crucially, decent universal super-fast broadband.

And we must, of course, think about how to make sure the labour market works effectively as well, so businesses can continue to secure a proper return on their investment. That means not just a flexible migration policy overall, but as we leave the EU, ensuring access to seasonal ***agricultural*** labour.

But while Government has a clear role to play in all of these areas in supporting food production it's also important that we all appreciate that ultimately, quality food is generated not by Government, but by innovative and entrepreneurial producers responding to consumer preferences and market signals.

And the best way to ensure consumers have the full choice of quality food they want is not to try to satisfy every need with home produce, but to pursue comparative advantage.

So Government must recognise that its ***interventions*** need to be targeted, proportionate and limited.

Subsidies linked to the size of land holding, or headage payments, reward incumbents, restrict new thinking and ultimately hold back innovation and efficiency.

Industries which come to rely on importing cheap labour run the risk of failing to invest in the innovation required to become genuinely more productive. Labour-intensive production inevitably lags behind capital-intensive production.

And having a subsidy system which incentivises farmers to place every acre they can into food production means that public money isn't always being spent on renewing natural capital assets like forestry and wetlands.

As well as thinking about how our ***interventions*** to support food production currently affect the environment, we also have to consider the impact on the nation's health.

Ours is the first generation where more people succumb to non-communicable conditions than to infectious diseases. The risk to public health from contagious conditions is diminishing, the rising dangers are obesity, diabetes, coronary failure, cancer and deteriorating mental health. And diet plays a part in all these conditions.

Helping people to make better choices in what they eat is fraught territory politically. And looking at my own waistline I should bear in mind that it is incumbent on he who talks about dietary sins to lose the first stone.

But Government does have a public health role. As Education Secretary I introduced a School Food Plan not just to ensure school meals were healthier but also to educate children about where food came from and how to make healthy choices about buying, preparing and enjoying food.

And in this role now, I have a responsibility to ask if public money supporting food production is also contributing to improved public health.

And indeed I also have a responsibility to ask if all the incentives and Government ***interventions*** everywhere in the food chain work towards economic justice and social inclusion.

So that does mean on the one hand that means asking how we can support those farmers, for example upland sheep farmers, whose profit margins are more likely to be small but whose contribution to ***rural*** life and the maintenance of iconic landscapes is immense. And on the other it also involves taking action to end the currently indefensible situation we have at the moment where food producers are incentivised to send perfectly edible and nutritious surplus stock they have not sold to waste plants rather than charities who can distribute it to individuals in need.

It is only, I believe, by looking at food policy in the round, developing an understanding of the economic, social, environmental, health and other issues at every stage in the food chain that we will develop the right coherent strategy for the future.

And there are huge opportunities for those in ***agriculture*** to play the leading role in shaping this strategy. Rather than devoting intellectual energy and political capital to campaigning for policy ***interventions*** designed to insulate farming from change, ***agriculture***'s leaders can respond to growing public interest in debates about food, animal welfare, the environment, health and economic justice by demonstrating, as so many in this room are doing, how their innovative and dynamic approaches are enhancing the environment, safeguarding animal welfare, producing food of the highest quality, improving public health and contributing to a fairer society.

Managing change

Now given the scale, and nature, of the change which is coming I recognise that farmers need to be given the time, and the tools, to become more adaptable.

We'll be saying more about our plans in a Command Paper to be published later this spring. And of course the proposals we outline will have to be subject to consultation. But I want to say a little about the direction of travel I think we should take.

I believe we should help land owners and managers to make the transition from our current system of subsidy to a new approach of public money for public goods over time.

We will formally leave the EU in March of 2019 but the Government anticipates that we will agree an implementation or transition period for the whole country with the EU lasting for around another two years.

We have guaranteed that the amount we allocate to farming support - in cash terms - will be protected throughout and beyond this period right up until the end of this Parliament in 2022.

We will continue support for Countryside Stewardship agreements entered into before we leave the EU and we will ensure that no one in an existing scheme is unfairly disadvantaged when we transition to new arrangements.

We will pay the 2019 &lt;abbr title="Basic Payment Scheme"&gt;BPS&lt;/abbr&gt; scheme on the same basis as we do now.

I then envisage guaranteeing that &lt;abbr title="Basic Payment Scheme"&gt;BPS&lt;/abbr&gt; payments continue for a transition period in England, which should last a number of years beyond the implementation period, depending on consultation.

During these years, we propose to first reduce the largest &lt;abbr title="Basic Payment Scheme"&gt;BPS&lt;/abbr&gt; payments in England. We could do this through a straight cap at a maximum level or through a sliding scale of reductions, to the largest payments first.

After the implementation period, this transitional payment could be paid to the recipient without the need to comply with all the onerous existing cross-compliance rules and procedures.

Inspections would, of course, continue but in the streamlined and risk-based fashion I described earlier.

Provided our own animal welfare, environmental and other laws were observed this payment would be guaranteed.

This should provide every existing farmer who receives a &lt;abbr title="Basic Payment Scheme"&gt;BPS&lt;/abbr&gt; payment with a guaranteed income over this extended transition period.

That guaranteed income should provide time for farmers to change their business model if necessary, help to make the investment necessary for any adjustments and prepare for the future.

We will also look at ways to support farmers who may choose to leave the industry.

And, after that transition, we will replace &lt;abbr title="Basic Payment Scheme"&gt;BPS&lt;/abbr&gt; with a system of public money for public goods.

Paying for what we value

The principal public good we will invest in is of course environmental enhancement.

In thinking about how better to support farmers in the work of environmental protection and enhancement it's critical - as everyone in this room but not everyone outside appreciates - to recognise that there is no inherent tension between productive farming and care for the natural world.

Quite the opposite.

I have seen for myself how many of our best farmers - our most productive and progressive farmers - place thoughtful environmental practice and careful husbanding of resources at the heart of their businesses.

Take the vital question of soil health. Min or no till approaches, which require less expenditure on inputs and of course keep more carbon in the soil, are both economically more efficient and environmentally progressive.

But under the &lt;abbr title="Common ***Agricultural*** Policy"&gt;CAP&lt;/abbr&gt;, farmers have been encouraged to focus on yield overall, rather than productivity specifically.

This has led to decades of damage in the form of significant and destructive soil erosion - estimated in one study by Cranfield University to cost the economy around &#163;1.2billion every year.

We now have opportunity to reverse this unhappy trend. Sustainably managed land is far more productive than land that is stressed and stripped of its nutrients.

But moving to more sustainable and, ultimately, productive farming methods can involve transitional costs and pressures. So we plan to provide new support for those who choose to farm in the most sustainable fashion.

And as well as supporting progressive and productive farming methods we also want to support what economists call the provision of ecosystem services.

Building on previous countryside stewardship and agri-environment schemes, we will design a scheme accessible to almost any land owner or manager who wishes to enhance the natural environment by planting woodland, providing new habitats for wildlife, increasing biodiversity, contributing to improved water quality and returning cultivated land to wildflower meadows or other more natural states.

We will also make additional money available for those who wish to collaborate to secure environmental improvements collectively at landscape scale.

Enhancing our natural environment is a vital mission for this Government. We are committed to ensuring we leave the environment in a better condition than we found it. And leaving the European Union allows us to deliver the policies required to achieve that - to deliver a Green Brexit.

But vital as investment in our environment is, it is not the only public good I think we should invest in - I believe we should also invest in technology and skills alongside infrastructure, public access and ***rural*** resilience.

There is a tremendous opportunity for productivity improvement in our farms. We already have some of the best performing farms in the world and there is no reason why our farmers cannot lead the way globally in achieving better levels of productivity through adoption of best practice and new technologies.

On technology, we should build on the innovations pioneered by our superb higher education institutions like Harper Adams University by investing more in automation and machine learning, moving from the hands-free hectare to the hands-free farm, with drilling, harvesting, picking and packaging all automated, precision mapping of every inch under cultivation with targeted laser treatment of pests and weeds and highly-focussed application of any other treatment required. We should invest more in the sensor technology that can tell where, when and how livestock should be fed, housed and bred to maximise both yield and individual animal health and welfare.

And we should ensure the next generation of farmers are equipped to make the most of technological breakthroughs by better integrating the research work being undertaken by the most innovative institutions with the ongoing training those working on the land should receive. I hope to say more about how we can reform land-based education again later in the spring.

Critical to making this new investment in tech and skills work is of course proper infrastructure - super-fast broadband and reliable 5G coverage. If I can get reliable and unbroken mobile phone and internet coverage in a tunnel under the Atlantic as I travel between one Faeroe Island and the next I should be able to get it in Oxfordshire. So I am delighted that my colleague Matt Hancock has made it a priority to ensure ***rural*** areas get the digital infrastructure they need and I will do whatever I can to help.

Public access I know can be contentious and I won't get into the weeds of the debate on rights of way now. But the more the public, and especially school children, get to visit, understand and appreciate our countryside the more I believe they will appreciate, support and champion our farmers. &lt;a rel="external" href="[*https://farmsunday.org*](https://farmsunday.org)/"&gt;Open Farm Sunday&lt;/a&gt; and other great initiatives like it help reconnect urban dwellers with the earth. And they also help secure consent for investment in the countryside as well as support for British produce. So public access is a public good.

Finally there is ***rural*** resilience. There are any number of smaller farm and ***rural*** businesses which help keep communities coherent and ensure the culture in ***agriculture*** is kept healthy. Whether it's upland farmers in Wales or Cumbria, crofters in Scotland or small livestock farmers in Northern Ireland, we need to ensure support is there for those who keep ***rural*** life vital. The work of the &lt;a rel="external" href="[*http://www.princescountrysidefund.org.uk*](http://www.princescountrysidefund.org.uk)/"&gt;Prince's Countryside Fund&lt;/a&gt; has been invaluable here and the kind of enterprises that it supports are, I believe, worthy of public support.

I recognise the list of public goods I have identified is not exhaustive. But then our budget is not unlimited. I look forward to consulting on these priorities but we must start from the presumption that we should only support clear public goods the market will not, left to itself, provide.

Which takes me to the importance of natural capital.

In thinking of our countryside, and of ***rural*** life overall, is that its overall worth to us goes far beyond its economic value alone.

Like everyone here, I am moved by the beauty of our natural landscapes, feel a sense of awe and wonder at the richness and abundance of creation, value wild life as a good in its own right, admire those who work with nature and on our land, respect the skill and passion of farmers, growers, shepherds, stockmen, vets and agronomists who provide us with safe, high quality food and drink, and I want to see them prosper.

I know these feelings are shared across the country. But capturing these values in public policy can sometimes be difficult. Which is why the natural capital approach can be so valuable. It allows us to bed into policy-making a direct appreciation of the importance of field and forest, river and wetland, healthy soil and air free from pollution.

It is just one tool among many in the formation of policy but a very powerful one in ensuring that we think of our responsibility to future generations to hand on a country, and a planet, in a better state than we found it.

And that has to be the aim for all our policies on food, farming, the landscape and our broader environment. We have to embrace change which secures a more sustainable future for those who will inherit what we have built.

ENDS

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RR\1137559EN.docx PE604.887v02-00 EN United in diversity EN European Parliament 2014-2019 Plenary sitting A8-0329/2017 23.10.2017 REPORT on the deployment of cohesion policy instruments by regions to address demographic change (2016/2245(INI)) Committee on Regional Development Rapporteur: Iratxe García Pérez PE604.887v02-00 2/31 RR\1137559EN.docx EN PR\_INI CONTENTS Page MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION ............................................ 3 EXPLANATORY STATEMENT ............................................................................................ 16 POSITION IN THE FORM OF AMENDMENTS OF THE COMMITTEE ON WOMEN’S RIGHTS AND GENDER EQUALITY ................................................................................... 20 INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE ................................ 30 FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE .................................... 31 RR\1137559EN.docx 3/31 PE604.887v02-00 EN MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION on the deployment of cohesion policy instruments by regions to address demographic change (2016/2245(INI)) The European Parliament, having regard to Article 174 and Article 175 of the Treaty on the Functioning of the European Union (TFEU), – having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/20061, – having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/20062, – having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/20063, – having regard to Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal4, – having regard to Regulation (EU) No 1302/2013 of the European Parliament and of the Council of 17 December 2013 amending Regulation (EC) No 1082/2006 on a European grouping of territorial cooperation (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings5, – having regard to its resolution of 4 February 2016 on the special situation of islands6, – having regard to Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/20067, 1 OJ L 347, 20.12.2013, p. 320. 2 Ibid, p. 289. 3 Ibid, p. 470. 4 Ibid, p. 259. 5 Ibid, p. 303. 6 Texts adopted, P8\_TA(2016)0049. 7 OJ L 347, 20.12.2013, p. 281. PE604.887v02-00 4/31 RR\1137559EN.docx EN – having regard to its resolution of 4 April 2017 on women and their roles in ***rural*** areas1, having regard to its resolution of 10 May 2016 on cohesion policy in mountainous regions of the EU2, having regard to its resolution of 9 September 2015 on the Report on the implementation, results and overall assessment of the 2012 European Year for Active Ageing and Solidarity between Generations3, having regard to its resolution of 10 May 2016 on new territorial development tools in cohesion policy 2014-2020: Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD)4, having regard to its resolution of 15 November 2011 on demographic change and its consequences for the future cohesion policy of the EU5, having regard to its resolution of 11 November 2010 on the demographic challenge and solidarity between the generations6, having regard to its resolution of 22 September 2010 on the European strategy for the economic and social development of mountain regions, islands and sparsely populated areas7, having regard to its resolution of 21 February 2008 on the demographic future of Europe8, having regard to its resolution of 23 March 2006 on demographic challenges and solidarity between the generations9, having regard to the Commission’s report entitled ‘The 2015 Ageing Report.

Economic and budgetary projections for the 28 EU Member States (2013-2060)’ (European Economy 3|2015), having regard to the Commission’s sixth report on economic, social and territorial cohesion entitled ‘Investment for jobs and growth: Promoting development and good governance in EU regions and cities’ of 23 July 2014, having regard to the Commission communication of 26 April 2017 entitled ‘An Initiative to support work-life balance for working parents and carers’ (COM(2017)0252), 1 Texts adopted, P8\_TA(2017)0099. 2 Texts adopted, P8\_TA(2016)0213. 3 Texts adopted, P8\_TA(2015)0309. 4 Texts adopted, P8\_TA(2016)0211. 5 OJ C 153 E, 31.5.2013, p. 9. 6 OJ C 74 E, 13.3.2012, p. 19. 7 OJ C 50 E, 21.2.2012, p. 55. 8 OJ C 184E, 6.8.2009, p. 75. 9 OJ C 292 E, 1.12.2006, p. 131. RR\1137559EN.docx 5/31 PE604.887v02-00 EN having regard to the Commission communication of 29 April 2009 entitled ‘Dealing with the impact of an ageing population in the EU (2009 Ageing Report)’ (COM(2009)0180), having regard to the Commission communication of 10 May 2007 entitled ‘Promoting solidarity between the generations’ (COM(2007)0244), having regard to the Commission communication of 12 October 2006 entitled ‘The demographic future of Europe – from challenge to opportunity’ (COM(2006)0571), having regard to the Commission communication of 16 March 2005 entitled ‘Green Paper: “Confronting demographic change: a new solidarity between the generations”’ (COM(2005)0094), having regard to the Commission communication of 6 May 2015 entitled ‘A Digital Single Market Strategy for Europe’ (COM(2015)0192), having regard to the opinion of the European Committee of the Regions of 16 June 2016 on the EU response to the demographic challenge1, having regard to the study of September 2013 of the European Parliament Directorate-General for Internal Policies, Department B: Structural and Cohesion Policies, entitled ‘How can regional and cohesion policies tackle demographic challenges?’, having regard to the ESPON publication on ‘Revealing territorial potentials and shaping new policies in specific types of territories in Europe: islands, mountains, sparsely populated and coastal regions’2, having regard to Rule 52 of its Rules of Procedure, having regard to the report of the Committee on Regional Development and the position in the form of amendments of the Committee on Women’s Rights and Gender Equality (A8-0329/2017), A. whereas demographic change is a genuine issue in Europe and across the globe and a key challenge, not just in general, but also for local development and territorial enhancement policies in the EU today, together with employment-related issues, uncontrolled globalisation, climate change, the transition towards low-carbon economies and the challenges posed by the industrial and technological shift and social and economic inclusion; B. whereas, as is the case in most post-industrial societies, the population of Europe has been characterised by increasing longevity and low fertility rates for several decades, which is liable to alter the population structure and age pyramid, and entail side-effects of a shrinking working age population and aging population; whereas the economic crisis which has affected the entire European Union has had a strong impact on many areas and regions, particularly the countryside, and has, most notably, generated poverty 1 OJ C 17, 18.1.2017, p. 40. 2 ESPON Working Paper. Luxembourg, ESPON EGTC, March 2017. PE604.887v02-00 6/31 RR\1137559EN.docx EN and caused depopulation; whereas a persistent gender pay gap and increasing pension gap strongly hinder the participation of women in the labour market; C. whereas rapid population growth in developing countries and demographic decline of the EU population is projected to translate into the shrinkage of the European Union’s percentage share of the world’s population from 6.9 % in 2015 to 5.1 % in 20601; D. whereas it is projected that 132 out of 273 NUTS level 2 regions will see a decrease in population between 2015 and 20502; whereas this decrease will affect Local Administrative Units (LAUs) in particular; E. whereas the top priority for the European Union and all the Member States is to promote growth that is at once smart, sustainable and inclusive; F. whereas geographical or demographic features serve to exacerbate development problems; whereas, for this reason, the Treaty of Lisbon added territorial cohesion to the goals of economic and social cohesion; G. whereas demographic change does not affect all countries and regions in a uniform manner, on account of both its natural dynamics and the migratory movements that it entails, with the majority of urban and, in particular, metropolitan areas experiencing a population gain and most ***rural*** and remote areas experiencing a decline, the picture being very mixed in the outermost regions; whereas such imbalances represent major challenges both for territories suffering from depopulation and for those experiencing a population influx; whereas isolated areas and areas to which access is limited are the most exposed to demographic decline; whereas, on the other hand, attention should be drawn to the effects of ‘suburbanisation’, which, as a consequence of a large population movement from big cities to their surrounding areas, puts pressure on both local and regional authorities; H. whereas European regions are not unbroken expanses of territory; whereas they can contain pockets of unemployment or poverty and face particular challenges, especially as regards demographic change, making it vital to set up targeted instruments to reduce sub-regional disparities and help bring about a better territorial balance in terms of urban, peri-urban, and ***rural*** areas; I. whereas women, and single mothers in particular, are more exposed to poverty and exclusion; J. whereas demographic change poses a challenge in ensuring the social cohesion and well-being of the whole population, and in encouraging balanced economic development; whereas demographic change has repercussions on infrastructure and the accessibility and quality of services, which translates into connectivity divides or medical deserts and is often the result of insufficient links between urban and ***rural*** populations; K. whereas demographic change involves major policy challenges in different areas linked 1 Eurostat, ‘The EU in the World’, 2016 edition. 2 Eurostat, ‘Eurostat Regional Yearbook’, 2016 edition. RR\1137559EN.docx 7/31 PE604.887v02-00 EN to a wide range of cohesion policy fields; whereas regional policy, and its European Structural and Investment (ESI) Funds, including the Cohesion Fund, are key instruments for addressing this change; L. whereas non-urbanised areas in the European Union are home to 113 million people, 12 million farms and 172 million hectares of ***agricultural*** land and make an extensive contribution to European economies, cultures and ecosystems; M. whereas adequate infrastructure and an adequate level of services are important factors in managing the population structure in regions that are sparsely populated or suffering from emigration, where the importance of investment and jobs is greater; N. whereas proper infrastructure and access to public services and high-quality jobs are important factors influencing the decision whether or not to stay in a particular area; O. whereas women are more exposed to poverty and social exclusion than men – all the more so when they are aged over 60; P. whereas demographic change has a greater impact on regions which are lagging behind; Q. whereas demographic change affecting ***rural*** areas has economic and social consequences, causes territorial fragmentation and affects quality of life and the environment, all in addition to its serious demographic consequences; R. whereas gender equality is a fundamental right, a common value of the EU and a necessary condition for achieving the EU objectives of growth, employment and social cohesion; S. whereas gender equality represents an important tool for economic development and social cohesion; T. whereas negative demographic change increases the demand for stronger solidarity between generations; General 1. Stresses that demographic change entails major economic, social, fiscal and environmental pressures on Member State governments and regional and local authorities in terms of providing public services, especially welfare and social services, building and managing infrastructure, and ensuring the preservation of ecosystems through sustainable spatial planning; stresses that these pressures will be exacerbated by a declining active population and a higher dependency ratio; underlines the crucial role of high-quality public and private services; underlines the importance of accessible high-quality and affordable public and private services as a tool for ensuring gender equality; 2. Considers that demographic change should be tackled in a coordinated manner through the action of all European, national, regional and local authorities and by pursuing adaptation strategies reflecting local and regional realities and delivering effective multi-level governance both in the architecture of these specific policies targeted at PE604.887v02-00 8/31 RR\1137559EN.docx EN particular regions and in their implementation; is of the opinion that such a coordinated and integrated response should seek to improve the quality of life of citizens and provide them with better economic opportunities, and should seek to invest in the quality, availability and affordability of social and public services in the regions concerned; considers, furthermore, that civil society representatives and other stakeholders should be involved; points out that a comprehensive approach of any kind must reflect the role of cities, ***rural*** areas, fishing and coastal areas as well as areas confronted with specific problems linked to their geographical or demographic situation, and that, therefore, said approach will also have to take account of the specific challenges posed by the outermost regions, northernmost regions with very low population density and islands, cross-border and mountain regions, as expressly acknowledged in the Lisbon Treaty; calls on the Member States and the Commission to take into account the effects of different policies on gender equality and demographic change; 3. Recognises that demographic change, while creating new challenges, also brings development opportunities at a local level, as a result of shifts in demand in urban societies, especially with regard to food, leisure and rest, through the potential of ***agriculture***, forestry and fishing to produce high-quality, safe and distinctive products; considers that ***rural*** tourism in general and ecotourism, e-commerce, community-based services and the silver economy in particular also provide opportunities for development at a local level, enhancing the value of domestic ***agricultural*** or non-***agricultural*** products, such as handicrafts, embroidery and ceramics, via the European system of the protection of geographical indications; underlines in this respect the importance of smart specialisation strategies for supporting regions and local territories in identifying high value-added activities and for building attractive innovation ecosystems on the basis of a genuine multi-functional ***rural*** development strategy that incorporates the circular economy into regional planning; points out that agri-tourism, which helps to maintain a dynamic lifestyle in ***rural*** areas, is also a significant sector; highlights the importance of social dialogue and the inclusion of social partners together with other local stakeholders and authorities at all stages of ESI Fund programming and implementation for better anticipating the effects of demographic change on local labour markets and developing new strategies addressing such challenges; Characteristics of demographic change in the EU 4. Notes that the main problems relating to the demographic change currently experienced in many parts of the EU are aging brought on by disruption of the age pyramid, a drop in birth rates and subsequent drastic drop in infant and youth populations, constant population loss, skilled workforce shortages, a lack of jobs, young people moving away for want of job opportunities and changes in demographic structure; recognises that the current ***agriculture*** policy, the loss of traditional activities, products, production systems, labour force and local know-how, the invisible work done by women, the lack of entrepreneurship, regions lagging behind or unable to compete owing to a lack of investment, or loss of biodiversity, and loss of woodland to shrubs and fire risk, are further significant problems connected with demographic change; underlines that the impact of these trends differs significantly from one region to another, partly on account of the movement of people to big urban centres in search of jobs; RR\1137559EN.docx 9/31 PE604.887v02-00 EN 5. Stresses that one of the main objectives of an EU demographic policy should be to take into account all territories having to contend with demographic imbalances and the specificities of those territories, factors which cohesion policy has long been seeking to adapt to, and will have to do much more to adapt to after 2020; emphasises the fact that while demographic change affects all areas, whether ***rural*** or urban, its implications differ and depend on different factors such as the intensity and speed at which change occurs or whether it affects regions with net immigration or regions with a shrinking population; 6. Stresses the need to promote and support small and medium-sized mountain and ***rural*** farms which, by using traditional techniques and production methods that exploit natural resources – such as pastures and different types of forage crops – in an integrated and sustainable manner, produce products with specific quality characteristics and could serve to reverse or decrease depopulation in those areas; 7. Stresses that those demographic phenomena affecting the Union are not new, but have now increased with an unprecedented intensity, in particular as a result of social and economic pressures; draws attention to the steady increase in the number of elderly people – around 2 million people every year reach the age of 60 – which impacts on spatial, housing and transport planning and on other types of infrastructure and services; notes with concern that regions characterised by a sharp decline in working-age population will be particularly hard hit by demographic challenges; recognises that lack of investment, poor infrastructure, low connectivity rates, limited access to social services and a lack of jobs are key contributory factors to depopulation; stresses that demographic changes can have a considerable impact on pensions and on environmental sustainability in particular, as the depopulation of ***rural*** areas and increasing urbanisation affect eco-systems, nature conservation and the use of natural resources, with particular repercussions on urban land use, infrastructure, housing markets and greenery; 8. Considers that the gender dimension of demographic change should be taken into account in a cross-cutting manner, as regions experiencing demographic decline also suffer from gender and age imbalances due to out-migration; believes that the challenges presented by demographic change can and must be addressed within a policy framework propitious to gender equality, which is why gender must be factored into debates on all matters connected with demographic issues; considers, therefore, that the implementation of gender mainstreaming within all ESI Funds should be further strengthened in the future; 9. Recalls that the Europe 2020 Strategy addresses demographic challenges in most of its seven flagship initiatives, which were designed to overcome the problems of and establish vital priorities for the EU in the fields of employment, innovation, education, poverty reduction, and climate and energy; points out that a fundamental part of implementation of the strategy and its flagship initiatives is based on financial support through cohesion policy instruments, including provisions to tackle population change and aging, and that these dimensions need to be stressed in all European Union instruments; 10. Considers that the challenges of declining and aging populations will require objective, PE604.887v02-00 10/31 RR\1137559EN.docx EN thorough and comprehensive reassessments of many established economic, social and political policies and programmes, which will need to incorporate a long-term perspective; Coordination of EU policies 11. Calls for a greater coordination of EU instruments, in particular the common ***agricultural*** policy (CAP), ESI Funds, including the Cohesion Fund, European Territorial Cooperation, the European Fund for ***Strategic*** Investments (EFSI) and the Connecting Europe Facility, so as to ensure a more comprehensive approach to demographic change; suggests that, given that the mechanisms employed so far have not held back the advance of demographic imbalances, a review of existing policies and of the functioning of all such mechanisms is required; welcomes, in this context, the efforts made to maximise synergies between the ESI Funds and EFSI; calls on the Commission once more to propose a strategy on demographic change which prioritises the following fields: decent employment and good-quality industrial relations, paying special attention to new forms of work and their social role; the territorial aspect of policies promoting economic activity and employment; the promotion of infrastructure as a factor in business location, so territories facing demographic challenges become accessible and competitive; widespread ICT cover competitive as regards both quality and price in territories with a lower population density; the provision of basic welfare state services in territories facing demographic challenges; local public transport to ensure access to public services; policies designed to ensure a better balance between family and professional commitments, sustainable generational renewal and adequate care for dependent persons; policies on the reception, integration and return of migrants and refugees under international protection; and the extensive use of new, more attractive settings for conveying information about ***rural*** life; underlines the importance of existing initiatives such as the European Innovation Partnership on Active and Healthy Ageing, Ambient Assisted Living and the EIT Digital and Health Knowledge Innovation Communities; calls on the Commission to take into account the solutions already developed by these initiatives when addressing the demographic challenges faced by European regions; stresses the importance of the European Qualifications Framework for Lifelong Learning as a way of supporting education and training in areas at risk of depopulation; considers that the better regulation agenda should require the impact analysis conducted prior to any EU legislative initiative to include the effects the latter may have on demography; 12. Highlights the importance of the EU incorporating demographic considerations throughout the policy spectrum, including in its budget headings, in order to enable the development of these policies, particularly in cohesion, employment, ***agriculture***, environment, the information society, RDI (research, development and innovation), employment, education, social policy, and transport; considers that the findings of demographic impact reports need to be incorporated into the design of its policies and demographic criteria factored into the assessments of those policies’ outcomes and undesired effects with a view to favouring an approach to demographic change that includes the involvement of regional and local authorities; is of the opinion that special attention should be paid to ***rural*** areas which face these demographic problems particularly acutely; highlights, in this context, the potential of the Smart Villages initiative, whereby with modern technologies such as 5G and innovation, ***rural*** RR\1137559EN.docx 11/31 PE604.887v02-00 EN communities can be revitalised; stresses, in addition, the importance of strengthened cooperation between ***rural*** and urban areas; highlights the importance of providing universal access to high-quality and affordable public services and infrastructures, including digital public services and infrastructures, particularly for children, young people and the elderly, in order to foster social inclusion, ensure gender equality and alleviate the effects of demographic change; stresses the importance of providing new opportunities for paid employment, particularly in areas at risk of depopulation, in order to preserve communities and create the conditions to facilitate a satisfactory life-work balance; considers it important to insist on a global geographical vision for urban and ***rural*** areas as complementary functional spaces; stresses that greater integration between the various funds is needed, in order for there to be genuine participatory and sustainable local development; points out that EU demographic policy should aim to be more complete and more coordinated with Member States and horizontally; recalls that the European Union does not just contribute funds for regional development but also shapes to a large extent the capacity of local and regional authorities to use their own funds to combat social territorial inequalities; stresses that even if, as a result of modernising state aid, those exceptions for which notification is not required have been simplified and increased in number, the current framework is still very complex and burdensome for smaller regional and local authorities; considers that, even if public procurement regulations were simplified in 2014, there are still too many obstacles for small local and regional authorities to be able to improve the economy of these sensitive areas; 13. Considers that that the EU should support migration and inclusion policies in the Member States, by respecting the rights and competencies of those Member States, as well as the subsidiarity principle, in order to minimise negative demographic trends; highlights the significant role of family-creating and family-supporting policies; considers that local and regional bodies should be authorised to implement successfully integration policies on the ground; takes the view that local and regional authorities should be active participants in measures taken to address demographic challenges; calls for the annual growth survey and the country-specific recommendations to consider regional disparities and imbalances between regions within the Member States; believes that in border regions such cooperation must reflect both the demands and scope for cross-border initiatives; suggests that training programmes be developed in this field in order to create a better understanding and greater awareness of the issues involved; considers that tackling demographic problems must have an integral throughout Europe and that solving a problem in one part of the continent should not have negative effects on other areas in Europe; calls for the creation, at a pan-European level, of networks for the exchange of good practices and experiences through which local and regional authorities, as well as civil society stakeholders, can educate each other on addressing issues created by demographic change; Enhancing the effectiveness of European funds 14. Stresses that ESI Funds must address demographic change more effectively in the next programming period, by means of: a greater, better targeted focus on demographic change as a priority area in final regulations and in guidelines to support Member States, regions and local governments, exploring the potential of ESI Funds for the purposes of addressing demographic change and devising and implementing association PE604.887v02-00 12/31 RR\1137559EN.docx EN agreements and operational programmes; a more proactive approach in demographic policy-making and the exchange of good practices and experiences for institutional learning; technical support for managing authorities and local stakeholders in implementing effective policies addressing demographic change at both national and regional levels; and the obligatory active participation of local authorities in the design, management and in-house evaluation of programmes implementing funds and the necessary identification of regions faced with demographic challenges at NUTS 3 and LAU level; encourages the provision of technical support and training for local stakeholders and the managing authorities for the purposes of implementing effective policies addressing demographic change at national, regional and local level; takes the view that, in some Member States, subsidies at NUTS 2 level often conceal socio-territorial, intra-regional and even supra-regional inequalities; calls for the EU’s maps to use a scale sufficient to reflect territory-related problems so that they may help target support to the most disadvantaged areas; 15. Asks that the European Regional Development Fund (ERDF) make a greater contribution to and provide more support towards helping areas with high aging, rurality and population outflow indices to improve their transport and telecommunications infrastructure, bridge the digital divide (including between generations), and enjoy better public services; stresses, in this context, the importance of the field of e-health; calls on the Member States and regions to better target available investments to address demographic changes and their impact; 16. Urges the Commission to use cohesion policy measures to put a brake on increasing migration out of sparsely populated regions, where adequate infrastructure and an adequate level of services are essential preconditions, particularly for retaining families with children; 17. Stresses that the European Social Fund (ESF) should step up its work in training and educating young people, and should promote employability and help people strike a better work-life balance and combat the social and digital exclusion of elderly persons; stresses, furthermore, that the fund should improve employment prospects through preparatory programmes for the inhabitants of declining regions, and by boosting the social and digital inclusion of women, young people and senior citizens in those areas; points out, in that connection, that care will be taken, when using the ESF to support the outermost regions, to ensure a better balance between working and family life; calls on the Commission to consider setting up a specific envelope, within the scope of existing funds, dedicated to addressing areas experiencing severe and permanent demographic disadvantages; asks for the fund to be disbursed according to arrangements which prioritise lines of action in the short, medium and long term; stresses the importance of including the Cohesion Fund in future strategies to address demographic change, recalling that the fund was established with a view to strengthening the EU’s economic, social and territorial cohesion; considers it important for far greater support to be provided through the ESF for small organisations which develop and run innovative social projects, as well as pan-EU transnational pilot projects that address social and employment issues, so as to facilitate innovative regional, cross-border, transnational and macro-regional cooperation

and hence respond to the challenges created by demographic change; RR\1137559EN.docx 13/31 PE604.887v02-00 EN 18. Regrets the fact that, as highlighted by the European Court of Auditors Special report No 5/2017, the EU Youth Guarantee, which should be aimed at helping young people without jobs, training or education, has made limited progress, and its results have fallen short of initial expectations; 19. Takes the view that, with a view to avoiding territorial divides, the EFSI should benefit regions with the most unfavourable demographic dynamics by means of greater investment in EU priority areas such as energy, transport, education, business, innovation research, SMEs, education or social infrastructure; takes the view that consideration of a special status for demographically disadvantaged regions should be discussed in the development of post-2020 cohesion policy; The future of cohesion policy to address demographic change 20. Believes that cohesion policy provides the right tools with which to address demographic change, especially in connection with other EU, national and regional policies, both in respect of population aging and population loss, and should therefore play a more prominent role to support regions and provide flexibility in adapting to demographic change; believes that this should also be reflected in the fund-specific regulations in addressing demographic change, as part of its explicit remit under Article 174 TFEU; calls for a precise definition of the notion of ‘severe and permanent demographic handicaps’ referred to in Article 174 TFEU and Article 121 of Regulation (EU) No 1303/2013 that would enable demographic challenges to be statistically quantified; highlights the importance of urban-***rural*** linkages, and invites the Commission to reflect on the opportunity to complement integrated sustainable urban development strategies with partnerships for sustainable urban-***rural*** development; considers that the Commission should take proactive measures to prevent the adverse effects of demographic change and provide technical assistance to the regions most affected by depopulation; 21. Stresses that cohesion policy should promote the employability and inclusion of women, especially mothers who struggle with finding employment; calls, therefore, for women to be given access to training and learning programmes; points out, however, that the qualifications obtained should respond to labour market needs; stresses the importance of helping young mothers to return to work by providing reliable all-day childcare facilities for children of all ages, including facilities for pre-school learning, in order to stop depopulation; 22. Believes that in order to address demographic challenges, the regions should use ESI Funds more proactively in order to tackle youth unemployment and give young people the opportunity to start a proper career; notes that this could be achieved by supporting training programmes and entrepreneurship for young people; 23. Calls for the establishment of a legal framework within the future Common Provisions Regulation (CPR) in order to recognise regions facing severe and permanent demographic challenges; stresses the need for a more proactive and dedicated approach to demographic policy-making, as regional divergence in demographic patterns will most likely produce a substantial unequal socio-economic impact on European territories, which might further increase regional disparities in the EU; calls for the strengthening and administrative streamlining of the new instruments for enhancing the PE604.887v02-00 14/31 RR\1137559EN.docx EN bottom-up approach and multi-level governance – such as community-led local development (CLLD) and integrated territorial investment (ITI) – so as to increase local and regional involvement as part of an integrated and holistic approach to regional development; calls for the creation of portal-based services, which will help existing ***rural*** businesses to connect better with their urban-based counterparts; highlights the importance of taking greater account, under the future cohesion policy, of specific territorial characteristics which manifest themselves at sub-regional levels; stresses that a lack of capacity and robust governance within many local and regional authorities is a major obstacle to the success of EFSI programmes and demands, in this connection, capacity-building instruments; 24. Invites the Commission to consider defining new criteria with which to distinguish territories facing demographic challenges by means of demographic, economic, environmental-impact and accessibility variables, and to conduct studies on potential socio-economic and environmental ***indicators*** to complement the GDP ***indicator*** with criteria including social capital, life expectancy and quality of the environment; considers that GDP and population density are not ***indicators*** which are in themselves sufficient to classify territories with severe and permanent demographic handicaps; asks the Commission to incorporate into cohesion policy, in addition to the GDP ***indicator***, new, dynamic ***indicators***, such as a demographic ***indicator***, and in particular the EU Regional Social Progress Index, so as to provide a more complete picture of the specific challenges facing these regions, or to consider an additional allocation for these regions similar to that for sparsely populated areas in the current programming period (CPR Annex VII, point 9); stresses the need for specific tools to monitor and evaluate the potential and real impact of ESI Funds in addressing demographic change by drafting guidelines for the subsequent development of relevant demographic ***indicators***; stresses the importance of having reliable, up-to-date, disaggregated statistics for the purposes of a more efficient and objective political administration, particularly for a more detailed understanding of the intrinsic features of the EU’s various sparsely populated areas; calls, therefore, for Eurostat to provide greater detail in statistics of relevance for devising a suitable European demographic policy, especially demographic, family-related, social and economic ***indicators***, and thus urges them to be broken down at least at a sub-regional – i.e NUTS III – level; 25. Considers that the future cohesion policy should include specific measures for the areas most affected by demographic challenges, and allow for greater flexibility in setting thematic objectives or co-financing rates, with a view to coordinating inter-regional and intra-regional strategies within the same Member State, with local participation; calls on the Commission to consider a national strategy for demographic development as a new ex-ante conditionality; 26. Calls on the Commission to incorporate a flagship initiative on demographics into the Europe 2020 strategy, financed by existing ESI funds and comprising a raft of measures in three categories: smart growth, by means of action to help regions affected by demographic challenges in the field of ICT, RDI and SMEs; inclusive growth, by means of specific action to encourage young people to remain in their region, ensuring sustainable generational renewal, self-employment and social inclusion measures for migrants and refugees under international protection; and sustainable growth, by means of measures to help these regions invest in the green economy, including sustainable RR\1137559EN.docx 15/31 PE604.887v02-00 EN transport systems; welcomes the EU Action for Smart Villages, which calls for policies to pay particular attention to overcoming the digital divide between ***rural*** and urban areas and to tap into the potential offered by the connectivity and digitisation of ***rural*** areas, and which supports the Smart Island Initiative as a bottom-up effort on the part of the European island authorities and communities seeking to improve life on islands through sustainable and integrated solutions; 27. Considers that the post-2020 multiannual financial framework should give a forceful, decisive impetus to efforts to address demographic challenges, taking into account the current demographic situation and trends, and must incorporate the promotion of solutions using targeted measures such as a budget item in funding, where appropriate; calls for services and infrastructure reinforcing social and digital inclusion to be strengthened under the second pillar of the CAP, intended to foster ***rural*** development and financed under the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD), and for a reversal of trends towards social and economic decline and depopulation in areas with severe and permanent demographic handicaps; calls on national, regional and local authorities to exchange experience, best practices and new approaches to preventing the negative consequences of demographic change; believes that the trans-European transport networks (TEN-T) and the motorways of the sea (MoS) should serve areas with severe and permanent demographic handicaps; 28. Underlines the added value of the single community-led local development (CLLD) methodology across all ESI Funds for developing and implementing integrated and tailor-made bottom-up solutions; regrets the fact, however, that CLLD is only mandatory for the EAFRD and that local and participatory approaches are declining in the ERDF, ESF and European Maritime and Fisheries Fund (EMFF); calls on the Commission, therefore, to make the use of CLLD obligatory across all ESI Funds; ° ° ° 29. Instructs its President to forward this resolution to the Council and the Commission. PE604.887v02-00 16/31 RR\1137559EN.docx EN EXPLANATORY STATEMENT Demographic change is one of the major challenges that European regions have to face now and in the near future. Projection figures published by EUROSTAT show an ageing Europe, as the share of the working-age population is expected to decrease in size from 65.5% of the total population in 2015 to 56.2% in 2080, while the proportion of over-65 persons will increase, from 18.9% in 2015 to 28.7% in 20801. In other words, the current ratio of working-age to older population will decrease from around 4 to 1 currently to 2 to 1 in 2080. In parallel, the overall European population is expected to grow more slowly than before until 2050 and then decline gradually to reach a low by 2075. Over the period 2008-2030, one region out of three – mostly located in Central Europe, Eastern Germany, Southern Italy and Northern Spain – is projected to experience population decline2. The rapporteur wishes to point out here some of the most significant issues that those demographic phenomena raise for EU territories at regional and local level. It should be underlined that the demographic challenges of the European Union are neither new nor unknown. What is unique today is the intensity of these processes and the problems that are being generated in those regions where several or all of them occur, reinforcing each other. 1. Identification of the territories subject to demographic change in the European Union and of the challenges that they face One of the first challenges for the definition of a demographic policy at European level is that it needs to take into account all the territories of the Member States facing serious demographic disadvantages and imbalances as well as their characteristics and special features. This requires a rigorous identification of demographic phenomena and of the equilibriums for a given population and a territory. Four basic issues can be identified in the demographic evolution of EU regions which represent the main challenges of the European Union in this area, especially when they occur in a cumulative way, as it is the case in many territories, exacerbating some of their most negative effects. The first challenge is low density. It is a well-known phenomenon which covers two realities that can concur in certain territories: on the one hand, there is the historical reality of the regions with a model of balance between a population and a territory characterized by low density, as a consequence of their specific features (physical, demographic, political, etc.); on the other hand, it can take the form of a recent but sustained process of decrease in density, which is changing the historical conditions of settlement of people. One of the phenomena associated with such processes is territorial polarization: population accumulates in certain centres while a large part of the dependent zones empty. Therefore, it is important to analyse low density phenomena at the appropriate scale. In this respect, level NUTs 3 is more appropriate than the level NUTs 2 and, in many cases, the challenges of the demographic density are more evident when the scale of the LAUs is taken into account. The second challenge is population ageing. As in the previous case, this is a demographic phenomenon known and widespread in the European Union, from which we can also 1 Eurostat, Eurostat Yearbook, 2016 edition. 2 European Parliament, DG IPOL, Policy Department B, REGI (2013), ‘How can regional and cohesion policies tackle demographic challenges?’, p. 21. RR\1137559EN.docx 17/31 PE604.887v02-00 EN differentiate two different scenarios, by their nature and intensity: in some cases, it is the result of a gradual process of demographic transition; in others, it is due to a greater extent to the destructuring of the population pyramid, so that the increase in life expectancy is accompanied by an emigration of the young and adult population and a drop in birth rate and child population. The third issue, or challenge, is the fall of birth rates, which entails a drastic decrease of the infant and young population and, therefore modifies the expectations in terms of replacement and the medium-term balance of the dependency ratio. It is not a new phenomenon, but in some regions the process does not seem to stabilize. Finally, the fourth challenge is the continued loss of population. It is a phenomenon derived to a great extent from the previous ones and that intensifies, where it occurs, the other demographic issues. In many regions of the Union, and in even more numerous local entities, a serious and continuing process of depopulation is taking place, due to both natural dynamics and migratory movements. Thus, there are regions in which negative balances have accumulated for years, resulting in the loss of a very important share of the population. Depopulation and low density should not be confused, as the former is occurring both in sparsely populated areas and in densely populated areas. Similarly, some regions with low density are not experiencing a process of depopulation, but remain in their historical balances. The NUTs, as a scale of demographic analysis, allow to cover a large part of the demographic problems that the European Union territories face. Those issues become even more obvious when the LAUs are taken as a reference. The available technical means allow any scale of analysis, however it should be recalled that policies are more dependent on political structures. 2. Implications of these demographic challenges on policy areas The rapporteur is conscious that, due to its significant social, economic and environmental impact on local development, demographic change creates new challenges in many policy areas for the concerned European regions, while also creating new development opportunities at the same time. Those challenges have increasingly been a focal point of debates on the future of the EU. Regions have to adapt service provision, infrastructures and policy-making to those demographic patterns and trends. Effective policy ***intervention*** is needed, in particular in the following areas. a. Employment At a certain scale, there is a strong correlation between population and employment, for instance at the level of a region or a province. The movements of the population are only the permanent adjustment of the demographic structure to the productive structure. At the local or regional level, the same cannot be said, because there may be incentives for the population to have their residence at a certain distance from the workplace or, on the contrary, there might be obstacles to establish it in the same locality or its surroundings. In general terms, it is a balance between accessibility of housing, services, leisure and other intangibles, such as the cost of commuting to the place where such opportunities can be found in sufficient quantity and quality. The precarity of the employment of the young population, as well as the long hours that they put in their work does not foster the recovery of birth rates. The new forms of employment - more precarious, less stable - advocate greater geographical mobility of the PE604.887v02-00 18/31 RR\1137559EN.docx EN population. Since the future of employment may be affected by the incorporation of technology and artificial intelligence into production processes, a greater flexibility of the territorial link between employment and population could occur. b. Urban and ***rural*** planning Some regions are experiencing a phenomenon of polarisation, with the depopulation of ***rural***/remote areas while population is concentrating in urban and metropolitan centres. Those trends are accelerating since the economic crisis. Those areas need to adapt since demographic changes shape new demands for local development, with consequences on housing, transport, mobility and education. In parallel, one can identify an ‘agglomeration’ effect: if economy is not managed, productivity demands and the propensity to maximize profits tend to lead to the concentration of economic activities in a few places, creating agglomerations that at a certain level can lead to diseconomies. Those diseconomies have a greater impact on public budgets and families than on companies, which is why it is difficult to curb this drift to a socially “optimal” scale. This trend towards concentration of investments, which can be observed at national, regional and provincial levels, leads to the agglomeration of the population in very few points and to the desertification of large territories. But the agglomeration effect itself constitutes a factor of attraction of the population for the apparent accessibility to public and commercial services, and because the accumulation of labour demand in a given territory creates expectations of quality employment opportunities and social mobility. c. Infrastructures Infrastructures are a key factor for the localisation of investments because they allow access to the markets of products supply and sale. Communication technologies allow, in certain markets, to circumvent the disadvantages of geography. However, it requires full coverage with competitive conditions for quality and price, what do not currently exist. Infrastructures also facilitate access to services, and particularly ICTs, which open the door to the virtual world and its opportunities without limits or borders. They are undoubtedly a relevant factor in attracting and retaining people on a territory. d. Provision of services The consumer society has consolidated the association of accessibility to services, both social and commercial, with quality of life. The provision of services, both public and private, establishes a vicious circle with the size of the population: shrinking population leads to less services and jobs available to the population and, in the end, emigration because of the lack of services and employment opportunities. Disruptive policies in relation to this variable needs to deal with the commercialisation of services, the establishment of very flexible systems of public transport, as well as with fiscal policies that compensate for the costs of mobility, and with incentives in favour of itinerant services for ***rural*** areas, or of services located in small centres. On-line services in the field of health, social services, education or culture can have a compensatory effect, but also stresses the lack of direct personal services. Their implementation will require, where appropriate, active policies for adaptation to this delivery mode. e. Transport RR\1137559EN.docx 19/31 PE604.887v02-00 EN In a depopulated environment with strong dispersion of people, public transport is as difficult to sustain as it is necessary to guarantee the inclusiveness of the inhabitants. There is a need for both flexibility and stability in the provision of those services. Those are unprofitable services for the private economy that require a significant support of public budget. Experimentation of public-private cooperation should be envisaged in this area. 3. The importance of cohesion policy to tackle demographic challenges In this context, the rapporteur would like to highlight the importance of cohesion policy measures as they are often the main provisions that address demographic challenges at the regional and local levels and often complement national and regional strategies. Among others, she considers that: 1. there is a need for greater coordination of EU instruments to ensure a more comprehensive approach to demographic change: the potential of cohesion policy ***interventions*** has been limited by the lack of a cross-cutting European strategy addressing demographic challenges; 2. the activities promoted by the structural funds should benefit from better integration and greater flexibility to enhance complementarities and consistency in tackling demographic change; 3. there is a need to further explore the potential of structural funds in addressing demographic change. Greater and more specific focus should be put on demographic change as a priority area in the guidance on structural and investment funds; 4. the issues raised by demographic change need to be addressed by the local and regional authorities, together with the Member States and the European institutions: those different levels have all a role to play to ensure the policies and strategies are aligned and to exchange best practices on the topic; 5. the rapporteur would also like to stress the importance of continuing to raise awareness at all levels of the significance of the challenges related to demographic change for the European Union and of the potential of the structural funds in tackling demographic change. PE604.887v02-00 20/31 RR\1137559EN.docx EN 22.6.2017 POSITION IN THE FORM OF AMENDMENTS OF THE COMMITTEE ON WOMEN’S RIGHTS AND GENDER EQUALITY for the Committee on Regional Development on deployment of cohesion policy instruments by regions to address demographic change Rapporteur: Arne Gericke (2016/2245(INI)) AMENDMENTS The Committee on Women’s Rights and Gender Equality calls on the Committee on Regional Development, as the committee responsible, to take into account the following amendments: Amendment 1 Draft report Recital E a (new) Draft report Amendment Ea. whereas women, and especially single mothers, are more exposed to poverty and exclusion; Amendment 2 Draft report Recital E b (new) Draft report Amendment Eb. whereas access to childbirth services, adequate maternal healthcare infrastructures and the guarantee of safe RR\1137559EN.docx 21/31 PE604.887v02-00 EN childbirth is lacking in ***rural*** areas; Amendment 3 Draft report Recital E c (new) Draft report Amendment Ec. whereas the role of women in ***agriculture*** and family-owned farms is still an important, invisible and in many cases unpaid one; Amendment 4 Draft report Recital G a (new) Draft report Amendment Ga. whereas women are more exposed to poverty and social exclusion than men – all the more so when they are aged over 60; Amendment 5 Draft report Recital G b (new) Draft report Amendment Gb. whereas gender equality is a fundamental right, a common value of the PE604.887v02-00 22/31 RR\1137559EN.docx EN EU and a necessary condition for the achievement of the EU objectives of growth, employment and social cohesion; Amendment 6 Draft report Recital G c (new) Draft report Amendment Gc. whereas gender equality represents an important tool for economic development and social cohesion; Amendment 7 Draft report Recital J a (new) Draft report Amendment Ja. whereas the negative demographic change increases the demand for stronger solidarity between generations; Amendment 8 Draft report Paragraph 1 a (new) Draft report Amendment 1a. Underlines the crucial role of high-quality public and private services, especially for women; underlines the RR\1137559EN.docx 23/31 PE604.887v02-00 EN importance of accessible high-quality and affordable public and private services as a tool for ensuring gender equality; Amendment 9 Draft report Paragraph 2 a (new) Draft report Amendment 2a. calls on the Member States and the Commission to take into account the effects of different policies on gender equality and demographic change; Amendment 10 Draft report Paragraph 3 a (new) Draft report Amendment 3a. Recalls the decision of the European Ombudsman in Case OI/8/2014/AN on respect for fundamental rights in the implementation of EU cohesion policy; Amendment 11 Draft report Paragraph 3 b (new) PE604.887v02-00 24/31 RR\1137559EN.docx EN Draft report Amendment 3b. Calls on the Commission and the Member States to actively use the European Structural Funds as tools for enhancing gender equality; Amendment 12 Draft report Paragraph 7 a (new) Draft report Amendment 7a. Calls on the Member States and the Commission to carry out a gender analysis and to work with gender budgeting with the aim of achieving gender-equal allocation of financial resources; Amendment 13 Draft report Paragraph 7 a (new) Draft report Amendment 7a. Considers that the challenges of declining and ageing populations will require objective, thorough and comprehensive reassessments of many established economic, social and political policies and programmes, which will need to incorporate a long-term perspective; RR\1137559EN.docx 25/31 PE604.887v02-00 EN Amendment 14 Draft report Paragraph 7 b (new) Draft report Amendment 7b. Points out that women within marginalised communities face multiple discrimination, putting them at even greater risk of poverty and social exclusion, especially in accessing employment, education, healthcare and social services; Amendment 15 Draft report Paragraph 7 c (new) Draft report Amendment 7c. Calls on the Commission and the Member States to see intergenerational dialogue and solidarity between generations as a tool for achieving equality between women and men; Amendment 16 Draft report Paragraph 7 d (new) PE604.887v02-00 26/31 RR\1137559EN.docx EN Draft report Amendment 7d. Points out that the female unemployment rate is underestimated given that many women are not registered as unemployed, particularly those who live in ***rural*** or remote areas or help out in family businesses and farms; Amendment 17 Draft report Paragraph 7 e (new) Draft report Amendment 7e. Calls on the Member States and the Commission to promote women’s entrepreneurship in ***rural*** areas; Amendment 18 Draft report Paragraph 7 f (new) Draft report Amendment 7f. Emphasises the need for facilities providing childcare and care for other dependants to be available throughout ***rural*** areas, and urges the Commission to support the Member States, including through the provision of available EU funding, in creating such facilities in a form that is accessible to all; RR\1137559EN.docx 27/31 PE604.887v02-00 EN Amendment 19 Draft report Paragraph 8 a (new) Motion for a resolution Amendment 8a. Calls on the Commission and the Member States to adopt family mainstreaming as the underlying principle of all policy proposals; Amendment 20 Draft report Paragraph 10 a (new) Draft report Amendment 10a. Stresses the importance of local and regional authorities in implementing policies and measures that would provide employment and self-employment possibilities, especially for women, which would stem the trend of out-migration; Amendment 21 Draft report Paragraph 14 a (new) Draft report Amendment 14a. Calls on the Commission to use PE604.887v02-00 28/31 RR\1137559EN.docx EN regional funds to improve decentralised birth care; RR\1137559EN.docx 29/31 PE604.887v02-00 EN INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION Date adopted 20.6.2017 PE604.887v02-00 30/31 RR\1137559EN.docx EN INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE Date adopted 9.10.2017 Result of final vote +: –: 0: 28 6 0 Members present for the final vote Franc Bogovič, Andrea Cozzolino, Rosa D’Amato, John Flack, Iratxe García Pérez, Krzysztof Hetman, Marc Joulaud, Louis-Joseph Manscour, Martina Michels, Iskra Mihaylova, Jens Nilsson, Andrey Novakov, Paul Nuttall, Konstantinos Papadakis, Mirosław Piotrowski, Stanislav Polčák, Liliana Rodrigues, Maria Spyraki, Ruža Tomašić, Ángela Vallina, Monika Vana, Matthijs van Miltenburg, Lambert van Nistelrooij, Derek Vaughan, Joachim Zeller Substitutes present for the final vote Daniel Buda, Andor Deli, Raffaele Fitto, John Howarth, Ivana Maletić, Tonino Picula Substitutes under Rule 200(2) present for the final vote James Carver, Esther Herranz García, Susanne Melior RR\1137559EN.docx 31/31 PE604.887v02-00 EN FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE 28 + ECR Raffaele Fitto, John Flack, Mirosław Piotrowski, Ruža Tomašić EFDD Rosa D'Amato GUE/NGL Martina Michels, Ángela Vallina PPE Franc Bogovič, Daniel Buda, Esther Herranz García, Krzysztof Hetman, Marc Joulaud, Ivana Maletić, Andrey Novakov, Stanislav Polčák, Maria Spyraki, Joachim Zeller, Lambert van Nistelrooij S&D Andrea Cozzolino, Iratxe García Pérez, John Howarth, Louis-Joseph Manscour, Susanne Melior, Jens Nilsson, Tonino Picula, Liliana Rodrigues, Derek Vaughan VERTS/ALE Monika Vana 6 - ALDE Iskra Mihaylova, Matthijs van Miltenburg EFDD James Carver, Paul Nuttall NI Konstantinos Papadakis PPE Andor Deli 0 0 Key to symbols: + : in favour - : against 0 : abstention

**Load-Date:** December 13, 2017

**End of Document**



[***P8\_TA(2015)0384 Cohesion policy and review of the Europe 2020 strategy European Parliament resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy (2014/2246(INI))***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PT4-N491-F0YC-N4X9-00000-00&context=1516831)

Impact News Service

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**Body**

Brussels: Official Journal of the European Union has issued the following notice:

P8\_TA(2015)0384

Cohesion policy and review of the Europe 2020 strategy

European Parliament resolution of 28 October 2015 on cohesion policy and the review of the Europe 2020 strategy (2014/2246(INI))

(2017/C 355/05)

The European Parliament,

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| ? | having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Articles 4, 162 and 174 to 178 thereof, |

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| ? | having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (hereinafter ?the Common Provisions Regulation?) (1), |

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| ? | having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 (2), |

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| ? | having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006 (3), |

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| ? | having regard to Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal (4), |

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| ? | having regard to Regulation (EU) No 1302/2013 of the European Parliament and of the Council of 17 December 2013 amending Regulation (EC) No 1082/2006 on a European grouping of territorial cooperation (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings (5), |

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| ? | having regard to Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006 (6), |

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| ? | having regard to Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 (7), |

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| ? | having regard to the Commission?s sixth report on economic, social and territorial cohesion entitled ?Investment for jobs and growth: Promoting development and good governance in EU regions and cities?, of 23 July 2014 (hereinafter ?the sixth cohesion report?), |

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| ? | having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (8), |

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| ? | having regard to the Commission?s eighth progress report on economic, social and territorial cohesion entitled ?The urban and regional dimension of the crisis?, of 26 June 2013, |

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| ? | having regard to its resolution of 14 January 2014 on smart specialisation: networking excellence for a sound Cohesion Policy (9), |

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| ? | having regard to its resolution of 14 January 2014 on EU Member States preparedness to an effective and timely start of the new Cohesion Policy Programming period (10), |

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| ? | having regard to its resolution of 26 February 2014 on the European Commission?s 7th and 8th progress reports on the EU Cohesion Policy and the ***Strategic*** Report 2013 on programme implementation 2007-2013 (11), |

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| ? | having regard to its resolution of 27 November 2014 on delays in the start-up of cohesion policy for 2014-2020 (12), |

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| ? | having regard to the Commission communication of 3 March 2010 entitled ?Europe 2020 ? A strategy for smart, sustainable and inclusive growth? (COM(2010)2020), |

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| ? | having regard to the Commission communication of 19 October 2011 entitled ?A framework for the next generation of innovative financial instruments ? the EU equity and debt platforms? (COM(2011)0662), |

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| ? | having regard to Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (13), |

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| ? | having regard to the Commission communication of 13 January 2015 entitled ?Making the best use of the flexibility within the existing rules of the stability and growth pact? (COM(2015)0012), |

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| ? | having regard to the Council conclusions on the sixth report on economic, social and territorial cohesion: investment for jobs and growth, adopted by the General Affairs (Cohesion) Council on 19 November 2014, |

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| ? | having regard to the opinion of the Committee of the Regions of 3 December 2014 on the sixth report on economic, social and territorial cohesion (14), |

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| ? | having regard to the working document entitled ?Blueprint for a revised Europe 2020 strategy: Contribution of the Steering Committee of the Committee of the Regions? Europe 2020 Monitoring Platform? (15), |

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| ? | having regard to the opinion of the European Economic and Social Committee of 21 January 2015 on the Commission?s sixth cohesion report (16), |

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| ? | having regard to the Commission communication of 2 March 2015 entitled ?Results of the public consultation on the Europe 2020 strategy for smart, sustainable and inclusive growth? (COM(2015)0100), |

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| ? | having regard to the Commission communication of 13 January 2015 entitled ?Making the best use of the flexibility within the existing rules of the Stability and Growth Pact? (COM(2015)0012), |

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| ? | having regard to Rule 52 of its Rules of Procedure, |

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| ? | having regard to the report of the Committee on Regional Development (A8-0277/2015), |

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| A. | whereas cohesion policy is the EU?s main investment growth and development policy aligned with the goals of the Europe 2020 strategy for smart, sustainable and inclusive growth and aimed at reducing disparities between regions and promoting convergence, with a budget of EUR 351,8 billion until the end of 2020; whereas the EU continues to face the effects of the economic and financial crisis ? high unemployment, uneven and slow pace economic recovery; and whereas cohesion policy seeks to ensure that all energies and capacities are mobilised and focused on the pursuit of the Europe 2020 strategy?s objectives of sustainable growth and jobs; |

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| B. | whereas it is crucial that different EU initiatives for growth and jobs, as well as environment and climate protection, maintain a coherent approach; whereas the Europe 2020 strategy flagship initiatives play a key role in enhancing coordination at local and regional level as regards the implementation of cohesion policy; whereas there is no explicit mechanism built into the programming or the reporting provisions that would explicitly target flagship initiatives in terms of the contribution of the European Structural and Investment Funds (ESI Funds) to their delivery; whereas the Europe 2020 strategy review will need to address the implementation of the flagship initiatives and aim for a balance between financial, fiscal and economic measures on the one hand and social, educational, environmental and equality (especially gender equality) aspects on the other; |

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| C. | whereas there is a growing need for stronger co-ownership of the strategy by the different levels of governance and by the different actors involved, and for shared responsibility with the corresponding rights and obligations at all levels of implementation; whereas multi-level governance and partnership must be enhanced, as these principles have the potential to address the lack of administrative capacity; |

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| D. | whereas the goals of cohesion policy have unquestionably evolved over time to support investment in the main EU priorities, demonstrating their adaptability and effectiveness, while maintaining the reduction of disparities between the levels of development of the various regions as the central objective, strengthening regions? potential and promoting sustainable development; whereas the European Fund for ***Strategic*** Investments brings new elements to the overall EU strategy aimed at creating innovative, sustainable and inclusive growth and skilled jobs; |

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| E. | whereas the review of the Europe 2020 strategy should take account of the serious, uneven effects the economic and financial crisis has had on the Member States and regions and be smart and balanced for reasons of coherence and effectiveness; whereas it might nevertheless consider other measures, such as infrastructure, internal market and administrative capacity measures; whereas different territorial characteristics should be taken into account, with special attention being given to the EU?s regions mentioned in Articles 174 and 349 of the TFEU; |

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| F. | whereas the mid-term review of the Europe 2020 strategy, though delayed in 2015, affords above all an opportunity to assess (and acknowledge) the contribution of cohesion policy to achieving the strategy?s targets and to improve existing interactions and links between various EU policies and with the EU budget, with a view to them acting as an effective driving force for the implementation of the strategy; whereas this stage is essential for shaping future cohesion policy, as an EU-wide investment policy, while prioritising the reduction of development disparities and re-accelerating the convergence process; |

The Europe 2020 strategy and its interrelationship with cohesion policy

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|  | 1. | Recalls that the Europe 2020 strategy is an overarching, long-term ?growth and jobs? strategy of the European Union, built around five ambitious objectives: employment, innovation, climate change and energy sustainability, education, and fighting poverty and social exclusion; notes that the objectives are accompanied by seven flagship initiatives and notes that the challenges identified in 2010 have been unevenly addressed and that progress at EU level towards achieving some of them, such as fighting unemployment, is still moderate; emphasises that the EU should concentrate on sustainable growth and development, as well as on decent jobs in order to gain long-term benefits from its investments; |

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|  | 2. | Highlights the fact that progress in gender equality could also contribute to economic growth, sustainable development and social cohesion; |

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|  | 3. | Points out that an EU economic governance framework and its implementation mechanism, the ?European Semester?, were established in 2010 to ensure coordination of Member States? fiscal policies, structural reforms and better alignment of national budgetary policies on growth and jobs at EU and national level, in order to support the delivery of the strategy; draws attention to the fact that further coordination and synchronisation challenges still remain to be addressed; |

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|  | 4. | Stresses that cohesion policy for 2007-2013, aligned with the predecessor Lisbon Strategy and having similar core objectives, was already in the implementation phase when the Europe 2020 strategy was launched, and that reprogramming in accordance with the new strategy objectives would therefore have been both difficult and counterproductive; points out, nevertheless, that, at a time of global economic crisis, cohesion policy has not only been the sole source of investment for many Member States, but has also, through ?Lisbon earmarking?, substantially supported and contributed to countries? policies for the implementation of the strategy, as shown by the sixth cohesion report and by several Commission communications and studies; recalls that the Lisbon Strategy lost the commitment of Member States, regions and cities over time, and that Europe 2020 governance is particularly consistent with cohesion policy principles and instruments, which can ensure a co-ownership commitment on the implementation of the strategy; |

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|  | 5. | Calls on the Commission, in the context of the ex-post evaluations for the 2007-2013 programming period, to provide information on both the output and result orientation and the concrete contribution made to the Europe 2020 objectives by cohesion policy; stresses the importance of understanding the realities and limitations of the available evidence on cohesion policy?s contribution to the overarching objectives of the strategy and of considering the upheavals which the EU economies have suffered, especially in the case of those countries severely hit during the crisis; appreciates that those conclusions could be useful for the current delivery of the strategy; |

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|  | 6. | Emphasises that cohesion policy is the main EU instrument, covering all regions, for investment in the real economy and acts as the expression of European solidarity by extending growth and prosperity and reducing economic, social and territorial disparities; points out that cohesion policy is fully aligned with the Europe 2020 objectives and provides the investment framework needed, without being simply a tool for its implementation; stresses, in this context, that through thematic concentration the ESIF under the new architecture are oriented towards 11 thematic objectives derived straight from the Europe 2020 objectives, and that preconditions linked directly to these thematic objectives have been established in order to ensure that investments are made in such a way as to maximise their effectiveness; underlines its full support for this new approach, which will contribute to increasing the effectiveness of spending; |

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|  | 7. | Underlines the fact that cohesion policy is developing synergies with other EU policies such as the digital single market, the energy union, the single capital market and social policy and that, through all its instruments and objectives, including macro-regional strategies, the urban agenda, the territorial agenda, investment in SMEs, smart growth and smart specialisation strategies, it is substantially contributing to the strengthening of the single market and achieving Europe 2020 strategy targets; calls in this context on national and regional authorities across Europe to design smart specialisation strategies and exploit synergies between different EU, national and regional instruments, both public and private; |

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|  | 8. | Points to the connection with a broader economic governance process through measures linking the effectiveness of the ESI Funds to sound economic governance; calls on the Member States to act with full responsibility in order to avoid their application to the greatest possible extent and to prevent negative impacts on the implementation of the ESIF and on the attainment of cohesion policy goals; stresses furthermore, that support should be provided to Member States experiencing temporary budgetary difficulties; welcomes the flexibility mechanisms within the existing rules of the Stability and Growth Pact (COM(2015)0012) aimed at strengthening the link between investment, structural reforms and the use of resources in order to promote long-term sustainable growth and facilitate progress towards the Europe 2020 objectives; |

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|  | 9. | Stresses with concern the delays in implementing cohesion policy during the current programming period; points out that, although a large majority of operational programmes have now been agreed, the implementation itself is still at a very early stage; stresses, nevertheless, that assessments can be made as regards directing policy resources to priorities that contribute to sustainable growth and jobs; notes, in this context, that according to the first evaluation released by the Commission, the amounts allocated to R&I, support for SMEs, ICT, the low-carbon economy, employment, social inclusion, education and capacity-building have increased substantially as compared with the previous programming periods, while the level of support for transport and environmental infrastructure has decreased; draws attention to the fact that, at the time of the mid-term review of the Europe 2020 strategy, data on implementation of the ESI Funds 2014-2020 may still be lacking, and that, as a result, a concrete evaluation of the contribution of these funds to achieving the strategy?s targets may still not be possible at that stage; appreciates the fact that Member States have taken action, e.g to ensure that 20 % of their resources are spent on climate action; |

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|  | 10. | Acknowledges that establishing a ***performance*** framework and introducing ex ante conditionalities and linkages with country-specific recommendations (CSRs) in the cohesion policy programming 2014-2020 could provide a better investment environment for maximising the cohesion policy contribution to achieving Europe 2020 strategy headline targets; |

Review momentum and related challenges

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|  | 11. | Recalls that the Commission launched the strategy review process in 2014 by publishing its communication entitled ?Taking stock of the Europe 2020 Strategy for smart, sustainable and inclusive growth?, and considers it regrettable that insufficient reference was made to cohesion policy and the associated instruments in that document; appreciates the fact that the process continued with a public consultation carried out between May and October 2014 with a view to collecting evidence for the review process, and welcomes the fact that the strategy?s relevance and the meaningfulness of its objectives and priorities were confirmed; |

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|  | 12. | Notes that the flagship initiatives are considered to be serving their purpose, but also highlights the fact that their visibility is considered to be rather low; regrets that the economic and financial crisis has aggravated the disparities within the European Union and that insufficient progress has been made towards several of the strategy?s headline targets, especially as regards employment, research and development, poverty and social exclusion; welcomes the conclusion drawn as to the need to enhance ownership and involvement on the ground, by consolidating vertical and horizontal partnerships with a view to improving the delivery of the strategy; stresses that the strategy should encourage the shift from process and outcome orientation to an actual result orientation approach in order to ensure the highest possible efficiency and effectiveness for the EU policies linked thereto; |

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|  | 13. | Welcomes Eurostat?s regular publication of progress ***indicators*** as regards the implementation of the Europe 2020 strategy; calls, nevertheless, for greater and more accurate regional details in respect of the data provided at the NUTS II and NUTS III levels, which is going to be of increasing importance due to unforeseen economic and social problems occurring in various EU regions irrespective of their development level; points, moreover, to the three dimensions of cohesion policy ? economic, social and territorial ? and considers, in the light of this, that it should not be measured solely on the basis of economic ***indicators***; calls,, in this context, on the Commission and the Member States to continue the discussion and engage in more efficient cooperation on the development of a more inclusive set of ***indicators*** to complement GDP, with a view to them being more relevant to evaluating the progress made towards achieving the priority objectives of the Europe 2020 strategy; |

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|  | 14. | Notes that the publication of the Commission?s proposal on the review of the Europe 2020 strategy is due before the end of 2015 and regrets this delay, given that it was initially scheduled for early 2015; stresses that this will once again take place at a rather ?inopportune moment? in the cohesion policy cycle, when the effective implementation process is under way; stresses, moreover, that early reprogramming would be completely counterproductive for the long-term ***strategic*** planning of cohesion policy; |

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|  | 15. | Welcomes the setting-up of a task force for better implementation of EU funds; also welcomes the establishment of the ?Structural Reform Support Service?, which officially started work on 1 July 2015 and which will provide technical assistance to Member States with a view to the more effective implementation of structural reforms and CSRs; |

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|  | 16. | Acknowledges, at the same time, the need to consider the evolution of the economic outlook, the use of new instruments, the progress made towards the strategy objectives and the consequent necessity of making operational adjustments; |

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|  | 17. | Calls therefore for the scope of the mid-term review of the Europe 2020 strategy to be smart and balanced and to be focused on better interlinking the strategy?s five objectives and its flagship initiatives and on identifying methods as to how they could be better carried forward and evaluated without creating additional layers of complexity and excessive administrative burden; stresses that it should take into account the strengths and weaknesses of the EU economy, the growing inequalities (such as in wealth), high unemployment and high public debts; emphasises that, in parallel with the focus on macro-economic criteria of fiscal and economic governance, progress towards all the Europe 2020 headline targets should be pursued; considers that attention should also be paid to increased societal and environmental sustainability, greater social inclusion and gender equality; underlines the importance of continued support from the Commission services for Member State authorities in improving administrative capacity; |

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|  | 18. | Reiterates its calls to enhance the responsibility, ownership, transparency and participation dimensions of the strategy by involving LRAs and all relevant civil society stakeholders and interested parties from the target-setting and development of objectives to the implementation, monitoring and evaluation of the strategy; insists on the crucial importance of a strengthened governance structure based on multi-level governance, incentive structures, an effective mixed top-down/bottom-up approach, the partnership model of cohesion policy and public-private partnerships in general, with a view to the consultation and cooperation of all stakeholders, in order to ensure effective capacity to deliver on the long-term objectives; recalls that, in accordance with Member States? institutional and legal frameworks, regional and local authorities are also responsible for public investment and should therefore be acknowledged as key actors in the implementation of the strategy; |

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|  | 19. | Suggests, moreover, that the commitment by LRAs and stakeholders in the Europe 2020 strategy project should be renewed in the form of a pact between those partners, the Member States and the Commission, in order to ensure ownership and participation and that a code of conduct similar to the one on partnership, introduced by cohesion policy 2014-2020, should be adopted; |

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|  | 20. | Emphasises the need for a truly territorial approach to the Europe 2020 strategy with a view to adjusting public ***interventions*** and investments to different territorial characteristics and specific needs; considers it of the utmost importance to bridge the overall approach of the Europe 2020 strategy and the territorial approach of the Territorial Agenda 2020 (TA 2020); takes the view, moreover, that tailor-made Europe 2020 voluntary regional targets should be possible and should be discussed at regional level without adding to the bureaucratic burden on the ground; stresses that such tailor-made voluntary regional targets should be consistent with the strategy?s overarching architecture and be comprised within the pre-defined targets; recalls also, in this connection, the importance of community-led local development strategies; |

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|  | 21. | Acknowledges the significant role of cities and urban areas as drivers for growth and jobs, and demands that the review of the Europe 2020 strategy also take into account a wider holistic approach to the future development of cities as entities which play an active role in meeting Europe 2020 objectives; calls on the Commission, therefore, to give due consideration to the Riga Declaration on the Urban Agenda, in view of the fundamental role played by urban areas, whether small, medium-sized or large; stresses, in particular, the need for a strategy that takes account of the specific needs of small and medium-sized urban areas on the basis of an approach that builds synergies with the Digital Agenda and the Connecting Europe Facility; |

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|  | 22. | Calls on the Commission to provide information about the role of territorial aspects as factors of economic growth, job creation and sustainable development, and demands that the review of the Europe 2020 strategy address territorial impacts and provide guidance on how to tackle them; reiterates the importance of consultation with LRAs in this regard, as they play a determinant role in the implementation of territorial development strategies; highlights also the role that macro-regional strategies and European territorial cooperation in general could play in the successful implementation of the Europe 2020 strategy?s goals, given that many development projects involve cross-border areas, including several regions and countries, and are able to develop place-based responses to the long-term challenges; |

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|  | 23. | Notes the importance of the new EU investment instrument, the European Fund for ***Strategic*** Investments (EFSI), which will support the mobilisation of up to EUR 315 billion in investments, with the aim of closing the investment gap in the EU and maximising the impact of public spending; emphasises that the EFSI should be complementary and additional to the ESI Funds; regrets that it is not clearly linked to the Europe 2020 strategy, but considers that, through its objectives and the selection of viable, sustainable projects, it should contribute to the implementation of the strategy in specific areas; |

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|  | 24. | Stresses, moreover, the imperative of ensuring full coherence and synergies between all EU instruments, by considering the smart specialisation strategies as one of the core investment instruments, in order to avoid overlapping or contradictions between them or between the different levels of policy implementation; demands, therefore, that the review of the Europe 2020 strategy confirm it as the EU?s long-term ***strategic*** framework for growth and jobs and address this challenge of coordinating policy instruments, including the EFSI, with a view to using all the available resources effectively and achieving the expected results as regards the overarching ***strategic*** goals; |

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|  | 25. | Asks the Commission, with a view to promoting the overall harmonious development of the EU and in view of cohesion policy?s key role in delivering Europe 2020 strategy objectives, to take into consideration, when reviewing the strategy?s goals and objectives, the characteristics and constraints of specific territories, such as those of ***rural*** areas, areas affected by industrial transition, regions suffering from severe and permanent natural or demographic handicaps, island, cross-border and mountain regions and the EU?s outermost regions, in accordance with Articles 174 and 349 of the TFEU; points, in this context, to the latter regions? potential in such areas as biotechnology, renewable energy and biodiversity; |

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|  | 26. | Stresses the improved results arising from increasing the quantity, quality and impact of R&I investments, through the coordinated use of cohesion policy instruments and Horizon 2020 in the context of the mid-term review of the Europe 2020 strategy; asks the Commission, in this connection, to reinforce all possible interactions and synergies between these two important policy frameworks when reviewing the Europe 2020 goals and objectives and to set up a web-based tracking system in order to identify cases of combinations of funding from the ESI Funds with Horizon 2020, EFSI and the other Community-funded programmes; welcomes also the plan to introduce a ?seal of excellence? for applicants that are evaluated as excellent, but cannot obtain financing from Horizon 2020, in order to help them access ESI Funds; |

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|  | 27. | Calls on the Commission to establish a coherent ongoing evaluation process in order to regularly assess the progress of Europe 2020 strategy targets and suggest appropriate measures for their achievement, as well as recommendations for post-2020 cohesion policy; emphasises also Parliament?s role to supervise the implementation of the Europe 2020 strategy and cohesion policy in a coordinated manner, not only within Parliament, but also with all relevant institutions; calls, in this connection, for the timely involvement of Parliament in all relevant discussions targeting the design of the policies covered by the strategy, their implementation and their evaluation; points to the importance of also mobilising in these exchanges of views the Committee of the Regions, the European Economic and Social Committee, national and regional parliaments, LRAs, other stakeholders and interested parties; |

Future cohesion policy — looking beyond the short term

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|  | 28. | Considers that the review of the Europe 2020 strategy, which will precede the launch of the proposal for the mid-term revision of the multiannual financial framework (MFF) for 2014-2020, will provide the basis for the future cohesion policy architecture post-2020, as well as for other MFF instruments; stresses, in this context, the importance of effectively addressing all the concerns raised above, while ensuring the continuity of the ***strategic*** approach; recalls, also, the added value of an EU-wide cohesion policy, which must continue to be one of the main EU investment instruments for growth, job creation and climate protection, while ensuring balanced, harmonious development across the EU, as a catalyst for change and a stimulator of prosperity, including in the less developed regions; underlines, in this regard, the need to ensure a sustainable level of financing for the ESI Funds after 2020; |

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|  | 29. | Points out that both future cohesion policy and the future EU long-term strategy should be drafted before the end of the Commission?s current term, bearing in mind that there will be elections to the European Parliament in 2019, and that this imposes significant specific time constraints on the co-legislators as regards the negotiation calendar, and on the new Commission and the Member States as regards the preparation and adoption of the new partnership agreements and operational programmes before the start of the next MFF; notes, at the same time, that negotiations will also be entered into on the future MFF; calls on the Commission, therefore, to take into consideration all the specific constraints generated by interlinkages and timing coordination requirements and to develop a coherent approach as regards the EU?s future long-term sustainable growth and jobs strategy, the EU budget, cohesion policy in particular, and other instruments under the MFF; |

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|  | 30. | Instructs its President to forward this resolution to the Council, the Commission, the Member States and the regions. |

(1)  OJ L 347, 20.12.2013, p. 320.

(2)  OJ L 347, 20.12.2013, p. 289.

(3)  OJ L 347, 20.12.2013, p. 470.

(4)  OJ L 347, 20.12.2013, p. 259.

(5)  OJ L 347, 20.12.2013, p. 303.

(6)  OJ L 347, 20.12.2013, p. 281.

(7)  OJ L 347, 20.12.2013, p. 884.

(8)  OJ L 298, 26.10.2012, p. 1.

(9)  Texts adopted, P7\_TA(2014)0002.

(10)  Texts adopted, P7\_TA(2014)0015.

(11)  Texts adopted, P7\_TA(2014)0132.

(12)  Texts adopted, P8\_TA(2014)0068.

(13)  OJ L 123, 19.5.2015, p. 98.

(14)  OJ C 19, 21.1.2015, p. 9.

(15)  [*https://portal.cor.europa.eu/europe2020/SiteCollectionDocuments/2459-brochure-BlueprintEU2020.pdf*](https://portal.cor.europa.eu/europe2020/SiteCollectionDocuments/2459-brochure-BlueprintEU2020.pdf)

(16)  OJ C 242, 23.7.2015, p. 43.

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AM\1150350EN.docx PE619.402v02-00 EN United in diversity EN European Parliament 2014-2019 Committee on Budgets 2018/2037(INI) 09.4.2018 AMENDMENTS 1 - 83 Draft opinion Nedzhmi Ali The future of food and farming (2018/2037(INI)) PE619.402v02-00 2/39 AM\1150350EN.docx EN AM\_Com\_NonLegOpinion AM\1150350EN.docx 3/39 PE619.402v02-00 EN Amendment 1 John Howarth, Paul Brannen Draft opinion Recital A Draft opinion Amendment A. whereas the common ***agricultural*** policy (CAP) is the most integrated policy in the Union, and has successfully fulfilled its original objectives by supporting European farmers and responding to citizens’ demands regarding food security and safety, and quality and sustainability; A. whereas the common ***agricultural*** policy (CAP) is the most integrated policy in the Union, and has successfully fulfilled its original objectives by supporting European farmers and responding to citizens’ demands regarding food security and safety, and quality and sustainability; whereas there are new challenges ahead, in particular linked to planetary boundaries of climate change, nitrogen and phosphorus cycle and loss of biodiversity as these are approaching a threshold beyond which there is a risk of irreversible change; whereas it is important that CAP is aligned with the Paris agreement and other international agreements which protect the climate and the environment; Or.

en Amendment 2 Monika Vana Draft opinion Recital A Draft opinion Amendment A. whereas the common ***agricultural*** policy (CAP) is the most integrated policy in the Union, and has successfully fulfilled its original objectives by supporting European farmers and responding to citizens’ demands regarding food security and safety, and quality and sustainability; A. whereas the common ***agricultural*** policy (CAP) is perhaps the most integrated policy in the Union, yet despite successfully fulfilling some of its original objectives by supporting some European farmers, it has also allowed the disappearance of an estimated average of 100’s of small and medium sized farm businesses per day, and is still far from PE619.402v02-00 4/39 AM\1150350EN.docx EN responding to citizens’ demands regarding food security and safety, and quality and sustainability Or. en Amendment 3 Jean-Paul Denanot Draft opinion Recital A Draft opinion Amendment A. whereas the common ***agricultural*** policy (CAP) is the most integrated policy in the Union, and has successfully fulfilled its original objectives by supporting European farmers and responding to citizens’ demands regarding food security and safety, and quality and sustainability; A. whereas the common ***agricultural*** policy (CAP) is one of the most integrated policy in the Union, and has fulfilled its original objectives to increase food supply, by supporting European farmers and responding to citizens’ demands regarding food security and safety, and quality and sustainability; Or. en Amendment 4 Monika Vana Draft opinion Recital A a (new) Draft opinion Amendment A a. Whereas the objectives of the CAP 1a are outdated and do not respond to many contemporary challenges facing farming, as they are more than 60 years old and do not include sustainability or environmental and social ***performance***, or dealing with climate change. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 1a Article 39 of the TFEU Or. en AM\1150350EN.docx 5/39 PE619.402v02-00 EN Amendment 5 Nicola Caputo Draft opinion Recital A a (new) Draft opinion Amendment A a. whereas the contribution of CAP is also important to achieve EU soil, climate and biodiversity targets; Or. en Amendment 6 Jean-Paul Denanot Draft opinion Recital B Draft opinion Amendment B. whereas it is necessary to ensure support for genuine farmers, and to give priority to small farms; whereas it is essential to ensure a fair standard of living across regions and Member States; B. whereas it is necessary to ensure support for genuine farmers, to give priority to small farms, and to help promoting diverse ***agricultural*** systems, especially family farms, to strengthen regional economies through a performant ***agriculture*** in economic, environmental and social terms; whereas it is essential to ensure a fair standard of living across regions and Member States and to support employment in the ***rural*** areas, especially for and amongst young farmers; Or. en Amendment 7 Monika Vana Draft opinion Recital B PE619.402v02-00 6/39 AM\1150350EN.docx EN Draft opinion Amendment B. whereas it is necessary to ensure support for genuine farmers, and to give priority to small farms; whereas it is essential to ensure a fair standard of living across regions and Member States; B. whereas it is necessary to ensure support for genuine farmers while continuing to support beneficiaries who have diversified production streams and incomes (after decades of policy signals intending for them to do so), and to give priority to small farms and reward them for the diverse public goods they deliver to society ; whereas it is essential to ensure a fair standard of living across regions and Member States Or. en Amendment 8 Anneli Jäätteenmäki, Urmas Paet, Nils Torvalds Draft opinion Recital B Draft opinion Amendment B. whereas it is necessary to ensure support for genuine farmers, and to give priority to small farms; whereas it is essential to ensure a fair standard of living across regions and Member States; B. whereas it is necessary to ensure support for genuine farmers, and to give priority to small farms while ensuring the fair distribution of support between farms of different sizes; whereas it is essential to ensure a fair standard of living across regions and Member States and to secure ***agricultural*** production in all parts of the EU, including areas of natural constraints; Or. en Amendment 9 Isabelle Thomas Draft opinion Recital B Draft opinion Amendment AM\1150350EN.docx 7/39 PE619.402v02-00 EN B. whereas it is necessary to ensure support for genuine farmers, and to give priority to small farms; whereas it is essential to ensure a fair standard of living across regions and Member States; B. whereas it is necessary to ensure support for farmers, and to give priority to small farms; whereas it is essential to ensure a fair standard of living across regions and Member States as well as to support a modernised and sustainable ***agriculture*** in the EU; Or. en Amendment 10 Nedzhmi Ali, Urmas Paet, Jean Arthuis Draft opinion Recital B a (new) Draft opinion Amendment B a. whereas the EU is both the world’s largest importer and exporter of agri-food products; at the same time the options of using CAP ***rural*** development programmes (RDPs) to contribute towards insurance, mutual funds and income stabilisation schemes for farmers have not been implemented widely; Or. en Amendment 11 Nedzhmi Ali, Urmas Paet Draft opinion Recital B b (new) Draft opinion Amendment B b. whereas there is a gap between income in ***agricultural*** sector and those in other sectors of the economy and additionally ***agricultural*** income is highly volatile; there is a risk of land being abandoned in areas with natural constraints; there should be sufficient investment into farm restructuring, PE619.402v02-00 8/39 AM\1150350EN.docx EN modernization, innovation, diversification and the uptake of new technologies; Or. en Amendment 12 Nedzhmi Ali Draft opinion Recital B c (new) Draft opinion Amendment B c. whereas according to ECA´s Mar 2018 briefing paper Future of the CAP in 2010, for every 100 farm managers above 55, there were 14 farm managers below 35; in 2013 this value decreased to 10.8 farm managers below 35; the average age of EU farmers increased from 49.2 to 51.4 years over the period 2004 to 2013; the smallest farms are most often those of older farmers; Or. en Amendment 13 Monika Vana Draft opinion Recital C Draft opinion Amendment C. whereas in the light of the excessive administrative burden of the greening measures, the control and audit system, and the growing number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; C. whereas in the light of the administration of the greening measures (which largely existed before the 2013 reform as “cross-compliance” requirements of maintaining pastureland, landscape features and crop rotation), the control and audit system which has continuously reduced the error rate via the IACS and LPIS-GIS systems, and the overlaps between pillars I and II, it is nonetheless important to simplify and AM\1150350EN.docx 9/39 PE619.402v02-00 EN reduce the overall administrative burden of the CAP as much as possible without compromising on the ambitious policy objectives demanded by society, in order to improve its value for money in rewarding delivery of public goods and to achieve transparency. Or. en Amendment 14 Jean-Paul Denanot Draft opinion Recital C Draft opinion Amendment C. whereas in the light of the excessive administrative burden of the greening measures, the control and audit system, and the growing number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; C. whereas the current greening measures have brought limited results, and require a new comprehensive legal framework allowing for the integration of the different types of environmental actions currently existing under Pillar I (cross compliance, greening payments) as well as agro-environmental measures under Pillar II , it is important to reduce the overall burden of the CAP, in order to improve the greening results and help all farmers more effectively in the adaptation of their farming systems, to meet environmental and climatic challenges and citizens demands and to achieve simplification and transparency; Or. en Amendment 15 John Howarth, Paul Brannen Draft opinion Recital C Draft opinion Amendment PE619.402v02-00 10/39 AM\1150350EN.docx EN C. whereas in the light of the excessive administrative burden of the greening measures, the control and audit system, and the growing number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; C. whereas in the light of the excessive administrative burden of the ineffective greening measures, the control and audit system, and the growing number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; Or. en Amendment 16 Isabelle Thomas Draft opinion Recital C Draft opinion Amendment C. whereas in the light of the excessive administrative burden of the greening measures, the control and audit system, and the growing number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; C. whereas in the light of the excessive administrative burden, the control and audit system, and the possible number of overlaps between pillars I and II, it is important to reduce the overall burden of the CAP, to improve its value for money and to achieve simplification and transparency; Or. en Amendment 17 Nedzhmi Ali, Anneli Jäätteenmäki Draft opinion Recital C a (new) Draft opinion Amendment C a. whereas making EU value added a core objective is one of Commission´s proposals for all future EU policies; however, there is no commonly accepted definition for this concept; AM\1150350EN.docx 11/39 PE619.402v02-00 EN Or. en Amendment 18 Pavel Poc Draft opinion Recital C a (new) Draft opinion Amendment C a. Whereas the EU spends a considerable amount on the new green payment, 12 billion euro per year, representing 30 % of all CAP direct payments and almost 8 % of the whole EU budget; Or. en Amendment 19 Pavel Poc Draft opinion Recital C b (new) Draft opinion Amendment C b. Whereas the European Court of Auditors concludes that the objective of the greening measure introduced with the last CAP reform – to enhance the CAP’s environmental ***performance*** – lacks specific targets for the measure’s contribution to the environment and climate and should be quantified where possible, not just for outputs, but also for results and impact; Or. en Amendment 20 Pavel Poc Draft opinion PE619.402v02-00 12/39 AM\1150350EN.docx EN Recital C c (new) Draft opinion Amendment C c. Whereas the European Court of Auditors concludes that the specific contribution of greening to achieving EU soil, climate and biodiversity targets is not clearly defined; Or. en Amendment 21 Pavel Poc Draft opinion Recital C d (new) Draft opinion Amendment C d. Whereas the European Court of Auditors concludes that the initial Commission proposal was more ambitious in environmental terms but lacked a clear demonstration of what the proposed greening practices would achieve and at the same time, the budget allocation for greening did not change, because it was based on a political decision and not on the policy’s delivery of environmental and climate-related objectives; Or. en Amendment 22 Pavel Poc Draft opinion Recital C e (new) Draft opinion Amendment C e. Whereas greening as currently implemented is unlikely to provide significant benefits for the environment and climate and has led to very limited AM\1150350EN.docx 13/39 PE619.402v02-00 EN change in farming practices which illustrates the significant deadweight in the policy’s design; Or. en Amendment 23 Pavel Poc Draft opinion Recital C f (new) Draft opinion Amendment C f. Whereas crop diversification is less beneficial for soil than crop rotation; Or. en Amendment 24 Pavel Poc Draft opinion Recital C g (new) Draft opinion Amendment C g. Whereas the effect of grassland protection on net emissions from farmland could be enhanced through better targeting; Or. en Amendment 25 Pavel Poc Draft opinion Recital C h (new) Draft opinion Amendment C h. Whereas the predominance of PE619.402v02-00 14/39 AM\1150350EN.docx EN productive Ecological Focus Areas together with insufficient management requirements reduce the potential benefits of greening for biodiversity; Or. en Amendment 26 Pavel Poc Draft opinion Recital C i (new) Draft opinion Amendment C i. Whereas Member States use the flexibility in greening rules to limit the burden on farmers and themselves, rather than to maximise the expected environmental and climate benefit; Or. en Amendment 27 Pavel Poc Draft opinion Recital C j (new) Draft opinion Amendment C j. Whereas greening has had limited impact on Pillar II environmental measures; Or. en Amendment 28 Monika Vana Draft opinion Recital D AM\1150350EN.docx 15/39 PE619.402v02-00 EN Draft opinion Amendment D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives the Member States, whether at national or regional level, will need to pick from those options in order to achieve the goals set at EU level; D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives for the Member States, whether at national or regional level; whereas it is vital that the reformed CAP regulations set a strong common baseline of environmental, public and animal health that corresponds with zero degradation or at least “do no harm” socially or environmentally, as well as respecting international agreements, SDGs and existing EU laws. Or. en Amendment 29 John Howarth, Paul Brannen Draft opinion Recital D Draft opinion Amendment D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives and the Member States, whether at national or regional level, will need to pick from those options in order to achieve the goals set at EU level; D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives and the Member States, whether at national or regional level, will need to pick from those options in order to achieve the goals set at EU level, the future CAP delivery model should be result-driven as regards resource efficiency, environmental care and climate action; Or. en Amendment 30 Jean-Paul Denanot Draft opinion Recital D PE619.402v02-00 16/39 AM\1150350EN.docx EN Draft opinion Amendment D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives and the Member States, whether at national or regional level, will need to pick from those options in order to achieve the goals set at EU level; D. whereas as outlined in the Commission communication on the future of food and farming, the future CAP will have common objectives and the Member States, whether at national or regional level, will need to adopt a range of these options in order to maintain a level playing field, avoid distortions in the market and achieve the goals set at EU level; Or. en Amendment 31 Monika Vana Draft opinion Recital D a (new) Draft opinion Amendment D a. whereas notwithstanding the intended shift away from the commission to the MS when defining the modalities of farm based rules (the “new delivery model”), it is vital that the national action plans are developed between MS and commission so as to ensure a balanced achievement of all the objectives set in the basic regulation, and so also ensuring a level playing field of food safety, public and animal health and environmental norms for farmers and other citizens. Or. en Amendment 32 Monika Vana Draft opinion Paragraph -1 (new) AM\1150350EN.docx 17/39 PE619.402v02-00 EN Draft opinion Amendment -1. Regrets that MFF funding for the sectoral policies such as CAP is discussed before content of those policies is reformed, as this has tended limit the ambition of reform and to maintain the status quo. Notes further that the status quo is no longer an option. Or. en Amendment 33 Monika Vana Draft opinion Paragraph 1 Draft opinion Amendment 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; 1. Emphasises that, although the CAP has not been living up to society’s expectations in its social or environmental ***performance***, it could still deliver ambitious updated objectives and achieve the desired transition to full sustainability if sufficiently funded; Calls, therefore, for the current CAP budget to be spent supporting the transition to fully sustainable farming systems; Calls, in this light, for the CAP budget to be maintained at an adequate level in the next MFF on the condition that the reform begins this transition to full sustainability by 2030, and that disbursements to Member States are conditional upon reaching positive results and objective, evidence-based and measurable milestones; Or. en Amendment 34 Jean-Paul Denanot Draft opinion PE619.402v02-00 18/39 AM\1150350EN.docx EN Paragraph 1 Draft opinion Amendment 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; 1. Emphasises that the CAP can deliver its objectives if sufficiently funded calls, therefore, for the CAP budget to be at least maintained at its current level for the EU-27 at constant prices in the next MFF post 2020 in order to achieve the ambitions of a revised and efficient CAP; Or. en Amendment 35 Inese Vaidere Draft opinion Paragraph 1 Draft opinion Amendment 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; 1. Emphasises that the CAP should remain common EU policy which can deliver its objectives only if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; Or. en Amendment 36 Isabelle Thomas Draft opinion Paragraph 1 Draft opinion Amendment 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be at least maintained at its current level for the EU-27 at constant prices in the next MFF; AM\1150350EN.docx 19/39 PE619.402v02-00 EN Or. en Amendment 37 José Manuel Fernandes Draft opinion Paragraph 1 Draft opinion Amendment 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be maintained at an adequate level in the next MFF; 1. Emphasises that the CAP can deliver its objectives if sufficiently funded; calls, therefore, for the CAP budget to be at least maintained at the current level in the next MFF; Or. en Amendment 38 Inese Vaidere Draft opinion Paragraph 1 – point 1 (new) Draft opinion Amendment (1) Highlights that CAP should support sustainable development of ***agriculture***, which is crucial for providing safe food, jobs and growth in ***rural*** areas, as well as, sustainable management of natural resources; Or. en Amendment 39 Monika Vana Draft opinion Paragraph 1 a (new) Draft opinion Amendment PE619.402v02-00 20/39 AM\1150350EN.docx EN 1 a. notes that in order to achieve a transition to full sustainability, farmers will need to adapt their practices; underlines that it is the role of publically-funded policies like the CAP to assist them in this transition, especially considering the financial pressure many small and medium sized farms are under. Notes further that this will need a considerable redistribution of funding, but that no targeted funding would mean no change. Or. en Amendment 40 Monika Vana Draft opinion Paragraph 1 b (new) Draft opinion Amendment 1 b. insists on the principle of “public money for public goods” and the strict conditioning of payments to environmental and social results, as well as ensuring an EU-wide level playing field or baseline of common environmental, public and animal health, and social norms. Or. en Amendment 41 Anneli Jäätteenmäki, Nedzhmi Ali, Urmas Paet, Nils Torvalds Draft opinion Paragraph 2 Draft opinion Amendment 2. Draws attention to the intention to simplify and modernise the CAP, but calls on the Commission to ensure that financial 2. Welcomes the intention to simplify and modernise the CAP; calls on the Commission to ensure that financial and AM\1150350EN.docx 21/39 PE619.402v02-00 EN and ***performance*** control and audit functions are performed to the same standard and under the same criteria across all Member States; ***performance*** control and audit functions are performed under the same standards across all Member States while fully respecting the principles of subsidiarity and flexibility; stresses that the Member States need to be given adequate competence to decide on the content, monitoring, control and sanctions of the support schemes applicable in their territories; Or. en Amendment 42 Jean-Paul Denanot Draft opinion Paragraph 2 Draft opinion Amendment 2. Draws attention to the intention to simplify and modernise the CAP, but calls on the Commission to ensure that financial and ***performance*** control and audit functions are performed to the same standard and under the same criteria across all Member States; 2. Draws attention to the intention to simplify and modernise the CAP, but calls on the Commission to ensure that financial and ***performance*** control and audit functions are performed to the same standard and under the same criteria across all Member States; underlines that any simplifcation or mordernisation of the CAP may not reduce the level of EU ambition or neither lead to a sectoralisation of EU policies and programmes, nor replace grants by financial instruments; Or. en Amendment 43 Monika Vana Draft opinion Paragraph 2 Draft opinion Amendment PE619.402v02-00 22/39 AM\1150350EN.docx EN 2. Draws attention to the intention to simplify and modernise the CAP, but calls on the Commission to ensure that financial and ***performance*** control and audit functions are performed to the same standard and under the same criteria across all Member States; 2. Draws attention to the intention to simplify and modernise the CAP, but calls on the Commission to ensure that financial and ***performance*** control and audit functions are performed to the same high standard of continuous improvement and under the same criteria across all Member States; Or. en Amendment 44 Monika Vana Draft opinion Paragraph 2 a (new) Draft opinion Amendment 2 a. Notes that effective audit and control approaches will have to be followed to ensure that any 'new delivery model' under a reformed CAP actually delivers on environmental and social criteria in order for the sector to reach full sustainability by 2030; Or. en Amendment 45 Tomáš Zdechovský Draft opinion Paragraph 2 a (new) Draft opinion Amendment 2 a. Stresses that any financial support to the farmers should be based on the quantity of output from the farm rather than on single payment scheme or single area payment scheme; Or. en AM\1150350EN.docx 23/39 PE619.402v02-00 EN Amendment 46 Monika Vana Draft opinion Paragraph 2 b (new) Draft opinion Amendment 2 b. Notes also that, in order to deliver clear added value based on citizens' demands, there must be effective, relevant, controllable, evidence-based ***indicators*** and milestones, with clear deadlines, to be agreed between the Commission and Member States when setting out their national/regional action plans, in order for the sector to reach full sustainability by 2030; Or. en Amendment 47 Monika Vana Draft opinion Paragraph 2 c (new) Draft opinion Amendment 2 c. Insists upon a results-based approach to payments. Proposes therefore the inclusion of the following issues for ***indicators***: - jobs maintained and created in the sector; - small and medium farm businesses retained; - health and biodiversity of soil / species and taxa richness; - topsoil protection and creation, soil cover against erosion; - decreased nutrient losses and increased water quality; - biodiversity including richness and abundance of bird species / wild PE619.402v02-00 24/39 AM\1150350EN.docx EN pollinators / insects ; - ***indicators*** on reduction of pesticide use dependency and uptake of integrated pest management (IPM) 1b. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 1b in line with the Sustainable Use of Pesticides Directive 2009/128 and article 67 of Regulation 1107/2009 Or. en Amendment 48 Monika Vana Draft opinion Paragraph 2 d (new) Draft opinion Amendment 2 d. Underlines that if the new delivery model is to be implemented, it must also envision a system of motivational sanctions or financial corrections to be applied to Member States in the case of their not reaching the ambitious objectives set by the regulations; Or. en Amendment 49 Jean-Paul Denanot Draft opinion Paragraph 3 Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; underlines that direct payments generate clear EU added value and strengthen the single market by avoiding distortions of AM\1150350EN.docx 25/39 PE619.402v02-00 EN competition between Member States; opposes any renationalisation and any national cofinancing for direct payments in that respect; stresses the need to continue measures maintaining production in sectors that are vital for vulnerable areas, to reform the ***agricultural*** crisis reserve, to increase funding in line with responses to the various cyclical crises in sensitive sectors, to create new instruments that can mitigate price volatility and to increase funding for Programmes of Options Specifically Relating to Remoteness and Insularity (POSEI); Or. en Amendment 50 Alfred Sant Draft opinion Paragraph 3 Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Notes the calls for a fair and different distribution of direct payments between the Member States; emphasizes that a new system would need to take into account the diverse specificities of the farming landscape of each individual Member State so that where micro ***agricultural*** systems such as on peripheral islands depend on tailor made support, it should be ensured that this support is retained in the future; Or. en Amendment 51 Daniele Viotti, Pina Picierno, Paolo De Castro Draft opinion Paragraph 3 PE619.402v02-00 26/39 AM\1150350EN.docx EN Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Calls for a fair distribution of direct payments between Member States, which must take into account reliable socio-economic indexes, such as standard gross margins, added value per hectare, employment rates as well as labour, inputs and land costs; Or. en Amendment 52 Monika Hohlmeier Draft opinion Paragraph 3 Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Stresses the need for a fair distribution of direct payments between Member States, which must take into account socio-economic differences, different production costs and the amounts received by Member States under Pillar II; Or. en Amendment 53 Inese Vaidere Draft opinion Paragraph 3 Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union should be closed in the next MFF; it is crucial to ensure equal competition conditions for all farmers AM\1150350EN.docx 27/39 PE619.402v02-00 EN within the EU; Or. en Amendment 54 Tomáš Zdechovský Draft opinion Paragraph 3 Draft opinion Amendment 3. Calls for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; 3. Calls for a comparison of direct payments among the farmers and for a fair distribution of direct payments between the Member States, so that the gaps between the different regions of the Union can be closed sooner; Or. en Amendment 55 Inese Vaidere Draft opinion Paragraph 3 – point 1 (new) Draft opinion Amendment (1) Highlights that CAP support for ***rural*** development provides opportunities for all Member States to enhance their competiveness, promotes effective and sustainable economies and fosters development of ***rural*** areas. It is vital to tackle depopulation, unemployment, poverty and to promote social inclusion. Conditions and criteria of the EU funding for ***rural*** development must ensure support for ***rural*** areas that are lagging behind the average levels, thus by strengthening the second pillar of CAP; Or. en PE619.402v02-00 28/39 AM\1150350EN.docx EN Amendment 56 Pavel Poc Draft opinion Paragraph 3 a (new) Draft opinion Amendment 3 a. Notes the CAP sometimes sends conflicting signals by supporting measures with incompatible impacts, for example, the OECD argues that the potential impact of greening was largely offset by the impact of voluntary coupled support; Or. en Amendment 57 Nicola Caputo Draft opinion Paragraph 3 a (new) Draft opinion Amendment 3 a. believes that setting a possible limit to direct payments, the so-called 'Capping', can not be left to the discretion of each Member States, but must be established at European level; Or. en Amendment 58 Inese Vaidere Draft opinion Paragraph 3 a (new) Draft opinion Amendment 3 a. Future CAP must take into account the vulnerabilities and AM\1150350EN.docx 29/39 PE619.402v02-00 EN specificities of small-scale economies. Or. en Amendment 59 Pavel Poc Draft opinion Paragraph 3 b (new) Draft opinion Amendment 3 b. Regrets that currently, environmental and climate objectives are mainstreamed into the CAP through greening and cross-compliance, however, greening obligations are generally undemanding and only apply to a minority of beneficiaries; Or. en Amendment 60 Nicola Caputo Draft opinion Paragraph 3 b (new) Draft opinion Amendment 3 b. suggests to introduce degressive payments to reduce the support for larger farms and focus on a redistributive payment in order to be able to provide support in a targeted manner (e.g to small-medium sized farms); Or. en Amendment 61 Pavel Poc Draft opinion PE619.402v02-00 30/39 AM\1150350EN.docx EN Paragraph 3 c (new) Draft opinion Amendment 3 c. Calls on the Commission and the Member States to make access to any direct payments conditional upon meeting a set of basic environmental and climate requirements encompassing the current cross-compliance and greening rules; Or. en Amendment 62 Pavel Poc Draft opinion Paragraph 3 d (new) Draft opinion Amendment 3 d. Calls on the Commission and the Member States to develop a complete ***intervention*** logic for the EU environmental and climate-related action regarding ***agriculture***, including specific targets and based on up-to-date scientific understanding of the phenomena concerned; Or. en Amendment 63 Pavel Poc Draft opinion Paragraph 3 e (new) Draft opinion Amendment 3 e. Calls on the Commission and the Member States to define needs, inputs, processes, outcomes, results, impacts and the relevant external factors as part of the ***intervention*** logic; AM\1150350EN.docx 31/39 PE619.402v02-00 EN Or. en Amendment 64 Pavel Poc Draft opinion Paragraph 3 f (new) Draft opinion Amendment 3 f. Calls on the Commission and the Member States to define specific targets for the CAP’s contribution to the environmental and climate-related objectives of the EU; Or. en Amendment 65 Pavel Poc Draft opinion Paragraph 3 g (new) Draft opinion Amendment 3 g. Calls on the Commission and the Member States to develop models and data sets regarding biodiversity, soil condition (including soil carbon content) and other relevant environmental and climate-related issues in order to make it possible to design an effective policy and subsequently to monitor and evaluate its implementation; Or. en Amendment 66 Pavel Poc Draft opinion Paragraph 3 h (new) PE619.402v02-00 32/39 AM\1150350EN.docx EN Draft opinion Amendment 3 h. Calls on the Commission to review and take stock of the implementation of the current CAP, in building this proposal, the Commission should be guided by the following principles: - Farmers should only have access to CAP payments if they meet a set of basic environmental norms, these norms should encompass areas covered by the current GAECs and the generalized greening requirements (which are both meant to go beyond the requirements of environmental legislation); - Simplifying the system of CAP direct payments by avoiding artificial and confusing distinctions between essentially similar instruments, penalties for non-compliance with these combined norms should be sufficient to act as a deterrent; - In order to avoid double funding, all such basic norms should be fully incorporated in the environmental baseline for any programmed action regarding ***agriculture***; Or. en Amendment 67 Pavel Poc Draft opinion Paragraph 3 i (new) Draft opinion Amendment 3 i. Specific, local environmental and climate-related needs can be appropriately addressed through stronger programmed action regarding ***agriculture*** that is based on the achievement of ***performance*** targets and funding reflecting an assessment of the average costs incurred and income foregone in relation to actions and practices going beyond the AM\1150350EN.docx 33/39 PE619.402v02-00 EN environmental baseline; Or. en Amendment 68 Pavel Poc Draft opinion Paragraph 3 j (new) Draft opinion Amendment 3 j. When Member States are given options to choose from in their implementation of the CAP, they should be required to demonstrate, prior to implementation, that the options they select are effective and efficient in terms of achieving policy objective; Or. en Amendment 69 Monika Vana Draft opinion Paragraph 4 Draft opinion Amendment 4. Supports the move towards increased efficiency of farming and EU added value. 4. Supports the move towards increased effectiveness in meeting the many objectives needed to bring our farming system up to date with the new challenges this century, including climate change, biodiversity loss (e.g in soils and among pollinators and other beneficial species) that weaken the efficiency and productivity of our farming, the move to zero environmental damage and so minimisation of costs externalised to other parts of the EU and national budgets, as well as towards achieving social goals such as increased job creation in the CAP, thereby ensuring EU added value PE619.402v02-00 34/39 AM\1150350EN.docx EN and gaining broad public support. Or. en Amendment 70 Jean-Paul Denanot Draft opinion Paragraph 4 Draft opinion Amendment 4. Supports the move towards increased efficiency of farming and EU added value. 4. Supports the move towards increased efficiency of farming and EU added value but warns against any attempt to use such a definition to call into question the relevance of EU policies and programmes on purely quantitative or short-term economic considerations; Or. en Amendment 71 Nedzhmi Ali, Anneli Jäätteenmäki, Urmas Paet Draft opinion Paragraph 4 Draft opinion Amendment 4. Supports the move towards increased efficiency of farming and EU added value. 4. Underlines that agreeing on applying a sound definition of EU value added would benefit public debate and decision-making on future EU spending; supports the move towards increased efficiency of farming and EU added value. Or. en Amendment 72 Tomáš Zdechovský Draft opinion AM\1150350EN.docx 35/39 PE619.402v02-00 EN Paragraph 4 Draft opinion Amendment 4. Supports the move towards increased efficiency of farming and EU added value. 4. Supports the move towards increased efficiency of farming and EU added value; encourages to support the projects focusing on sustainable development, combat the climate change and development in ***rural*** areas. Or. en Amendment 73 John Howarth, Paul Brannen Draft opinion Paragraph 4 Draft opinion Amendment 4. Supports the move towards increased efficiency of farming and EU added value. 4. Supports the move towards increased efficiency of farming while strengthening animal welfare, public health, climate and environmental protection provisions and EU added value. Or. en Amendment 74 Jean-Paul Denanot Draft opinion Paragraph 4 – subparagraph 1 (new) Draft opinion Amendment Calls for increasing synergies between policies fostering ***rural*** development and policies supporting the integration of refugees; Or. en PE619.402v02-00 36/39 AM\1150350EN.docx EN Amendment 75 Monika Vana Draft opinion Paragraph 4 a (new) Draft opinion Amendment 4 a. supports the principle of budgetary efficiency and underlines that negative externalities generated by the CAP currently paid for by other parts of the national or EU budget are not acceptable; calls therefore for the CAP to transition to full sustainability, with full policy coherence with all other EU policies and international commitments. Or. en Amendment 76 Anneli Jäätteenmäki, Nedzhmi Ali, Urmas Paet, Nils Torvalds Draft opinion Paragraph 4 a (new) Draft opinion Amendment 4 a. Stresses the need to continue the financing for ***rural*** development measures; endorses in this context the principles of LEADER-method as it is fostering innovations, partnership and networking in ***rural*** areas; Or. en Amendment 77 Inese Vaidere Draft opinion Paragraph 4 a (new) Draft opinion Amendment AM\1150350EN.docx 37/39 PE619.402v02-00 EN 4 a. EU food standards must be maintained and strengthened where it is feasible; Or. en Amendment 78 Nedzhmi Ali, Anneli Jäätteenmäki, Jean Arthuis, Urmas Paet Draft opinion Paragraph 4 a (new) Draft opinion Amendment 4 a. Calls for increased support for family farms and young farmers; Or. en Amendment 79 Nedzhmi Ali, Anneli Jäätteenmäki, Jean Arthuis, Urmas Paet Draft opinion Paragraph 4 b (new) Draft opinion Amendment 4 b. Calls for better synergies between CAP and other EU policies, in particular regarding energy, water supply, land use, biodiversity and ecosystems, and the development of remote and mountainous areas; Or. en Amendment 80 Inese Vaidere Draft opinion Paragraph 4 b (new) PE619.402v02-00 38/39 AM\1150350EN.docx EN Draft opinion Amendment 4 b. Focus in the future farming should be on high-quality food production, rather than on large scale farming. Europe's competitive advantage lies in in the quality and not quantity of it's farming. Or. en Amendment 81 Inese Vaidere Draft opinion Paragraph 4 c (new) Draft opinion Amendment 4 c. Believes it is unacceptable that there are quality differences between food products which are advertised and distributed in the Single Market under the same brand and with the same packaging; welcomes the incentives by the European Commission to address the issue on dual food quality in the Single Market, including work on common testing methodology. Or. en Amendment 82 Nedzhmi Ali, Anneli Jäätteenmäki, Jean Arthuis, Urmas Paet Draft opinion Paragraph 4 c (new) Draft opinion Amendment 4 c. Urges the Commission and the Member States to monitor the significant price volatility of ***agricultural*** products and encourage the uptake of ‘risk management’ tools as they help to protect AM\1150350EN.docx 39/39 PE619.402v02-00 EN farmers’ incomes; Or. en Amendment 83 Nedzhmi Ali, Anneli Jäätteenmäki, Jean Arthuis, Urmas Paet Draft opinion Paragraph 4 d (new) Draft opinion Amendment 4 d. Calls for measures to further increase the competitiveness of food production sector, introduction of new technologies and increased productivity thus thereby strengthening the EU's leading role in the world. Or. en

**Load-Date:** April 24, 2018

**End of Document**



[***ICRA assigns provisional ratings to pass through certificates (PTCs) issued under a micro loan securitisation transaction originated by Belstar Investment and Finance Private Limited***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RW6-PJT1-JDVR-01FW-00000-00&context=1516831)

SeeNews Debt

March 15, 2018 Thursday 4:31 PM EEST

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**Byline:** SeeNews

**Body**

March 14, 2018 Belstar Investment and Finance Private Limited

Summary of Rated Instruments

Trust Name Instrument\* Initial Issued Amount

(Rs. crore1)

Rating action

Plover MFI

Northern Arc 2018

PTC Series A1 32.94 Provisional [ICRA]A(SO)

assigned

\*Instrument details are provided in Annexure I

Rating Action

ICRA has assigned Provisional [ICRA]A(SO) rating to PTC Series A1 under a securitisation transaction originated by Belstar Investment and Finance Private Limited(Belstar). The PTCs are backed by a pool of Rs. 45.00 crore micro loan receivables (underlying pool principal of Rs. 37.64 crore).

Rationale

The provisional rating is based on the strength of cash flows from the selected pool of contracts; the credit enhancement available through (i) First Loss Facility (FLF) in the form of cash collateral of 3.50% of the pool principal to be provided by the Originator, (ii) Second Loss Facility (SLF) of 3.50% of the pool principal, which will be in the form of an unconditional and irrevocable guarantee provided by a third party, (iii) subordination of 12.50% of the pool principal for PTC Series A1, (iv) the entire Excess Interest Spread (EIS) in the structure; and the integrity of the legal structure.

The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit Strengths

 The first line of support available for the transaction is through subordination of 12.50% of pool principal for PTC Series A1;

 Further credit support in the transaction is available through subordination of the excess interest spread (EIS) amounting to around 13.97% of the pool principal amount for PTC A1 followed by First Loss Facility (FLF) in the form of cash collateral of 3.50% of the initial pool principal and Second Loss Facility (SLF) to the extent of 3.50% of the pool principal in the form of an unconditional and irrevocable guarantee

 All contracts in the pool are current as on the pool cut-off date

 The pool consists of contracts with moderately high weighted average seasoning of 24.10 weeks

Credit Weaknesses

 The pool is geographically concentrated; the top state (Tamil Nadu) accounts for 98.9% of the pool principal while the top three districts account for 52.6% of the pool principal.

 Nearly 57% of the pool principal arises from contracts in loan cycle 1

1 100 lakh = 1 crore = 10 million

Description of key rating drivers highlighted above:

The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 12.50% of the pool principal (includes over collateralization). An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be first utilised for payment of scheduled principal of PTC A1 and the remaining would be passed on to the originator on a monthly basis.

Further credit support in the transaction is available through First Loss Facility (FLF) and Second Loss Facility (SLF). FLF in the form of cash collateral of 3.50% of the initial pool principal (Rs. 1.32 crore) will be provided by Belstar and will be in the form of a fixed deposit maintained with a bank. The SLF, to the extent of 3.50% of the pool principal (Rs. 1.32 crore) will be provided in the form of an unconditional and irrevocable guarantee by a third party.

In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the FLF and SLF to meet the shortfall. Additionally, EIS available in the structure will also provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have moderately high weighted average seasoning of 24.10 weeks and pre-securitisation amortisation of 33.0%. The door to door residual tenure of the contracts is moderate at 92 weeks. Additionally, the contracts have an average ticket size of Rs. 28,779 which is in line with industry standards.

The geographical concentration of the loan contracts in the current pool is high with top state constituting around 99% of the pool principal and the top three districts constituting 52.6% of the pool principal. Additionally, loan cycle 1 contracts account for nearly 57% of the pool principal. Such contracts have a limited repayment track record with the company.

Key rating assumptions

ICRA's cash flow modeling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the current macro economic situation as well as any industry specific factors that ICRA believes could impact the ***performance*** of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.50% - 5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12% - 18% per annum.

Analytical approach:

The rating action is based on the analysis of the past ***performance*** of Belstar's portfolio, key characteristics and composition of the current pool, ***performance*** expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Links to applicable Criteria

Rating Methodology for Securitisation Transactions

About the Company:

Belstar Investment and Finance Private Limited (Belstar) was incorporated in January 1988 at Bangalore and the Company was registered as NBFC with the RBI in March 2001. The Company has been reclassified as "NBFC-MFI" by RBI effective 11th December 2013. Belstar was acquired by the Hand in Hand group in September 2008 to provide microfinance services to entrepreneurs nurtured by the Hand in Hand India (HIH) Self Help Group (SHG) program. HIH is an NGO promoted by Dr Kalpana Sankar in 2002 as a public charitable trust based in Tamil Nadu.

Belstar started its micro lending operations in Tamil Nadu and Karnataka in April 2009. In the first five years of its operations post acquisition by HIH, Belstar primarily relied on taking over the existing groups formed by HIH. Belstar provides loans towards ***agriculture***, animal husbandry and micro-enterprises in the semi-urban and ***rural*** districts under SHG/JLG-based lending model. During FY2017, Muthoot Finance Limited has made a ***strategic*** equity investment of Rs 40 crore in the company and also acquired the entire stake from the foreign Investors. Currently, Muthoot Finance Ltd holds 64.6% stake in the company.

As on December 31, 2017, Belstar was operating with 215 branches in eight states and union territories and had a loan portfolio of Rs. 945 crore extended to 438,765 individual borrowers. 76% of the company's portfolio as on December 31, 2017, was in Tamil Nadu.

Key Financial ***Indicators***

Particulars H1 FY2018\* FY 2017# FY 2016#

Net worth (Rs. Cr.) 100.92 90.35 39.90

Operating Profit (Rs. Cr.) 21.99 19.75 9.78

PBT (Rs. Cr.) 18.04 15.97 9.18

PAT (Rs. Cr.) 11.84 10.44 6.11

Gross NPA (Rs. Cr.) 0.56 0.56 0.97

Provisions (Rs. Cr.) 0.48 0.48 0.25

Net NPA (Rs. Cr.) 0.08 0.08 0.72

Tier I Capital (%) 11.56% 13.15% 12.60%

Tier II Capital (%) 5.75% 3.85% 4.06%

CRAR (%) 17.31% 17.00% 16.66%

#Audited

\*Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table: Rating History

S.No

Name of

Instrument

Current Rating

Chronology of Rating History

for the past 3 years

Type

Rated

amount

(Rs.

Crores)

Month-year &

Rating

March 2018

Monthyear

&

Rating

in

FY2017

Monthyear

&

Rating

in

FY2016

Monthyear

&

Rating

in

FY2015

1

Plover MFI

Northern Arc

2018

PTC Series

A1

32.94

Provisional

[ICRA]A(SO)

assigned

- - -

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [*www.icra.in*](http://www.icra.in)

Annexure I

Details of Instruments

Sl. Trust Name Instrument

Date of

Issuance

Coupon

Rate

Scheduled

Maturity

Date\*

Initial

Amount

(Rs.

crore2)

Current Rating

1

Plover MFI

Northern Arc

2018

PTC Series

A1

Mar

2018

8.60% Dec 2019 32.94

Provisional

[ICRA]A(SO)

\* Scheduled maturity and average life at transaction initiation; may change on account of prepayment

and yield change

2 100 lakh = 1 crore = 10 million

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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[***Stakeholder collaboration: A means to the success of rural tourism destinations? A critical evaluation of the existence of stakeholder collaboration within the Mournes, Northern Ireland***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BM4-FYP1-JBMY-H065-00000-00&context=1516831)

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**ABSTRACT**

Tourism has long been pursued by governments as a means of development in ***rural*** areas. Negatively, ***rural*** areas have certain characteristics that inhibit their ability to achieve the full benefits of tourism. Consequently, many ***rural*** tourism destinations to date have found that the benefits to be gained are over-stated. Stakeholder collaboration has been deemed critical for the success of sustainable tourism. In fact, in the context of ***rural*** tourism destinations stakeholder collaboration can be particularly advantageous in addressing specific factors relevant to ***rural*** tourism destinations that may inhibit the success of the destination. However, successful attempts to implement stakeholder collaboration have been limited. A growing body of literature reveals that successful stakeholder collaboration relies on numerous elements, which have to be incorporated for the success of the process. The paper reveals how simply attempting to implement stakeholder collaboration is not enough for its success, instead various components need to be incorporated throughout the continuous process, in particular attention is paid to establishing trust across the various stakeholder group.

**FULL TEXT**

**Introduction**

Tourism research relating to ***rural*** areas can be traced back to the 1970s; however, it was referred to as recreation or leisure instead of tourism specifically. This was because it was not regarded as a subject of its own at this time (Gartner, 2004). Subsequently, research relating to ***rural*** areas was undertaken by a variety of different disciplines. Issues up until this point included ***rural*** resource management (Pigram, 1983), the positive and negative impacts of tourism (Pevetz, 1970), perception of ***rural*** tourism (Perdue, 1987) and concept of ‘rurality’ (Hoggart, 1990). From the 1990s onwards ***rural*** tourism became recognised as its own subject area, a specific type of tourism (Gartner, 2004; Sharpley and Roberts, 2004). ***Rural*** tourism as an area of tourism research, received increased attention corresponding with the increase in visitors to ***rural*** areas along with the increased development of tourism as a means for ***rural*** development among policy makers (Randelli et al., 2014; Sharpley and Roberts, 2004). Issues from this time dealt with the likes of niche types of ***rural*** tourism (e.g. ecotourism Gurung and Seeland, 2008), marketing issues (Devesa et al., 2010; Park and Yoon, 2009; Sharpley and Sharpley, 1997), the application of sustainable development to ***rural*** tourism development (Aslam et al., 2012; Travis, 2000; Zhou and Huang, 2004) and additional issues relating to farm diversification (Henderson and Hoggart, 2003; Sharpley and Vass, 2006). A review of ***rural*** tourism literature indicates a shift in perception.

Initially, ***rural*** tourism was viewed as an alternative economic development tool (Dernoi, 1991; Wickens, 1999), a panacea for the economic and sociocultural problems caused by the decline in traditional sectors such as out-migration of higher educated youth, high levels of unemployment and restructuring of the ***agricultural*** sector.

More recently, such positive perceptions and expectations have given way to more critical views of tourism as a viable development tool. Researchers have questioned the use of tourism development for ***rural*** areas given the fragile nature of the environment which could be easily changed or damaged through tourism development (Duffield and Long, 1981; Hall and Boyd, 2005; Hall and Lew, 2009; Lane, 1994).

Others have been critical because of the underachievement of benefits as initially promised with ***rural*** tourism development (Briedenhann and Wickens, 2004; Canoves et al., 2004). For example, tourism is widely praised as a way of supplementing farmers' incomes; however, studies have shown in reality this is not the case. For instance, Sharpley (2002) observed in Cyprus that income gained through agritourism was not only lower than expected but also failed to cover the initial investment.

Regrettably, the tourism industry is not a panacea for ***rural*** areas but a paradox. On the one hand, tourism can produce significant environmental, sociocultural and economic benefits; however, when inefficiently controlled and planned it can equally cause negative impacts (Gunn, 2002; OECD, 1991). Thus tourism can be a contributing factor to the destruction of a destinations' natural resource base (Lebe and Milfelner, 2006; Mbaiwai, 2005; Plog, 1974). The response has often been to implement sustainable forms of tourism in ***rural*** regions to combat any negative consequences (Garrod et al., 2006; Lane, 1994; Sharpley and Sharpley, 1997). However, much research to date suggests that sustainable tourism has had only limited success in practice (Liu, 2003; Mbaiwa, 2005; Tosun, 1998, 2001). Stakeholder collaboration deemed a prerequisite of sustainable tourism in recent times (Bramwell and Lane, 1999; Hall, 2000; Selin, 1999), has much to offer ***rural*** destinations when carried out effectively. Stakeholder collaboration should be concerned with allowing for greater consideration of issues affecting the host community (Bramwell and Lane, 1993), conflict control (Yuksel et al., 1999) and increased competitiveness (Murdoch, 2000; Saxena, 2005). Simply put it can positively affect many components that allow for sustainability to occur.

Unfortunately, the success of stakeholder collaboration in practice is limited (Fyall and Garrod, 2004). In fact, Spyriadis (2002) explains how over half of all collaborative relationships result in failure. Consequently, research looking at the process of stakeholder collaboration in practice, its effects and limitations is critical in order to look at how to improve stakeholder collaboration. Thus, the purpose of this paper is to critically evaluate the stakeholder collaboration attempts within the case study region of the Mournes in Northern Ireland; a ***rural*** area declared as an Area of Outstanding Natural Beauty (AONB) in 1966. Using a set of conditions for successful collaboration as taken from the extant literature (Bramwell and Sharman, 1999; Byrd, 2007; Gunn, 1994; Healey, 1998; Jamal and Getz, 1995; Nicodemus, 2004), the paper aims to highlight the difficulties of stakeholder collaboration within a ***rural*** context, as well as show the affects when certain factors are not present. In short, the paper explores how the theory of stakeholder collaboration can be made operational and effective in a real life context, namely the Mournes. The overall aim is to provide insight that will aid in the future attempts of stakeholder collaboration and allow for greater success in its implementation.

**Stakeholder collaboration and *rural* tourism**

**Stakeholder collaboration**

Stakeholder collaboration has its origins in stakeholder theory, a concept popularised by Freeman (1984) who expanded on the original work by the Stanford Research Institute in 1963. Stakeholder theory has been adopted by many disciplines over the years to include manufacturing (Vachan and Klassen, 2008), natural resource management (Reed et al., 2009) and tourism (Graci, 2013). Early adopters of the theory by tourism scholars included Murphy (1983) who was one of earliest to argue that tourism was essentially resource-based and in order for the industry and destination communities to benefit a mutually symbiotic relationship should be developed. Other scholars later recognised the need for the involvement of residents in tourism development due both to the lack of benefits they received and the negative consequences they had to address (Hardy et al., 2002; Simmons, 1994).

The idea of stakeholder involvement in the tourism industry has grown in popularity largely due to the belief that it can play a positive impact in sustainable tourism (Bramwell and Lane, 1999; Selin, 1999; UNEP and UNWTO, 2005), recognising the need for multiple legitimate stakeholders beyond only residents to be involved (Sautter and Leisen, 1999), and embracing activities that support participation, engender empowerment and allow for a more inclusive type of stakeholder involvement to take place (Carmin et al., 2003). As a consequence, scholars value its merits across a range of tourism environments and types, including urban (Ladkin and Bertramini, 2002), heritage (Aas et al., 2005; Landorf, 2009) and ***rural*** (Bramwell and Sharman, 1999).

***Rural* tourism with reference to collaboration**

***Rural*** tourism is a contested area of on-going debate as multiple definitions have emerged over time. Prior to the 1970s, ***rural*** tourism consisted of specific types of tourism and businesses mainly agritourism and ***rural*** lodging establishments (Sznajder et al., 2009). Currently, ***rural*** tourism is much broader; including multiple activities, businesses and sub types of tourism that take place in ***rural*** areas (Lebe and Milfelner, 2006). The key components forming the ***rural*** tourism product, however, have not substantially changed. These include the natural resources of ***rural*** environments and the local residents/hosts involved in the industry (Hernandez-Maestro and Gonzalez-Benito, 2014). Lebe and Mifelner (2006) consider these as the competitive advantage over other environments as they offer an authentic opportunity for meaningful engagement combined with a specialised understanding of the interrelationships between this setting, residents involved and their culture.

These elements are continuously being threatened by tourism development. There is established agreement that peripheral/***rural*** areas are vulnerable to tourism damage (Hall and Boyd, 2005; Hall and Lew, 2009). Furthermore, the favourable attitude of local residents towards tourists relies hugely on whether local residents have a favourable attitude towards tourism (Rodriguez, 2007). Tourism developed incorrectly can lead to residents being hostile towards tourists. Additionally, ***rural*** tourism destinations are limited compared to urban destinations with regards to their capacity to benefit from tourism. This is because ***rural*** tourism destinations lack many of the factors necessary for successful tourism development (Gunn, 1988), facing too often a poor infrastructure, inadequate services, a lack of accessibility, the absence of appropriate knowledge and skills and presenting an unclear and fragmented destination image (Dolli and Pinfold, 1997; Getz, 2005; Hall and Boyd, 2005; Lebe and Milfelner, 2006).

Stakeholder collaboration can be of significant benefit to ***rural*** tourism destinations as it offers two competitive assets; first, the active participation of stakeholders in tourism development and second, a form of management that can facilitate wider support for tourism development (Keogh, 1990; Lankford and Howard, 1994). According to Rodriquez (2007), local residents are perceived as being more open and friendly towards tourists. Effective stakeholder collaboration can also contribute towards the prevention of the degradation of natural resources. Lebe and Milfelner (2006) observed that local residents often contribute to the destruction of their own natural resources through the combination of high levels of motivation towards economic benefits that accrue from tourism, alongside a lack of knowledge which can result in the development of tourism that ignores the needs and characteristics of their own destination. Stakeholder collaboration can reduce this problem, through the active participation of stakeholders. Accordingly, local residents can gain greater awareness and understanding of the key issues affecting their destination (WTO, 2004). It is equally feasible to suggest that stakeholder collaboration can also address the limiting factors affecting the competitiveness of ***rural*** destinations; in particular an unclear and fragmented destination image (Dolli and Pinfold, 1997). Stakeholder collaboration can act as a means to create a competitive destination image.

Despite the body of research that has been undertaken on stakeholder collaboration, often focused on community-driven tourism and stakeholder participation, successful implementation in practice has been somewhat limited (Fyall and Garrod, 2004). In fact, Spyriadis (2002) explains how over half of all collaborative relationships shown in empirical studies have resulted in failure. Arguably, this lies partially with the complexity of the stages involved; first, the identification of legitimate stakeholders, second, stakeholder participation and third, effective collaboration. For this process to work, it requires the incorporation of a set of criteria, including the identification of legitimate stakeholders, and providing the necessary level of education and knowledge to allow for full and equal participation in the decision-making and collaborative process (Jamal and Getz, 1995; Nicodemus, 2004). The absence of relevant stakeholders early on may lead to the failure of the process (Clarkson, 1995).

**Case study of the Mournes AONB**

The Mournes AONB is located on the Southeast coast of Northern Ireland, south of Belfast and in close proximity to the city of Newry (Figure 1). The area is approximately 570 km2 in size and encompasses the jurisdictions of three District Council areas of Down, Banbridge, and Newry and Mournes. As a peripheral destination, the Mournes landscape is known for its significant biological value, its diverse habitats and landscapes, priority species and its rich cultural heritage and traditions; resulting in its designation as an AONB in 1966. Figure 1.Study area: Mournes (AONB), Northern Ireland.

The economy of the Mournes is fragmented; dependant on multiple sectors including: farming, fishing, mineral extraction, water supply, forestry and more recently tourism. Of these, tourism and farming are the two most significant, the former taking on increasing importance as of late with the decline of the other sectors.

The Northern Ireland National Assembly has recognised the significance of the natural resources within the Mournes and the need to protect these from tourism development. Mourne Heritage Trust is a major Environmental Non-Governmental Organisation set up in 1997, has taken on responsibility toward effective management of the region, including tourism. Since 2003, a model of tourism has been developed around the European Charter for Sustainable Tourism (MHT, 2012).

The Mournes hold several difficulties related to tourism development but common to ***rural*** areas. These include a fragmented economy, high levels of outmigration, a lack of skilled human resources, a poor transport network, a dependence on tourism, but one where the industry lacks the basic infrastructure of adequate car parks, quality star grading hotels and food and beverage outlets (Northern Ireland Tourism Board (NITB), 2013). Its competitive advantage, however, is the unspoilt natural resources and the diverse mix of landscapes present. This is increasingly threatened with the continuous rise in tourist numbers and heightened pressure being placed on the natural resources in the form of trampling damage and litter left in the countryside. Management find it difficult to implement the necessary measures required given financial restraints (McAreavey, 2010). Moreover, the increasing dependence on tourism presents a significant threat to the area as extant literature entails when residents are more dependent on tourism they are likely to be positive and accepting of tourism development, even when tourism causes negative consequences. Consequently, the success of sustainable tourism is imperative in this scenario (McAreavey and McDonagh, 2010). Stakeholder collaboration thus is highly beneficial to the Mournes if sustainable tourism is to be achieved.

The Mournes AONB was selected as the study site for several reasons. Firstly, the area has much to gain from improvements to the concept of sustainable tourism as at present the concept appears to be having limited effect in migrating the negative impacts of tourism given the continuous rise in tourism damage (Bell and Stockdale, 2007; McAreavey and McDonagh, 2010). Secondly, although many stakeholder collaboration activities have taken place, there is evidence that stakeholder collaboration is non-existent as there is much conflict among stakeholders; thus critically evaluating the stakeholder collaboration attempts in such a destination may indicate the possible reasons behind the limited success. Finally, scholars have argued that where destinations are fragmented, a collaborative approach is favourable (Jamal and Getz, 1999). The Mournes (AONB) is a fragmented destination because the economic structure is made up of multiple sectors while tourism development is undertaken by numerous stakeholders; this has given rise to conflicts among stakeholders.

**Methodology**

The researchers used a mixed method approach, involving the use of qualitative (in the form of content analysis) and quantitative date (in the form of a questionnaire to a number of stakeholder groups). The questionnaire was designed around the extant literature on stakeholder collaboration and participation (e.g. Bramwell and Sharman, 1999; Byrd, 2007; Gunn, 1994; Healey, 1998; Jamal and Getz, 1995; Nicodemus, 2004).

The sample consisted of the key stakeholders within 10 towns/villages as identified in reports as being part of the Mournes AONB. The identification of key stakeholders was undertaken in accordance with a refined definition of a stakeholder as provided by Freeman (1984); for this particular research a stakeholder was defined as any individual or group who either has an impact or is impacted by tourism development. Altogether five stakeholder groups were identified; these included the host community, tourists, non-governmental organisations, the tourism industry and governmental bodies. A stratified sampling approach was used. Respondents from each stakeholder group were identified through a mix of secondary sources; websites, yell.com, Discover Ireland, Government management and special interest reports. Altogether a total of 242 responses were gathered.

Content analysis was undertaken among previous stakeholder collaboration attempts to critically identify the presence of conditions proposed by scholars to allow for the success of stakeholder collaboration. Reports, management plans, documents were some of the secondary research used to undertake this as shown in Tables 1 and 2 below. Table 1.Trust reports used for secondary data.

|  |
| --- |
| Trust • Annual report and accounts: April to March 2011–2012 (Mourne Heritage Trust, 2012) (MHT) • Report on the outcome of the Mourne National Park consultation exercise: Independent report on the nominees of the Mourne Trustees (Mourne Trustees, 2007) • Mourne Mountain Landscape Partnership conservation plan (The Mourne Heritage Trust, 2010) • Destination Mourne Mountains Tourism Plan (Northern Ireland Tourism Board, 2013) (NITB) |

Table 2.Government reports used for secondary data.

|  |
| --- |
| Government • Mourne National Park Working Party report to the minister (Mourne National Park Working Party, 2007) • Report to the Mourne National Park Working Party on the outcome of their public consultation “Your opportunity to have your say” (Inform Communications NI Limited, 2007) • National Parks: Stakeholder event at the Balmoral Show (Committee for the Environment, 2012) |

**Results and discussion**

**Mourne National Park Working Party consultation process**

Established in October 2004, the Mourne National Park Working Party (MNPWP) was set up at the request of the Environment Minister Angela Smith to aid in the development of a National Park in the Mournes. One of their tasks was to undertake a three month consultation process with two primary aims to inform people of the facts surrounding the National Park and to gain their opinions of it (Inform Communications, 2007).

On the surface without a critique against the conditions put forward by scholars it appears to be an example of stakeholder collaboration that could possibly be a success. Unfortunately, detailed examination of the process reveals this is not the case. Instead, as evident in Table 3, a large majority of conditions are not present which has led to many negative effects which have the ability to cause both short- and long-term consequences. Such effects include mistrust, question of legitimisation, conflict and disillusionment among stakeholders.Stakeholder collaboration has a common assumption of having the ability to address unbalanced power by involving numerous stakeholders (Reed, 1997), others disagree on the basis that it ignores the constraints of power and resource flow (Aas et al., 2005; Healey, 1998). The MNPWP demonstrates the inability of stakeholder collaboration to allow for power balances. In fact, there is evidence that collaboration can actually feed power unbalances between both the public and private sector but also among the private sector themselves primarily because of the collaboration process and how it was undertaken. Table 3.Critique of The Mourne National Working Party (MNPWP) consultation process.

| **The presence of conditions for effective stakeholder collaboration in the Mourne National Park Working Party consultation process** | **Present/Not Present** |
| --- | --- |
| Identification of legitimate stakeholders | X |
| Education and training provided for those lacking knowledge and skills to participate fully | X |
| Stakeholders involved throughout the process | X |
| Collaboration activities are fair, efficient, knowledgeable, wise and stable | X |
| Sufficient resources | X |
| Convener is legitimate with expertise and knowledge | X |
| Interests identified and understood of stakeholders not involved | X |
| Activities used allow for the active participation of stakeholders | X |
| Stakeholders believe their participation has the potential to influence decisions | X |
| Wide range of activities used to involve stakeholders | ✓ |

Key: Present (✓); Not Present (X).

In terms of power unbalances between the public and private sector, this can be seen throughout the process even before it actually begun. The idea of the proposed National Park came from vertical power, the government, not from local stakeholders within the Mournes (Bell, 2011; McAreavey and McDonagh, 2010). Likewise, the objectives of the consultation process itself amplified this power imbalance; the working party was not instructed to identify whether stakeholders wished for the proposed National Park as stakeholders commonly thought. Instead their role was to find possible boundaries and management structures for the park. This information was then to be fed back to the government who would make the final decision (McDonagh et al., 2009). This led stakeholders to believe that even with their input they would not be able to influence the end decision and that important decisions were being made outside the control of the local stakeholders (McAreavey and McDonagh, 2010). Thus the legitimacy of the working party was raised by some stakeholders with the MNPWP viewed as both a ‘smoke screen and a done deal’ (Meeting 2, 28 October (2004) item 3f). This perception had a negative influence on the willingness and ability to have multiple stakeholders involved in the process (Bell, 2011). Likewise, the absence of being able to identify legitimate stakeholders had a significant impact in terms of ensuring the process of stakeholder involvement had credibility.

Within the Mournes there are 1500 landowners the biggest of which is the Mourne Trustees (Haydon, 2007). In line with the definition of a stakeholder, the Mourne Trustees is most definitely a key stakeholder within the Mournes. Unfortunately, throughout the consultation process their involvement was less than adequate. From the outset of the process the nominees for the trustee were excluded from the committee with its initial establishment (The Mourne Trustees, 2007). Further, the nominees were not part of the group sent to the Department of ***Agriculture*** and ***Rural*** Development to discuss issues affecting farmers, although the Mourne Trustees both represent and have a close relationship with farming communities. Even within the committee, power imbalances led to the overthrow of the Mourne Trustees opinions regarding the information being put into the report and presented to the minister. This eventually led to the loss of confidence on behalf of trustees in the process and resign from the committee (The Mourne Trustees, 2007).

There was also an issue with power imbalances among private stakeholders. Of all the stakeholder groups, the farming and landowning community held the majority of the power. Many stakeholders complained that they had limited opportunity to express their opinion within public consultation meetings as a result of the behaviour of this stakeholder group. Research undertaken by Bell (2011) on stakeholder opinions at the public meetings found one interviewee describing the meetings as ‘farcical’ another explained that with the farming community shouting and opposing, others did not get an equal chance to express their opinion. However, it is arguable that this behaviour by the farming and landowner community lies with the failure of other conditions deemed critical for effective collaboration such as power balance among the public and private sector and adequate information provided by the convenor, in this case the working party.

Bell (2011) argues that the use of vertical power from the government to initiate the idea of the National Park led to the vociferous and dominating nature of the anti-National Park voice. Consequently, greater involvement from stakeholders from the start of the process could have minimised this problem. Likewise, these stakeholders had a number of concerns over the designation of the Mournes as a National Park. Initially they requested information, however their questions remained unanswered as the working party lacked the information given that legislation forming the proposed National Park was not made public; thus what a National Park meant in practice was not known by both stakeholders and members on the working party (Johnson, 2009; McAreavey, 2010). Subsequently, this led some of the stakeholders in the farming and landowning community to disengage in the process and instead communicate their opposition in the way they did (Bell, 2011).

Collectively, this presents a threat to the Mournes as a tourism destination and also for sustainability. The failure of this stakeholder collaboration has caused disillusionment among the local community. Consequently, it is unlikely for some time that stakeholder collaborations attempts will be effective any time soon (Bell, 2011).

Further, Cassidy (2010) explains that there is a growing gap between supporters and critics regarding the National Park as such, this could cause increased conflict among stakeholders. The belief that stakeholder collaboration is hugely beneficial for tourism destinations is missing a very important point in that it can equally have a devastating impact if not carried out effectively. Further, for ***rural*** tourism destinations it can be particularly devastating in that it can have an impact on the two components deemed to be the region's competitive advantage.

Within regard to the results from the questionnaires, similar results were found as evident in Table 4. Opinions were divided in relation to the statement ‘I am involved in decision-making for tourism development in this community’. Of all stakeholder groups government respondents had the greatest involvement with (53%) being in agreement. With respect to this statement, there was insufficient involvement from the other stakeholder groups where only 14% of respondents from the host community and 22% of respondents from the tourism industry were in agreement. Table 4.Stakeholder's perception of stakeholder collaboration.

| **Statements stakeholder group** | **Agree (%)** | **Neutral (%)** | **Disagree (%)** |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **H** | **T** | **NG** | **G** | **H** | **T** | **NG** | **G** | **H** | **T** | **NG** | **G** |  |
| I am involved in the decision-making for tourism in this community | 14 | 22 | 31 | 53 | 20 | 34 | 36 | 20 | 66 | 44 | 36 | 27 |
| All necessary stakeholders are involved in the tourism development process | 15 | 22 | 43 | 47 | 34 | 38 | 14 | 20 | 51 | 41 | 43 | 33 |
| All stakeholders have an equal part to play in the decision-making for tourism development | 49 | 53 | 43 | 40 | 20 | 25 | 36 | 27 | 31 | 22 | 22 | 33 |
| I have always understood the topics brought up through the tourism development process | 34 | 48 | 64 | 80 | 29 | 23 | 21 | 7 | 37 | 29 | 14 | 13 |
| Sufficient education/training has been provided for topics unknown to stakeholders | 12 | 16 | 14 | 13 | 40 | 39 | 43 | 20 | 48 | 45 | 43 | 67 |
| My needs and concerns are met with current tourism development plans | 19 | 19 | 21 | 33 | 36 | 36 | 36 | 53 | 45 | 45 | 43 | 13 |
| Planners and developers have used a range of activities to best involve all stakeholder groups in the tourism development process | 25 | 30 | 36 | 47 | 31 | 30 | 7 | 27 | 44 | 40 | 57 | 27 |
| Planners and developers have actively sought out input from all stakeholder groups | 22 | 19 | 29 | 67 | 36 | 45 | 21 | 20 | 42 | 36 | 50 | 13 |
| I have only been involved in the later stages of the development plans | 17 | 13 | 21 | 47 | 62 | 84 | 57 | 27 | 21 | 3 | 21 | 27 |

H=Host Community; T=Tourism Industry; NG=Non-Governmental; G=Government.Source: Authors own source.

This indicates that stakeholder collaboration is not evident in the Mournes. Scholarly opinion holds that as stakeholder collaboration is the joint decision-making amongst key stakeholders (Jamal and Getz, 1995), then joint decision-making is not possible without the inclusion of all necessary stakeholders. This finding is in line with previous collaboration attempts in the Mournes. The survey further disclosed some variations amongst stakeholder groups in relation to ‘my needs and concerns are not met with current tourism development plans’. Only 13% of government respondents were in disagreement with the statement, other stakeholder groups showed a higher percentage of disagreement: the host community (45%), the tourist industry (45%) and Non-Governmental Organisation's (43%). A possible explanation behind these high percentages of disagreement is their lack of involvement in the decision-making process in contrast to government stakeholders. This is in line with the previous research that indicated when decisions are made from the top-down they are not perceived by the local community to be representative of the community interests and opinions (Byrd, 2007). This too was found to be evident in previous collaboration efforts with the development of the MNPWP report, the power imbalance of the public sector over the private sector resulted in numerous issues raised during the public consultations to be avoided in the main report (The Mourne Trustees, 2007). Both primary and secondary data found that the failure of stakeholder collaboration in the Mournes to be caused by the absence of the conditions put forward by scholars which supposedly allow for the success of stakeholder collaboration (e.g. Bramwell and Sharman, 1999; Byrd et al., 2009; Gunn, 1994; Healey, 1998; Jamal and Getz, 1995; Nicodemus, 2004).

In relation to ‘all necessary stakeholders are involved in the tourism development process’, opinions were evenly decided amongst the host community, the tourism industry and between the non-government and government stakeholder groups. The former two stakeholder groups had a lesser percentage of respondents who agreed, the latter two had a greater percentage. This matches the research found through the content analysis of previous collaboration attempts which identified the insufficient involvement of a key stakeholder group: the landowners and the farmers in the Mournes. The large ownership of the land and ability to reduce/increase access to visitors, their dissatisfaction with tourism can negatively affect tourists as found by previous studies (Gursoy and Rutherford, 2004; Rodriguez, 2007). Despite this, their active involvement in tourism development is insufficient. In many collaboration attempts they were largely unrepresentative. In addition to the examples identified earlier, it was also found that they were inadequately representative in the development of the eastern Mournes Special Area for Conservation plan in that they were not involved throughout the process. Also more recently, with regard to the Mourne Mountain landscape partnership they were not included as one of the key representatives as in the report (The Mourne Heritage Trust, 2010). In fact, on some occasions they had no involvement at all. For instance, the Mournes working party report indicated that the Northern Ireland Tourism Board, the three councils and the Mourne Heritage Trust were collectively working on a tourism strategy that addressed the growth of tourism and marketing, infrastructural requirements and visitor management issues, but there was no mention of the involvement from landowners and farmers (The Mourne National Park Working Party, 2007). Consequently, their needs and concerns were not taken into consideration on many occasions. In the Mourne National Park proposal, a fundamental concern of farmers and landowners was that of occupier's liability, however, this was not addressed by the plans. Thus, the farmers and landowners felt there were more costs than benefits and opposed the proposed National Park. This matches previous studies (Husbands, 1989; Lankford and Howard, 1994; Madrigal, 1993) that indicates stakeholders who gain benefits from tourism will support tourism development and vice versa.

The study further disclosed issues not identified in the secondary research. In response to the statement ‘I have always understood the topics brought up through the tourism development process’ reactions were varied greatly between different stakeholder groups. A greater percentage of government respondents (80%) and non-government respondents (64%) agreed with the statement, whereas respondents from the host community and the tourism industry had significantly lower respondents in agreement at 34 and 48%, respectively. Likewise only 12% of host community respondents and 16% of tourist industry respondents were in agreement with the statement ‘Sufficient education/training has been provided for topics unknown to stakeholders’. Collectively, these findings indicate that although the members of the host community and tourism industry may be involved in the decision-making process, their lack of understanding of tourism topics makes it questionable whether they are fully able to participate in the decision-making process at an equal level. These findings may too indicate the possible reason behind the lack of stakeholder involvement from these two stakeholder groups, as past research found that the lack of knowledge and understanding of stakeholders often prevented them from putting forward their ideas (Jepson et al., 2013).

**Conclusion and recommendations**

The purpose of this research was to ascertain the success of stakeholder collaboration within the Mournes AONB through the presence of conditions put forward by several scholars (Bramwell and Sharman, 1999; Byrd et al., 2009; Gunn, 1994; ; Healey, 1998; Jamal and Getz, 1995; Nicodemus, 2004). The findings reveal several things. In the context of the Mournes stakeholder collaboration has not been successful because numerous conditions are not in place. Negatively, the absence of such conditions has led to many negative consequences which affect both the competitiveness of the destination and also the chances of effective stakeholder collaboration in the future. As such, the research brings to light the importance of carrying out stakeholder collaboration effectively with the conditions put forward by scholars as key requirements to its success.

On a broader level, the research also brings to light the complexity of the process and raises questions regarding the widespread notion that stakeholder collaboration is always beneficial as found in the extant literature. In fact, the research reveals the opposite to be true in that even when attempted many times, and not done correctly it is just as devastating as no stakeholder collaboration at all. As such it raises the question should stakeholder collaboration be attempted at all if it is not fully certain that it can be implemented correctly based on the conditions put forward by scholars.

In terms of further research numerous areas were identified through this study. Firstly, this research found that the conditions put forward by scholars when absent had a severe impact on other conditions and the entire process itself. Given that all destinations differ from each other in order to improve the process of stakeholder collaboration, research similar to this should be conducted in other types of tourism destinations to identify the presence of conditions and their effects when absent. This may highlight some problems taking place at destinations as a result of unsuccessful stakeholder collaboration attempts and allow for the necessary action to take place while also allowing for research that will help improve the effectiveness of stakeholder collaboration.

Secondly, it would be naïve to presume that the end outcome of stakeholder collaboration can be determined as simply effective or ineffective. Instead, a more plausible assumption is that stakeholder collaboration has varying degrees of effectiveness throughout the process. Subsequently, future research should also focus on the positioning of the participation of stakeholders in order to be as effective as possible, namely should this be at the point of conception of an idea, at the point of implementation, or between conception of an idea and its implementation. Future research questionnaires should be designed to elicit responses to this issue from stakeholders. Only by understanding the effectiveness of stakeholder involvement can solutions to problems be developed, existing problems mitigated and action taken by the requisite governing bodies.

In terms of the case study area an important follow-up study would be to conduct longitudinal research to ascertain the long-term consequences of failed stakeholder collaboration attempts. As such, this future research could bring to light observations regarding stakeholders' perception towards tourism development, sustainability as well as attitudes residents exhibit towards tourists.

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EN EN EUROPEAN COMMISSION Brussels, 9.10.2017 COM(2017) 583 final REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS My region, My Europe, Our future: The 7th report on economic, social and territorial cohesion {SWD(2017) 330 final} 1 INTRODUCTION This report fulfils two requirements : (1) It reports on how cohesion has evolved in EU regions over the recent past and assesses the impact on this of national policies, cohesion policy and other EU policies as required by the Treaty on the Functioning of the European Union1. The accompanying Staff Working Document (SWD) consists of 6 chapters: on economic development, social inclusion, sustainable development, improving institutions, national policies and cohesion, and the impact of cohesion policy. The impact of other EU policies is considered in the first four chapters. (2) It reviews the measures linking the effectiveness of the European Structural and Investment (ESI) Funds to sound economic governance, as required by the Regulation on Common Provisions with regard to the Structural Funds2. This review is summarised in Section 9 below and set out in full in Section 5.3 of the SWD. 1. REGIONAL DISPARITIES ARE NARROWING AGAIN After the double dip recession in 2008 and 2011, the EU economy is now growing again. The crisis seriously affected almost all Member States.

It halted the long-term reduction in disparities in GDP per head between Member States. With the beginning of the recovery, however, these disparities have started to shrink again with growth everywhere, and higher rates in countries with lower levels of GDP per head. The first signs of narrowing disparities are also evident at regional level across the EU. From 2008 onwards, regional disparities in employment and unemployment rates widened along with those in GDP per head. In 2014, disparities in employment started to narrow, followed by disparities in GDP per head in 2015. Nevertheless, many regions still have a GDP per head and an employment rate below pre-crisis levels. Between 2000 and 2015, GDP per head in many less developed regions converged towards the EU average through faster productivity growth, but they lost employment. The manufacturing sector in these regions has for the most part performed well, which has helped firms to compete both inside the Single Market and globally. To ensure that their convergence continues, these regions will have to move up the value chain to activities with a higher skill, technology and innovation content, especially because globalisation and technological change3 could quickly undermine their economic ***performance***. 1 (Hereinafter referred to as 'the Treaty'), see Article 175. 2 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (…) (OJ L 347, 20.12.2013, p. 320), see Article 23. 3 European Commission 'Reflection Paper on Harnessing Globalisation' - COM(2017) 240 final, 10.5.2017 2 The regions with GDP per head well above the EU average have grown faster than the less developed ones through a combination of both productivity and employment growth. As most of the higher GDP per head regions contain a national capital or a large city, they benefit from agglomeration economies while a bigger labour market makes for a better matching of skills. The concentration of activities attracts specialised services and suppliers. Infrastructure investment in transport and ICT generates higher returns, while the spatial proximity of firms produces more innovation and knowledge spillovers. These benefits can be extended by improving links between large cities and their ***rural*** hinterland or between smaller cities, where the sharing of specialised services can give rise to economies of scale. Several of the regions with a GDP per head close to the EU average, however, seem stuck in a ‘middle-income trap’. On average, GDP per head fell between 2000 and 2015 relative to the EU average in many of these regions (see Maps 1 and 2). Their manufacturing sector is smaller and weaker than in regions with both a lower and higher GDP per head. Their costs tend to be too high to compete with the former and their regional innovation systems not strong enough to compete with the latter. To improve their ***performance***, multiple changes need to happen at the same time: a stronger export-orientation, a shift into new sectors and activities, a boost to research and innovation, an increase in education and training and an improvement in the business environment. Globalisation has caused substantial job losses in many of the regions, but the provision of training alone to workers laid-off does not ensure new job creation and the structural transformation needed. 2. EMPLOYMENT HAS RECOVERED, BUT UNEMPLOYMENT IS STILL ABOVE ITS PRE-CRISIS LEVEL In 2016, the employment rate of those aged 20-64 in the EU exceeded the pre-crisis level for the first time. At 71%, it is 1 percentage point higher than in 2008 but still well below the 75% target for 2020 set by the Europe 2020 strategy. The situation, however, varies markedly across the EU. The unemployment rate across the EU has fallen from a high of 10.9% in 2013 to 8.6% in 2016 and 7.7% in 2017, still above the 7% it was in 2008. In some countries, the rate is lower than in 2008, but in others it is still at least 5 percentage points higher. Regional disparities in unemployment rates had not narrowed up to 2016, but they had largely ceased to widen. However, in particular people under 25 still face problems getting a job (see Map 3). Although there was some move towards the Europe 2020 targets between 2010 and 2015, the rate of progress is not enough to achieve them by 2020. The more developed regions are closest to achieving them, but less developed regions made more progress towards them up to 2015. The transition regions (those in between) made almost no progress up to then and will be overtaken by the less developed regions by 2020 if the trends persist. ***Rural*** areas are furthest from meeting the EU targets, but they made more progress than the cities, towns and suburbs up to 2015. 3 Map 1 Change in GDP per head index, 2000-2008 Map 2 Change in GDP per head index, 2009-2015 4 Map 3 Population aged 15-24 not in employment, education or training, 2016 3. SOME REGIONS HAVE RAPID POPULATION GROWTH WHILE OTHERS DEPOPULATE For the first time, deaths outnumbered births in the EU in 2015, which strengthens the impact of migration and mobility on regional population. The big differences in unemployment and income across the EU encourage people to move to find better job opportunities and/or escape unemployment and poverty. Movements have predominantly been from the EU-13 to the EU-15 and within the EU-13 from ***rural*** regions to capital and other large cities. In several regions, this has led to rapid changes in population, 5 which has put pressure on public infrastructure and services either to up or downscale them. In the recent past, the EU has also seen a rapid increase in people applying for asylum, reaching 1.2 million first-time applications in both 2015 and 2016. Ensuring that all refugees or migrants legally residing in the EU are effectively integrated is important for cohesion and future prosperity. Improving their skills to help them find a job, helping them to set up a business, providing them with better access to finance and tackling discrimination are all key achieving this. Map 4 Change in population in NUTS 3 regions, 2005-2015 6 4. CITIES COMBINE OPPORTUNITIES WITH CHALLENGES Despite the growing concentration of jobs in cities, the share of low work intensity households is the highest in EU-15 cities. The risk of poverty or social exclusion in the EU has fallen back to its pre-crisis level. In the EU-13, it is even lower than before the crisis, but in the EU-15 it remains higher than before in cities, towns and suburbs. This highlights the fact that pockets of poverty4 exist even in relatively well-off cities. Cities are more efficient in terms of energy and land-use5 and offer the possibility of a low-carbon lifestyle. At the same time, air pollution with all its damaging effects on human health remains a concern in many European cities. Integrated strategies can make a big impact in cities. For example, improving urban transport can reduce congestion, make firms more productive and connect deprived neighbourhoods. Institutes of higher education can help to integrate migrants, promote innovation and provide skills missing in the local labour market. Nature based solutions, such as urban green spaces can improve quality of life, air quality and bio-diversity. 5. INVESTMENTS IN INNOVATION, SKILLS AND INFRASTRUCTURE ARE INSUFFICIENT Overall, innovation in the EU remains highly concentrated in a limited number of regions (see Map 5). In north-western Member States, good interregional connections, a highly skilled labour force and an attractive business environment have allowed neighbouring regions to benefit from their proximity to the regions concerned. In southern and eastern Member States, the innovation ***performance*** is weaker and regions close to centres of innovation — mainly the capitals — do not benefit from their proximity. This calls for policies that connect firms, research centres and specialised business services across regions. Investing more in skills could help to improve economic growth by narrowing the skills gap and help to reduce poverty, youth unemployment and social exclusion. Public investment in the EU is still below its pre-crisis level with major gaps in some of the countries most affected by the crisis. More investment will be needed to complete the trans-European Transport network (TEN-T) and the connections to this. Basic broadband services are accessible to all households in the EU, but next generation access — which is much faster — is only available to 40% of ***rural*** residents compared to 90% of urban ones. 4 European Commission 'Reflection Paper on the Social Dimension of Europe' - COM(2017) 206 final, 26.4.2017 5 European Commission and UN-Habitat: The State of European cities report, 2016. 7 Map 5 Regional innovation ***performance***, 2017 6. MORE INVESTMENTS NEEDED IN ENERGY EFFICIENCY, RENEWABLES AND LOW-CARBON TRANSPORT TO REDUCE GREENHOUSE GAS EMISSIONS Substantial progress has been made in limiting energy consumption and greenhouse gas emissions. Most Member States have either reached or are close to reaching their national 2020 targets for greenhouse gas emissions and renewable energy. This in part has been facilitated by the crisis reducing economic activity. The current recovery may, therefore, put these achievements in jeopardy. Reaching the more ambitious EU targets of a 40% reduction of greenhouse gas emissions and 27% share of renewable energy by 8 2030 will require greater effort. The recent climate agreement (COP21) also commits governments to assessing every 5 years whether more ambitious targets are needed. To reach the EU target for reducing greenhouse gas emissions, there is a need to shift towards more energy efficient and cleaner transport and to make more efficient use of existing transport infrastructure. Roads remain the predominant mode of transport for both passengers and freight and more needs to be done to increase the use of rail and waterways as well as public transport6. Climate change will have significant effects on many EU regions. It will give rise to changes in the environment which will often be costly to adapt to and which will necessitate substantial investment to make regions more resilient to the consequences. The state of the environment in the EU has improved in recent years7. Nevertheless, key environmental objectives such as renewable energy, energy efficiency, air quality and in some Member States waste water treatment remain unfulfilled. 7. COOPERATING AND OVERCOMING OBSTACLES ACROSS EU BORDERS The EU has always supported territorial cooperation which has played a crucial role both in mitigating the adverse effects of internal borders and in providing Europeans with innovative solutions as regards research, environmental issues, transport, education, energy, healthcare, security and training. Territorial cooperation can also help countries and regions to identify solutions to common problems including those linked to new global challenges. Cooperation programmes have contributed to enlarging the knowledge-based economy across Europe by increasing R&D capacity and transfers of know-how between regions, stimulating investment in SMEs and diversifying local economies. They have improved accessibility across borders, the joint management of natural resources and environmental protection. However, despite the elimination of many institutional and regulatory barriers, borders continue to represent obstacles to the movement of goods, services, people, capital and ideas. Removal of such barriers could boost economic growth and improve access to services in the regions concerned, but it would also help European economies to fully reap the benefits of integration8. 8. IMPROVING THE QUALITY OF GOVERNMENT AND IMPLEMENTING STRUCTURAL REFORMS WOULD BOOST GROWTH Low quality of government hinders economic development and reduces the impact of public investment, including that co-financed by cohesion policy (see Chapter 4). Government efficiency differs between Member States. There are also significant 6 European Commission: ''Assessment of the progress made by Member States in 2014 towards the national energy efficiency targets for 2020' - COM(2017) 56 final, 1.2.2017 7 European Environmental Agency: State of the Environment and Outlook, 2015. 8 Politecnico di Milano (2017) Quantification of the effects of legal and administrative border obstacles in land border regions. 9 disparities within a number of them (see Map 6). Improving institutions would amplify the impact of cohesion policy. Structural reforms that improve competition, the business environment, education and skills9, labour markets and social protection systems can have major benefits in terms of productivity and employment growth. This is particularly relevant for regions and countries where productivity has barely improved over the past decade10. Reforms requiring mainly regulatory and administrative changes with no investment, however, are currently not linked to cohesion policy. According to the Doing Business report11 there are marked differences between how business-friendly Member States are. The state of the business environment can also vary within countries due to differences in the efficiency of local authorities. Open and transparent public procurement is essential to promote development and reward the most efficient firms. However, the use of open procedures, the intensity of competition and the speed of decision-making as well as the risk of corruption varies markedly between regions. To boost economic development and the impact of cohesion policy in EU regions, the efficiency and transparency of public institutions as well as the effectiveness of justice systems need to be improved. Reforms are also needed to reduce regulatory obstacles and improve the functioning of the labour market. 9 European Commission 'A new skills agenda for Europe' - COM(2016) 381 final, 2.6.2016 10 European Commission ‘Competitiveness in low-income and low-growth regions - The lagging regions report' - SWD(2017) 132 final, 10.4.2017 11 World Bank. 2017. Doing Business 2017: Equal Opportunity for All. 10 Map 6 European Quality of Government Index, 2017 9. NATIONAL PUBLIC INVESTMENT HAS NOT YET FULLY RECOVERED The EU economy is gradually recovering from a protracted period of crisis which featured a significant reduction in investment in many Member States and regions. Total investment as a share of GDP fell and has hardly grown since. As the EU economy has recovered, government debt in Member States has started to decline from a peak of 87%, but is still well above its level in 2007 of 58%. As a result of pressure on public finances, public investment in the EU fell from 3.4% of GDP in 2008 to 2.7% in 2016. In a number of Member States, the reduction in growth-friendly expenditure has been substantial. Since most of these Members States have a GDP per 11 head below the EU average, the reduction could put at risk disparities across the EU narrowing in the future. Public investment was at the core of the negotiations on the current legal framework of the ESI Funds. One of the major objectives was to improve the consistency between the Funds and European economic governance with the aim of ensuring that the effectiveness of expenditure financed by them is underpinned by sound economic policies. For this reason, Article 23 of Regulation (EU) No 1303/2013 provides the Commission with (i) the power to request changes in programmes to address economic policy priorities recommended by the Council and (ii) the obligation to suspend the funds in cases of non-effective action by the Member State to address an excessive government deficit or excessive macroeconomic imbalance. The SWD assesses the application of this article and explains why a legislative proposal to modify it is at this stage not deemed necessary by the Commission (see Chapter 5). 10. COHESION POLICY’S KEY ROLE IN PUBLIC INVESTMENT REDUCED THE IMPACT OF CRISIS Cohesion policy is the EU’s main investment policy, providing funding equivalent to 8.5% of government capital investment in the EU, a figure which rises to 41 % for the EU-13 and to over 50 % for a number of countries (see Graph 1). This investment adds value at the European level by contributing to:  The Treaty objective of reducing disparities, notably in terms of income per head and living standards as well as social inclusion and employment opportunities.  European public goods such as innovation and digital infrastructure, skills, addressing climate change, disaster risk reduction, energy and environmental transition, healthcare and social investment, public and smart transport.  Spillovers benefits to non-cohesion countries from the increased trade generated and from cross-border, transnational and inter-regional programmes. The strong EU added-value of cohesion policy was emphasised by many of the speakers at the Cohesion Forum in June 2017 who stressed that it helped less developed regions to catch up and all regions to invest in EU priorities and address new challenges. The impact of Cohesion Policy on the EU economies is significant and the effects of investments build up over the long term. For the EU-12 countries (i.e excluding Croatia), the QUEST model estimates that investment for the 2007-2013 period increased their GDP by 3% in 2015, and by a similar amount for the 2014-2020 period12 in 2023. 12 This time for the EU-13, i.e including Croatia. 12 Figure 1 Cohesion policy funding as an estimated share of public investment, 2015-2017 Source: Eurostat and REGIO This has contributed to a significant convergence of GDP per head in these countries13. In the EU-12, this increased from 54% of the EU average in 2006 to 67% in 2015. Moreover, the 2007-13 programmes led directly to the creation of 1.2 million jobs in supported enterprises. The non-cohesion countries also benefit from spillovers generated by investments in cohesion countries both directly (through selling investment goods) and indirectly (through higher income and therefore increased trade). By 2023, 2007-2013 programmes are estimated to add 0.12% to GDP in non-cohesion countries, a quarter of which is due to spillovers from spending in cohesion countries. This effect is particularly pronounced for Austria and Germany because of their close trading links. The 2014-2020 programmes plan to support 1.1 million SMEs, leading directly to the creation of a further 420 000 new jobs14. The programmes plan to help more than 7.4 million unemployed people to find a job and to help another 2.2 million people within six months of completing training co-funded by the programmes. In addition, the programmes will help over 8.9 million people gain new qualifications. 13 In purchasing power standards. 2006 was chosen as the baseline year, since it was the year preceding the 2007-2013 programmes, as well as the year preceding the accession of Bulgaria and Romania. 2015 was the latest year for these data series at the time of publication. 14 The number of new jobs of this period is lower compared to last period because a) innovative, sustainable and high added value jobs are targeted and b) the number at the end of the period is typically considerably higher than the number estimated at the start of the period. See Communication 'Strengthening Innovation in Europe's Regions Strategies for resilient, inclusive and sustainable growth' - COM(2017) 376 final, 18.7.2017 0%10%20%30%40%50%60%70%80%90%PortugalCroatiaLithuaniaPolandLatviaHungarySlovakiaBulgariaRomaniaEstoniaCzechRepublicGreeceMaltaSloveniaCyprusSpainItalyEstimated share of the European cohesion policy on public investment, 2015-2017 13 Significant funding is being invested in the digital economy, where EUR 16 billion is earmarked for the development of e-government, ICT services and applications for SMEs, high speed broadband, smart grids and intelligent energy distribution systems, and large scale data centres. Such investment is expected to provide 14.5 million additional households with broadband access. Cohesion policy is making a substantial investment in environmental protection and energy efficiency. An extra 17 million people are planned to be connected to wastewater treatment facilities, and 3.3 million more to smart grids, while 870 000 households will be helped to reduce their energy consumption. Moreover, investment in transport will remove bottlenecks, reduce travel times and lead to more urban trams and metros. The programmes plan to renovate more than 4 600 km of TEN-T railway lines, construct 2 000 km of new TEN-T roads and construct or improve 750 km of tram and metro lines. Cohesion policy is also making a substantial investment in social infrastructure. Some 6.8 million children will gain access to new or modernised schools and childcare facilities and 42 million people to improved healthcare services. Territorial cooperation programmes are expected to see 240 000 people participate in cross-border mobility initiatives and 6 900 businesses and 1 400 research institutions in research projects. Several measures to improve the quality of investments have been introduced for the 2014-2020 period:  Ex ante conditionalities, which are preconditions attached to the programmes and which tackle the major systemic bottlenecks hindering effective public investment. These have led to the speeding up of ongoing reforms and the initiation of additional reforms. They have also strengthened the administrative capacity to implement EU rules relating to public procurement, state aid, environmental legislation and anti-discrimination15.  Smart specialisation, which is the most comprehensive decentralised, innovation and industrial policy in Europe today. It brings together the key players — the research community, business, higher education, public authorities and civil society — to target support in line with local potential and market opportunities. The goal is to achieve critical mass, innovation and a move up the value chain.  A stronger focus on results, which means that programmes must set specific objectives, translated into clear result ***indicators*** with targets and benchmarks. Regular reports show whether the programmes are achieving their goals and key ***indicators*** can be tracked online on an open data platform to check their progress. There is also a ***performance*** reserve which can be released if pre-set targets are met. The funding allocated to projects selected by the 2014-2020 programmes up to July 2017, amounts to 39% of the total available. Though this is similar to the previous period, implementation has been slow which suggests that simplification and capacity concerns need to be further addressed. It is still too early to monitor progress towards 15 European Commission 'The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds' - SWD(2017) 127 final, 31.3.2017 14 achieving targets which will only become apparent once more projects have been completed. 11. COHESION POLICY AND THE FUTURE OF EUROPE The White Paper on the Future of Europe16 launched a debate on which direction the EU should take in the coming years. Together with its 5 reflection papers, it covers three main linked questions relating to cohesion policy: 1) Where should it invest? 2) What should the investment priorities be? 3) How should the policy be implemented? These questions are summarised below in relation to the challenges identified in the present report. Two important agreements which cohesion policy needs to take account of are the COP21 agreement on climate change and the UN Sustainable Development Goals for 2030. The Commission’s reflection paper on the future of EU17 finances poses the question of whether cohesion policy should invest outside less developed regions and cross-border ones. From its inception, cohesion policy has had a particular focus on less developed regions and territorial cooperation. It has also invested in other areas that are mentioned in the Treaty, such as areas undergoing industrial transition, ***rural*** areas and the outermost regions. It has invested too in areas of high unemployment and deprived urban areas. For the last two programming periods, Cohesion Policy has covered all regions. The present report shows that the impact of globalisation, migration, poverty and a lack of innovation, climate change, energy transition and pollution is not limited to less developed regions. Future funding for cross border cooperation should continue to focus on areas of particular EU value added and resolve cross-border problems, such as gaps and missing links in different policy fields, including transport. Finally, the pooling of joint public services in neighbouring border regions and institution-building needs could also be taken into account18. The reflection paper on EU finances states, more generally, that all EU funding needs to focus on areas where the highest EU value-added can be achieved. Social inclusion, employment, skills, research and innovation, climate change, energy and environmental transition are identified as the areas which cohesion policy needs to focus on. In addition, the reflection paper highlights other areas where cohesion policy has a positive impact, such as support for SMEs, healthcare and social infrastructure, transport and digital 16 European Commission 'White paper on the Future of Europe Reflections and scenarios for the EU-27 by 2025' - COM(2017) 2025 final, 1.3.2017 17 European Commission 'Reflection paper on the future of EU finances' - COM(2017) 358 final, 28.6.2017 18 European Commission 'Boosting growth and cohesion in EU border regions' - COM(2017) 534 final, 20.9.2017 15 infrastructure. Last but not least, it underlines the need to address migration and globalisation. Both the reflection paper and the present report argue that poor institutional quality reduces competitiveness, the impact of investment and economic growth. Improving the quality of government, implementing structural reforms and strengthening administrative capacity should be further emphasised. They stress that the link with economic governance and the European Semester may need to be strengthened to ensure that the system is simpler, transparent and provides positive incentives to implement concrete reforms to foster convergence. This may require new approaches, for example through better coordination of available instruments and closer involvement of the Commission. The lagging regions initiative19 contained several successful elements which could be extended. The need to improve institutions is also demonstrated by calls to make the disbursement of EU funds conditional on legislation and institutions adhering to common EU values. In addition to the issues raised above about the territorial coverage and investment priorities, the reflection paper considers a number of options to improve the implementation of cohesion policy:  A single set of rules for existing funds, would ensure more coherent investment and make it easier for beneficiaries. Coherence could also be improved by a single rule book for cohesion policy and other funding instruments with programmes or projects of the same type. This should lead to stronger complementarity between cohesion policy and innovation or infrastructure funding.  The system of allocation of the funds could be revised by adding criteria linked to the challenges the EU faces, from demographics and unemployment to social inclusion and migration, from innovation to climate change.  The levels of national co-financing for cohesion policy could be increased to better align them for different countries and regions and to increase the sense of ownership in the policy.  An unallocated proportion of funding could make cohesion policy more flexible and able to respond to new challenges more quickly.  Faster implementation and a smoother transition between programming periods could be achieved by changes, such as stricter decommitment rules, shortening procedures for closing programmes and speeding up the processes for appointing the management authorities and for programming and making them more flexible.  Complementarity between financial instruments could be enhanced. Upstream coordination, the same rules and clearer demarcation of ***interventions*** could ensure complementarity between the European Fund for ***Strategic*** Investment, the new pan-European Venture Capital Fund and the loan, guarantee and equity instruments managed by Member States under cohesion policy. 19 European Commission 'Competitiveness in low-income and low-growth regions: The lagging regions report' - SWD(2017) 132 final, 10.4.2017 16  Finally, the policy has become increasingly complex to manage. Therefore, a much more radical approach to simplifying implementation is needed. Next, cohesion policy stakeholders and the general public will be invited to participate in the public consultation as part of the impact assessment. In May 2018, the Commission plans to adopt the proposal for the multi-annual financial framework, followed by the proposals for cohesion policy post 2020.

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[***Bisichi reports financial results for year ended December 31, 2017***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S5S-7K01-DYG0-71V7-00000-00&context=1516831)

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**Body**

Annual Financial ReportImproved ***performance*** in the second half of the year from Black Wattle, the group's South African coal mining operation.Investment in significant infrastructure improvements allowed Black Wattle to mine at a sustainably higher rate of production and achieve an increased yield from its washing plant.Black Wattle was able to benefit from the significantly improved coal prices during the second half of the year.UK property portfolio continues to perform well with average rental yields for the portfolio remaining stable during the year.In light of the strong results achieved for the year, a special dividend of 1p (2016: Nil) per share proposed in addition to a final dividend of 3p (2016: 3p) taking full year dividend to 5p (2016: 4p) per share.Dividend yield of 7.1% at year end share price.Chairman, Sir Michael Heller, comments:"The permanent infrastructure improvements at Black Wattle will have a positive impact on the returns achievable from our existing coal reserves and should open up new opportunities to mine similar coal reserves in the surrounding area. Accordingly, we remain confident about the ability of our South African coal mining operations to continue to contribute to our group earnings and cash generation for the foreseeable future."ANNUAL REPORT 2017Building on success at Black WattleEarnings before interest, tax, depreciation and amortisation(EBITDA) of Â£3.7million (2016: Â£2.4 million)Operating profit before depreciation, fairvalue adjustments and exchange movements (Adjusted EBITDA) of Â£5.8million (2016: Â£1.5 million)Dividend yield of 7.1% at year end share price.***Strategic*** reportThe directors present the ***Strategic*** Report of the company for the year ending 31 December 2017. The aim of the ***Strategic*** Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the company for the collective benefit of shareholders.Chairman's StatementFor the year ended 31 December 2017, we are very pleased to report that your company achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of Â£3.7million (2016: Â£2.4 million) and operating profit before depreciation, fair value adjustments and exchange movements (Adjusted EBITDA) of Â£5.8million (2016: Â£1.5million).These results can be attributed mainly to an improved ***performance*** in the second half of the year from Black Wattle, our South African coal mining operation.

The decision by your management in the first half of the year to invest in significant infrastructure improvements to the mine's washing plant has allowed Black Wattle to mine at a higher rate of production and achieve an increased yield. In addition, the mine was able to benefit from significantly improved coal prices during the second half of the year. The permanent infrastructure improvements at Black Wattle will have a positive impact on the returns achievable from our existing coal reserves and should open up new opportunities to mine similar coal reserves in the surrounding area. Accordingly, we remain confident about the ability of our South African coal mining operations to continue to contribute to our group earnings and cash generation for the foreseeable future.In other mining news, we are pleased to announce the appointment of Millicent Zvarayi to the Board of Black Wattle Colliery (Pty) Ltd. Since 2012, Ms Zvarayi has had a major role in the management of Black Wattle's export sales via Richards Bay Coal Terminal under the Quattro programme. As a member of its Board, we look forward to Ms Zvarayi's direct contribution to the development of Black Wattle's long term strategy.A fuller explanation on the ***performance*** of our mining operations for the year can be found within the Mining Review and Financial & ***Performance*** Review sections of this report.The company's UK retail property portfolio, which underpins the group and which is managed actively by London & Associated Properties Plc, continues to perform well, with average rental yields for the portfolio remaining stable during the year. A fuller explanation of the portfolio's valuation results and financial position are discussed in the Financial & ***Performance*** Review and Directors report.Looking forward, management is currently investigating other major investment opportunities in both the mining sector and the domestic property sector and is conserving the group's cash reserves accordingly. This is in line with the company's stated strategy of balancing the high risk of our mining operations with a dependable cash flow from our UK property investment operations.Finally, in light of the strong results achieved for the year, your directors recommend a special dividend of 1p (2016: Nil) per share in addition to a final dividend of 3p (2016: 3p). Both dividends will be payable on Friday 27 July 2018 to shareholders registered at the close of business on 6 July 2018. This takes the total dividends per share for the year to 5p (2016: 4p). Based on the 2017 year end share price, this represents a7.1% yield.On behalf of the Board and shareholders, Iwould like to thank all of our staff for their hardwork during the course of the year.Principal activity, strategy & business modelThe company carries on business as a mining company and its principal activity is coal mining in South Africa. The company's strategy is to create and deliver long term sustainable value to all our stakeholders through our business model which can be broken down into three key areasIn addition to the three key areas outlined above, we seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations. The company invests in retail property across the UK. The UK property portfolio is managed by London & Associated Properties PLC whose responsibility is to actively manage the portfolio to improve rental income and thus enhance the value of the portfolio over time.Mining ReviewThe strong ***performance*** of Black Wattle, our South African coal mining operation, can be attributed to increased mining production from our opencast reserves and the successful completion of coal infrastructure improvements to our washing plant. This allowed the group to benefit from the higher prices achievable for our coal, particularly in the second half of the year.Production and operationsFor the first half of 2017 production at Black Wattle was impacted by higher than expected seasonal rains as well as ongoing stone contamination issues at our opencast areas. Overall, the mine achieved mining production of 582,000 metric tonnes (2016 H1: 795,000 metric tonnes) during the first half of the year. The stone contamination issues affected both yield and mining production through the washing plant, thus impacting on sales volumes and earnings in the first half of the year.During the second half of the year, further development of our opencast areas and the successful completion of infrastructure improvements to our washing plant allowed the mine to increase mining production to 714,000 metric tonnes (2016 H2: 465,000 tonnes) during the period. In addition, the completion of infrastructure improvements assisted in reducing the stone contamination through the washing plant and increasing our overall yield.As a result of the higher production in the second half of the year, overall mining production from Black Wattle increased in 2017, with total mining production for the year of 1.30million metric tonnes (2016: 1.26million metric tonnes). As part of Black Wattle's mining plan, the opencast areas that were mined in 2017 will continue to be mined throughout 2018. We expect mining production levels achieved in the second half of 2017 to be maintained in 2018.As mentioned in the Chairman's statement, the infrastructure improvements completed at Black Wattle in 2017 will continue to have a positive impact on the returns achievable from our remaining reserves. In addition, the new machinery will allow Black Wattle to mine or buy in coal from similar reserves within the area that may be affected by stone contamination issues thus broadening the scope of new opportunities for the group to extend the life of mine of our mining operations in South Africa.Main trends/marketsDuring 2017 management continued to sell coal into both the export and domestic market. Black Wattle's export sales were via Richards Bay Coal Terminal and primarily under the Quattro programme, which allows junior black-economic empowerment coal producers direct access to the coal export market via Richards Bay Coal Terminal. We would like tothank Vunani Limited, our black economic empowered shareholders at Black Wattle, for managing and developing this opportunity.Although International coal prices fell in the first half of 2017, a surge in the international price in the second half of the year ensured an overall improvement in prices achievable for our coal for the year. At the beginning of 2017, the average weekly price of Free on Board (FOB) Coal from Richards Bay Coal Terminal (API4) was $85. During the year the API4 price steadily decreased to around $70 by May 2017 before rebounding and steadily increasing to $95 by the end of the year. A less volatile South African Rand against the US Dollar ensured that the movements in the Rand prices achievable for our export coal as a result of exchange movements remained limited. Overall, the group achieved an average Rand price of R773 per tonne of export coal sold in 2017 from the mine compared to R632 in 2016.In the domestic market, a continued high demand impacted positively on prices achievable for our coal in 2017. In the last quarter of 2016, the average Rand price achievable per tonne of coal sold was R276 increasing to R390 by the second quarter of 2017 and over R400 by the last quarter of 2017. Overall, the group achieved an average price of R397 per tonne of domestic coal sold in 2017 compared to R279 in 2016. Looking forward, domestic prices are expected to remain stable as long as the shortage of coal in the domestic market continues.Overall, the increase in group revenue, compared to the prior year, can mainly be attributed to the higher volume of coal sold at Black Wattle as well as the higher prices achieved for our coal.Looking forward into 2018, both the export and domestic coal prices have continued to remain stable at these higher levels and we continue to see strong demand for our coal in both markets.Sustainable developmentBlack Wattle continues to strive to conduct business in a safe, environmentally and socially responsible manner. Some highlights of our Health, Safety and Environment ***performance*** in 2017:Black Wattle Colliery recorded one Lost TimeInjury during 2017 (2016: One).No cases of Occupational Diseases wererecorded.Zero claims for the Compensation for Occupational Diseases were submitted.We continue to adhere and make progress in terms of our Social and Labour Plan and our various BEE initiatives. A fuller explanation of these can be found in our Sustainable Development Report on page 8.ProspectsLooking forward to 2018, management will focus on maintaining production at the higher levels achieved in the second half of 2017 and increasing our life of mine through the acquisition of additional reserves. With strong demand and improved prices achievable for our coal, we believe the group is in a strong position to achieve significant value from our South African mining operations in 2018.Sustainable developmentThe group is fully committed to ensuring the sustainability of both our UK and South African mining operations and delivering long term value to all our stakeholders.Health, Safety & Environment (HSE)Black Wattle is committed to creating a safe and healthy working environment for its employees and the health and safety of our employees is of the utmost importance.HSE ***performance*** in 2017:No cases of Occupational Diseases were recorded.Zero claims for the Compensation for Occupational Diseases were submitted.No machines operating at Black Wattle exceeded the regulatory noise level.Black Wattle Colliery recorded one Lost time Injury during 2017.In addition to the required personnel appointments and assignment of direct health and safety responsibilities on the mine, a system of Hazard Identification and Risk Assessments has been designed, implemented and maintained at Black Wattle.Health and Safety training is conducted on an on going basis. We are pleased to report all relevant employees to date have received training in hazard identification and risk assessment in their work areas.A medical surveillance system is also in place which provides management with information used in determining measures to eliminate, control and minimise employee health risks and hazards and all Occupational Health hazards are monitored on an on going basis.Various systems to enhance the current HSE strategy have been introduced as follows:In order to improve hazard identification before the commencing of tasks, mini risk assessment booklets have been distributed to all mine employees and long term contractors on the mine.Dover testing is conducted for all operators. Dover testing is a risk detection and accident reduction tool which identifies employees' problematic areas in their fundamental skills in order to receive appropriate training.On going basic rigging training is being conducted for all washing plant personnel.A Job Safety Analysis form is utilised to ensure effective identification of hazards in the workplace.In order to capture and record investigation findings from incidents, an incident recording sheet is utilised by line management and contractors.Black Wattle Colliery utilises ICAM (Incident Cause Analysis Method).On going training on conveyor belt operation is being conducted with all employees involved with this discipline.Black wattle colliery social and labour plan (slp) progressBlack Wattle Colliery is committed to true transformation and empowerment as well as poverty eradication within the surrounding and labour providing communities.Black Wattle is committed to providing opportunities for the sustainable socio-economic development of its stakeholders, such as:Employees and their families, through Skills Development, Education Development, Human Resource Development, Empowerment and Progression Programmes.Surrounding and labour sending communities, through Local Economic Development, ***Rural*** and Community Development, Enterprise Development and Procurement Programmes.Empowering partners, through Broad-Based Black Economic Empowerment (BBBEE) and Joint Ventures with Historically Disadvantaged South African (HDSA) new mining entrants and enterprises.The company engages in on going consultation with its stakeholders to develop strong company-employee relationships, strong company-community relationships and strong company-HDSA enterprise relationships.The key focus areas in terms of the detailed SLP programmes were updated as follows:Implementation of new action plans, projects, targets and budgets were established through regular workshops with all stakeholders.A comprehensive desktop socio-economic assessment was undertaken on baseline data of the Steve Tshwete Local Municipality (STLM) and Nkangala District Municipality (NDM).Black Wattle has drawn up a new SLP Plan for the next five years (2017 2021).The current Black Wattle Colliery Local Economic Development (LED) programmes were upgraded, and new LED projects were selected in consultation with the key stakeholders from the STLM.An appropriate forum was established on the mine and a process initiated for the consultation, empowerment and participation of the employee representatives in the Black Wattle Colliery SLP process.Included within the new SLP Plan is a new LED project which includes the upgrading of Phumelele Secondary School in the Rockdale Township. The primary focus is to build additional facilities, including classrooms to cater for the growing population in the area.Black Wattle Colliery has concluded extensive work on various ***Agricultural*** projects as well as the E-Bag Recycling projects. The E-Bag Recycling project aims to minimize the environmental impact of post-consumer Polyethylene Terephthalate plastic (PET) on the South African landscape. The project was awarded the PET Entrepreneur award for 2013. To date in 2017, the E-Bag recycling project has initiated up to 70 local community jobs in the region. Black Wattle Colliery has entered into a joint venture project with Enviroserve Waste Management to further develop and ensure the future sustainability of this project.Various upgrades were initiated at the Evergreen School nearby to Black Wattle including the erection of new toilet facilities for the boys and girls, which formed part of the mines portable skills development programme for our employees.Social, community and human rights issuesThe group believes that it is in the shareholders' interests to consider social and human rights issues when conducting business activities both in the UK and South Africa.Environment & Environment Management ProgrammeSouth AfricaUnder the terms of the mine's Environmental Management Programme approved by the Department of Mineral Resource ("DMR"), BlackWattle undertakes a host of environmental protection activities to ensure that the approved Environmental Management Plan is fully implemented. In addition to these routine activities, Black Wattle regularly carries out environmental monitoring activities on and around the mine, including evaluation of ground water quality, air quality, noise and lighting levels, ground vibrations, air blast monitoring, and assessment of visual impacts. In addition to this Black Wattle also does quarterly monitoring of all boreholes around the mine to ensure that no contaminated water filters through to the surrounding communities.Black Wattle is fully compliant with the regulatory requirements of the Department of Water Affairs and Forestry and has an approved water use licence.Black Wattle Colliery has substantially improved its water management by erecting and upgrading all its pollution control dams in consultation with the Department of Water Affairs and Forestry.A ***performance*** assessment audit was conducted to verify compliance to our Environmental Management Programme and no significant deviations were found.United KingdomThe group's UK activities are principally property investment whereby we provide premises which are rented to retail businesses. We seek to provide those tenants with good quality premises from which they can operate in an efficient and environmentally sound manner.ProcurementBlack Wattle is a level 7 contributor to B-BBEE and has achieved a 50% BEE procurement recognition level. In compliance with the Mining Charter and the Mineral and Petroleum Resource Development Act, Black Wattle has implemented a BBBEE-focussed procurement policy which strongly encourages our suppliers to establish and maintain BBBEE credentials. At present, BBBEE companies provide approximately 88 percent of Black Wattle's equipment andservices.We closely monitor our monthly expenditure and welcome potential BBBEE suppliers to compete for equipment and service contracts at BlackWattle.EmploymentAs part of Black Wattle's commitment to the South African government Mining Charter, thecompany seeks to:Expand opportunities for historically disadvantaged South Africans (HDSAs), including women, to enter the mining and minerals industry and benefit from the extraction and processing of the country's resources;Utilise the existing skills base for the empowerment of HDSAs; andExpand the skills base of HDSAs in order toserve the community.In addition Black Wattle is committed to achieving the goals of the South African Employment Equity Act and is pleased to report the following:Black Wattle Colliery has exceeded the 10 percent women in management and core mining target.Black Wattle Colliery has achieved 12 percent women in core mining.94 percent of the women at Black Wattle Colliery are HDSA females.Black Wattle Colliery has successfully submitted their annual Employment Equity Report to the Department of Labour.In terms of staff training some highlights for 2017 were:11 employees were trained in ABET (Adult Basic Educational Training) on various levels;An additional 5 disabled women continued their training on ABET level one and two.2 HDSA Females have completed and qualified in their respective apprenticeships at the mine.Black Wattle had several of the staff of Silver Solutions CC, a black owned private contractor on the mine, trained to become competent to perform plastic pipe welding. The mine makes extensive use of their services in this area.Employment terms and conditions for our employees based at our UK office and at our South African mining operations are regulated by and are operated in compliance with all relevant prevailing national and local legislation. Employment terms and conditions provided to mining staff meet or exceed the national average. The group's mining operations and coal washing plant facility are labour intensive and unionised. During the year no labour disputes, strikes or wage negotiations disrupted production or had a significant impact on earnings. The group's relations to date with labour representatives and labour related unions continue to remain strong.In terms of directors, employees and gender representation, at the year end the group had 6directors (6 male, 0 female), 7 senior managers (6 male, 1 female) and 196 employees (143 male, 53 female). Green House Gas reportingWe have reported on all of the emission sources required under the Companies Act 2006 (***Strategic*** Report and Directors' Reports) Regulations.The group has employed the Operational Control boundary definition to outline our carbon footprint boundary. Included within that boundary are Scope 1 & 2 emissions from coal extraction and onsite mining processes for Black Wattle Colliery. We have not measured and reported on our Scope 3 emissions sources. Excluded from the footprint boundary are emission sources considered non material by the group, including refrigerant use onsite.We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and a methodology adapted from the Intergovernmental Panel on Climate Change (2006) to calculate fugitive emissions from surface coal mining activities. Further emission factors were used from UK Government's GHG Conversion Factors for company Reporting 2017.The group's carbon footprint: 2017 CO2e Tonnes 2016 CO2e Tonnes Emissions source: Scope 1 Combustion of fuel & operation of facilities 15,575 11,860 Scope 1 Emissions from coal mining activities 22,683 22,171 Scope 2 Electricity, heat, steam and cooling purchased for own use 11,210 8,530 Total 49,468 42,561 Intensity: Intensity 1 Tonnes of CO2 per pound sterling of revenue 0.0013 0.0019 Intensity 2 Tonnes of CO2 per tonne of coal produced 0.038 0.034 Principal risks &uncertainties PRINCIPAL RISK ***PERFORMANCE*** AND MANAGEMENT OF THE RISK COAL PRICE RISK The group is exposed to coal price risk as its future revenues will be derived based on contracts or agreements with physical off-take partners at prices that will be determined by reference to market prices of coal at delivery date. The group's South African mining operational earnings are significantly dependent on movements in both the export and domestic coal price. The price of export sales is derived from a US Dollar-denominated export coal price and therefore the price achievable in South African Rands can be influenced by movements in exchange rates and overall global demand andsupply. The domestic market coal prices are denominated in South African Rand and are primarily dependant on local demand and supply. The group primarily focuses on managing its underlying production costs to mitigate coal price volatility as well as from time to time entering into forward sales contracts with the goal of preserving future revenue streams. The group has not entered into any such contracts in 2017 and 2016. The group's export and domestic sales are determined based on the ability to deliver the quality of coal required by each market and Quattro programme quotas, together with the market factors set out opposite. Volumes of export sales achieved during the year were primarily dependent on the mine's ability to produce the higher quality of coal required for export as well as allowable quotas under the Quattro programme and overall global demand. The volume of domestic market sales achieved during the year were primarily dependant on local demand and supply as well as the mine's ability to produce the lower overall quality of coal required. MINING RISK As with many mining operations, the reserve that is mined has the risk of not having the qualities and accessibility expected from geological and environmental analysis. This can have a negative impact on revenue and earnings as the quality and quantity of coal mined and sold by our mining operations may be lower than expected. This risk is managed by engaging independent geological experts, referred to in the industry as the "Competent Person", to determine the estimated reserves and their technical and commercial feasibility for extraction. In addition, management engage Competent Persons to assist management in the production of detailed life of mine plans as well as in the monitoring of actual mining results versus expected ***performance*** and management's response to variances. The group continued to engage an independent Competent Person in the current year. Refer to page 6 for details of mining ***performance***. CURRENCY RISK The group's operations are sensitive to currency movements, especially those between the South African Rand, US Dollar and British Pound. These movements can have a negative impact on the group's mining operations revenue as noted above, as well as operational earnings. The group is exposed to currency risk in regard to the Sterling value of inter-company trading balances with its South African operations. It arises as a result of the retranslation of Rand denominated inter-company trade receivable balances into Sterling that are held within the UK and which are payable by South African Rand functional currency subsidiaries. The group is exposed to currency risk in regard to the retranslation of the group's South African functional currency net assets to the Sterling reporting functional currency of the group. A weakening of the South African Rand against Sterling can have a negative impact on the financial position and net asset values reported by the group. Export sales within the group's South African operations are derived from a US Dollar-denominated export coal price. A weakening of the US Dollar can have a negative impact on the South African Rand prices achievable for coal sold by the group's South African mining operations. This in turn can have a negative impact on the group's mining operations revenue as well as operational earnings as the group's mining operating costs are Rand denominated. In order to mitigate this, the group may enter into forward sales contracts in local currencies with the goal of preserving future revenue streams. The group has not entered into any such contracts in 2017 and 2016. Although it is not the group's policy to obtain forward contracts to mitigate foreign exchange risk on inter-company trading balances or on the retranslation of the group's South African functional currency net assets, management regularly review the requirement to do so in light of any increased risk of future volatility. Refer to the 'Financial Review' for details of significant currency movement impacts in the year. NEW RESERVES AND MINING PERMISSIONS The life of the mine, acquisition of additional reserves, permissions to mine (including ongoing and once-off permissions) and new mining opportunities in South Africa generally are contingent on a number of factors outside of the group's control such as approval by the Department of Mineral Resources, the Department of Water Affairs and Forestry and other regulatory or state owned entities. In addition, the group's South African operations are subject to the government Mining Charter. Any regulatory changes to the Mining Charter, or failure to meet existing targets, could adversely affect the mine's ability to retain its mining rights in South Africa. The maintenance of compliance with permits includes factors such as environmental management, health and safety, labour laws and Black Empowerment legislation; as failure to maintain appropriate controls and compliance may in turn result in the withdrawal of the necessary permissions to mine. The management of these regulatory risks and ***performance*** in the year is noted on page 17 under the headings environmental risk, health & safety risk and labour risk. Additionally, in order to mitigate this risk, the group strives to provide adequate resources to this area including the employment of adequate personnel and the utilisation of third party consultants competent in regulatory compliance related to mining rights and mining permissions The group also continues to actively seek new opportunities to expand it mining operations in South Africa through the acquisition of additional coal reserves and new commercial arrangements with existing mining right holders. POWER SUPPLY RISK The current utility provider for power supply in South Africa is the government run Eskom. Eskom continues to undergo capacity problems resulting in power cuts and lack of provision of power supply to new projects. Any power cuts or lack of provision of power supply to the group's mining operations may disrupt mining production and impact on earnings. The group's mining operations have to date not been affected by power cuts. However the group manages this risk through regular monitoring of Eskom's ***performance*** and ongoing ability to meet power requirements. In addition, the group continues to assess the ability to utilise diesel generators as an alternative means of securing power in the event of power outages. PRINCIPAL RISK ***PERFORMANCE*** AND MANAGEMENT OF THE RISK FLOODING RISK The group's mining operations are susceptible to seasonal flooding which could disrupt mining production and impact on earnings. Management monitors water levels on an ongoing basis and various projects have been completed, including the construction of additional dams, to minimise the impact of this risk as far as possible. ENVIRONMENTAL RISK The group's South African mining operations are required to adhere to local environmental regulations. Any failure to adhere to local environmental regulations, could adversely affect the mine's ability to mine under its mining right in South Africa. In line with all South African mining companies, the management of this risk is based on compliance with the Environment Management Plan. In order to ensure compliance, the group strives to provide adequate resources to this area including the employment of personnel and the utilisation of third party consultants competent in regulatory compliance related to environmental management. To date, Black Wattle is fully compliant with the regulatory requirements of the Department of Water Affairs and Forestry and has an approved water use licence. Further details of the group's Environment Management Programme are disclosed in the Sustainable development report on page 9. HEALTH & SAFETY RISK Attached to mining there are inherent health and safety risks. Any such safety incidents disrupt operations, and can slow or even stop production. In addition, the group's South African mining operations are required to adhere to local Health and Safety regulations. The group has a comprehensive Health and Safety programme in place to mitigate this risk. Management strive to create an environment where Health and safety of our employees is of the utmost importance. Our Health & Safety programme provides clear guidance on the standards our mining operation is expected to achieve. In addition, management receive regular updates on how our mining operations are performing. Further details of the group's Health and Safety Programme are disclosed in the Sustainable development report on page 8. LABOUR RISK The group's mining operations and coal washing plant facility are labour intensive and unionised. Any labour disputes, strikes or wage negotiations may disrupt production and impact earnings. In order to mitigate this risk, the group strives to ensure open and transparent dialogue with employees across all levels. In addition, appropriate channels of communication are provided to all employment unions at Black Wattle to ensure effective and early engagement on employment matters, in particular wage negotiations and disputes. Refer to the 'Employment' section on page 12 for further details. CASHFLOW RISK Commodity price risk, currency volatility and the uncertainties inherent in mining may result in favourable or unfavourable cashflows. In order to mitigate this, we seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations which are actively managed by London & Associated Properties PLC. Due to the long term nature of the leases, the effect on cash flows from property investment activities are expected to remain stable as long as tenants remain in operation. Refer to page 22 for details of the property portfolio ***performance***. PROPERTY VALUATION RISK Fluctuations in property values, which are reflected in the Consolidated Income Statement and Balance Sheet, are dependent on an annual valuation of commercial properties. A fall in UK commercial property can have a marked effect on the profitability and the net asset value of the group as well as impact on covenants and other loan agreement obligations. The economic ***performance*** of the United Kingdom, including the potential impact of the United Kingdom leaving the European Union ("Brexit"), may impact the level of rental income, yields and associated property valuations of the group's UK property assets. The group utilises the services of London & Associated Properties PLC whose responsibility is to actively manage the portfolio to improve rental income and thus enhance the value of the portfolio over time. In addition, management regularly monitor banking covenants and other loan agreement obligations as well as the ***performance*** of our property assets in relation to the overall market over time. Management continue to monitor and evaluate the impact of Brexit on the future ***performance*** of the Group's existing UK portfolio. In addition, the group assesses on an ongoing basis the impact of Brexit on the group's banking covenants, loan obligations and future investment decisions. Refer to page 22 for details of the property portfolio ***performance***. Financial & ***performance*** reviewThe movement in the Group's Adjusted EBITDA from Â£1.5million in 2016 to Â£5.8million in 2017 can mainly be attributed to the higher prices achieved for our coal and increased mining production at Black Wattle offsetting the impact of higher mining and washing costs. As we continue into 2018, the group's financial position remains strong and we expect to achieve significant value from our existing mining operations as noted in the Mining Review.EBITDA, adjusted EBITDA and mining production are used as key ***performance*** ***indicators*** for the group and its mining activities as the group has a ***strategic*** focus on the long term development of its existing mining reserves and the acquisition of additional mining reserves in order to realise shareholder value. Mining production can be defined as the coal quantity in metric tonnes extracted from our reserves during the period and held by the mine before any processing through the washing plant. Whilst profit/(loss) before tax is considered as one of the key ***performance*** ***indicators*** of the group, the profitability of the group and the group's mining activities can be impacted by the volatile and capital intensive nature of the mining sector. Accordingly, EBITDA and adjusted EBITDA are primarily used as key ***performance*** ***indicators*** as they are indicative of the value associated with the group's mining assets expected to be realised over the long term life of the group's mining reserves. In addition, for the group's property investment operations, the net property valuation and net property revenue are utilised as key ***performance*** ***indicators*** as the group's substantial property portfolio reduces the risk profile for shareholders by providing stable cash generative UK assets and access to capital appreciation. Key ***performance*** ***indicators*** The key ***performance*** ***indicators*** for the group are: 2017 Â£'000 2016 Â£'000 For the group: Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 5,819 1,516 EBITDA 3,734 2,415 Profit/(loss) before tax 1,485 346 For our property investment operations: Net property valuation (excluding joint ventures) 13,245 13,245 Net property revenue (excluding joint ventures) 1,125 1,084 For our mining activities: Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 4,894 755 EBITDA 2,811 1,204 Tonnes '000 Tonnes '000 Mining production 1,296 1,260 The key ***performance*** ***indicators*** of the group can be reconciled as follows: Mining Â£'000 Property Â£'000 Other Â£'000 2017 Â£'000 Revenue 36,300 1,125 34 37,459 Mining and washing costs (25,664) - - (25,664) Other operating costs excluding depreciation (5,742) (228) (6) (5,976) Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 4,894 897 28 5,819 Exchange movements (256) - - (256) Fair value adjustments - (13) - (13) Gain on disposal of other investments - - 3 3 Operating profit excluding depreciation 4,638 884 31 5,553 Share of (loss)/profit and write off's in joint venture (1,827) 8 - (1,819) EBITDA 2,811 892 31 3,734 Net interest movement (459) Depreciation (1,790) Profit/(loss) before tax 1,485 The key ***performance*** ***indicators*** of the group can be reconciled as follows: Mining Â£'000 Property Â£'000 Other Â£'000 2016 Â£'000 Revenue 21,703 1,084 28 22,815 Mining and washing costs (16,184) - - (16,184) Other operating costs excluding depreciation (4,764) (348) (3) (5,115) Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 755 736 25 1,516 Exchange movements 449 - - 449 Fair value adjustments - 445 12 457 Operating profit excluding depreciation 1,204 1,181 37 2,422 Share of (loss)/profit in joint venture - (7) - (7) EBITDA 1,204 1,174 37 2,415 Net interest movement (284) Depreciation (1,785) Profit/(loss) before tax 346Adjusted EBITDA is used as a key ***indicator*** of the trading ***performance*** of the group and its operating segments representing operating profit before the impact of depreciation, fair value adjustments, gains/(losses) on disposal of other investments and foreign exchange movements. The group's operating segments include its South African mining operations and UK property investments. The ***performance*** of these two operating segments are discussed in more detail below.The group achieved EBITDA for the year of Â£3.7 million (2016: Â£2.4million). The movement compared to the prior year can mainly be attributed to increased operating profits before depreciation from our mining activities of Â£4.9million (2016: Â£1.2million) offset by the group's share of losses in joint venture mining assets of Â£1.8million (2016: Â£nil). The share of losses in joint ventures can be attributed to the write off of our joint venture mining investment in Ezimbokodweni Mining (Pty) LTD of Â£1.8million which is discussed in further detail below.Depreciation for the year, related to our mining operations, remained stable at Â£1.8million (2016: Â£1.8million) with the group reporting an overall profit before tax of Â£1.5million (2016: Â£0.3million). SOUTH AFRICAN MINING OPERATIONSPerformance The key ***performance*** ***indicators*** of the group's South African mining operationsarepresented in South African Rand and UK Sterling as follows: South African Rand UK Sterling 2017 R'000 2016 R'000 2017 Â£'000 2016 Â£'000 Revenue 622,691 432,481 36,300 21,703 Mining and washing costs (440,241) (322,505) (25,664) (16,184) Operating profit before other operating costs and depreciation 182,450 109,976 10,636 5,519 Other operating costs (excluding depreciation) (5,742) (4,764) Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 4,894 755 Exchange movements (256) 449 Share of loss in joint ventures (1,827) - EBITDA 2,811 1,204 2017 '000 2016 '000 Mining production in tonnes 1,296 1,260 2017 R 2016 R Revenue per tonne of mining production 480 343 Mining and washing costs per tonne of mining production (340) (256) Operating profit per tonne of mining production before other operating costs and depreciation 140 87 A breakdown of the quantity of coal sold and revenue of the group's South African mining operations are presented in metric tonnes and South African Rand as follows: Domestic '000 Export '000 2017 '000 Domestic '000 Export '000 2016 '000 Quantity of coal sold in tonnes 1,267 155 1,422 1,219 147 1,366 Domestic R'000 Export R'000 2017 R'000 Domestic R'000 Export R'000 2016 R'000 Total Revenue 502,818 119,873 622,691 339,611 92,870 432,481 R R R R R R Revenue per tonne of coal sold 397 773 438 279 632 317The quantity of coal sold can be defined as the quantity of coal sold in metric tonnes from the mine in any given period. Revenue per tonne of coal sold can be defined as the net revenue price achieved per metric tonne of coal sold. Total revenue for the group's mining operations increased for the year from R317 per tonne of coal sold in 2016 to R438 in 2017, attributable to the average price increases achieved in both the domestic and export market. As a result of the overall higher mining production, the quantity of coal sold for the year increased to 1.422million tonnes (2016: 1.366million tonnes). Overall, the revenue for the group's South African mining operations increased in the year to R622.7million (2016: R432.5 million).The overall increase in cost per tonne from R256 per tonne to R340 per tonne can mainly be attributed to the movement of mining operations to new opencast reserves at Black Wattle which have higher inherent mining costs. As a result of the higher mining cost per tonne and the increase in total mining production, total mining and washing costs for the group increased from R322.5million in 2016 to R440.2million in 2017.Other operating costs (excluding depreciation) of Â£5.7million (2016: Â£4.8million) include general administrative costs as well as administrative salaries and wages related to our South African mining operations that are incurred both in South Africa and in the UK. These costs are not significantly impacted by movements in mining production and the increase during the year can mainly be attributed to exchange movements on the translation of South African Rand costs into Sterling. Overall costs were in line with management's expectations and local inflation.Overall, the group's South African mining operations achieved an adjusted EBITDA of Â£4.9million (2016: Â£0.8million) attributable to the increase in mining production for the year and higher prices achievable for our coal offsetting the higher mining cost per tonne of our new opencast reserves.The group's EBITDA for mining activities of Â£2.8million (2016: Â£1.2million) for the year, in comparison to the result achieved for adjusted EBITDA were negatively impacted by the share of loss in joint ventures of Â£1.8million (2016: Â£nil) related to the write off of our investment in Ezimbokodweni Mining (Pty) Ltd as well as an exchange rate loss of Â£0.3million in the current year compared to an exchange rate gain of Â£0.4million incurred during the prior year. These exchange movements can mainly be attributable to the retranslation of Rand denominated inter-company trade receivable balances with our South African mining operations that are held within the UK.A further explanation of the mines operational ***performance*** can be found in the Mining Review on page 6.Other mining InvestmentsDuring the year the group wrote off its Â£1.8million investment in Ezimbokodweni Mining (Pty) Limited ("Ezimbokodweni") made up of a Â£1.4million loan (2016: Â£1.4million) and a Â£0.4million (2016: Â£0.4million) joint venture investment.The carrying value of the investment was dependent upon the completion of the acquisition of the Pegasus coal project ("the project") in South Africa. Although a proposed sale and purchase agreement had been negotiated and a deposit paid for the project, the conclusion of the transaction had been delayed pending the commercial transfer of the prospecting right from the current owners of the project to Ezimbokodweni. Although the group has always remained committed to completing the transaction, previous negotiations to complete the commercial acquisition of the project had been beset by various delays outside of its control and at the beginning of 2017, the current owners of the project notified Ezimbokodweni that they no longer wished to divest the project. More recently, the group was notified that an agreement was reached between the current owners of the project and the directors of Ezimbokodweni for the deposit for the project to be returned and any further negotiations with Ezimbokodweni to acquire the project to be terminated. Although, a legal claim by the group has been issued against Ezimbokodweni and its representatives, in order for the group to recover some of the investment, the Board has considered it to be appropriate to write off the investment in full in the 2017 year end.Uk property investmentPerformanceThe group's portfolio is managed actively by London & Associated properties plc and continues to perform well with net property revenue (excluding joint ventures) across the portfolio increasing marginally during the year to Â£1.125million (2016: Â£1.084million). The property portfolio was externally valued at 31 December 2017 and the value of UK investment properties attributable to the group at year end remained unchanged at Â£13.25 million (2016: Â£13.25million).Joint venture property investmentsThe group holds a Â£0.9million (2016: Â£0.9million) joint venture investment in Dragon Retail Properties Limited, a UK property investment company. The open market value of the company's share of investment properties included within its joint venture investment in Dragon Retail Properties remained unchanged at Â£1.3million (2016: Â£1.3million).Overall, the group achieved net property revenue of Â£1.21million (2016: Â£1.17million) for the year which includes the company's share of net property revenue from its investment in joint ventures of Â£83,000 (2016: Â£86,000).LoansSouth AfricaIn July 2017, the group increased its South African structured trade finance facility with Absa Bank Limited from R80million (South African Rand) to R100million. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. This facility comprises of a R80million revolving facility to cover the fluctuating working capital requirements of the group's South African operations, and a fully drawn R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The Board anticipate the facility will be renewed again this year.United KingdomIn December 2014, the group signed a Â£6 million term loan facility with Santander. The Loan is secured against the group's UK retail property portfolio. The facility has a five year term, and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR. No covenants were breached during the year. Cashflow & financial position The following table summarises the main components of the consolidated cashflow for the year: Year ended 31 December 2017 Â£'000 Year ended 31 December 2016 Â£'000 Cash flow generated from operations before working capital and other items 5,819 1,625 Cash flow from operating activities 7,270 2,614 Cash flow from investing activities (1,936) (1,691) Cash flow from financing activities (429) (521) Net (decrease) / increase in cash and cash equivalents 4,905 402 Cash and cash equivalents at 1 January (890) (626) Exchange adjustment 50 (666) Cash and cash equivalents at 31 December 4,065 (890) Cash and cash equivalents at 31 December comprise: Cash and cash equivalents as presented in the balance sheet 5,327 2,444 Bank overdrafts (secured) (1,262) (3,334) 4,065 (890)Cash flow generated from operating activities increased compared to the prior year to Â£7.3million (2016: Â£2.6 million) mainly due to the improved operating ***performance*** of our South African mining operations, as outlined above. Overall the group achieved an increase in operating profit during the year of Â£3.8million (2016: Â£0.6million). In addition to operating profit, the increase in cashflow generation from operating activities can also be attributed to a cashflow increase from trade receivables of Â£0.9million (2016: Â£0.2million), as a result of an decrease in the trade receivables balances of our South African domestic coal customers, and a cashflow increase from inventories of Â£0.9million (2016: decrease of Â£0.26million), as a result of improved coal sales from our South African mining operations in the last quarter of 2017.Investing cashflows primarily reflect the net effect of capital expenditure during the year of Â£1.8million (2016: Â£2.9million) which can mainly be attributable to the new infrastructure improvements to the washing plant facility at Black Wattle, as outlined in the Mining Review. As at year end the group's mining reserves, plant and equipment had a net asset value of Â£8.6million (2016: Â£8.5million) with capital expenditure being offset by depreciation of Â£1.8million (2016: Â£1.8milion) for the year.Cash outflows from financing activities included dividends paid to shareholders of Â£0.4million (2016: 0.4 million).Overall, the group managed to achieve an overall increase in cash and cash equivalents of Â£4.9million (2016: Â£0.4million) for the year. After taking into account an exchange gain of Â£0.05million (2016: loss of Â£0.7million) on the translation of the group's year end net balance of cash and cash equivalents that were held in South African Rands, the group's net balance of cash and cash equivalents (including bank overdrafts) at year end was Â£4.1 million (2016: balance owing of: Â£0.9million).The group has considerable financial resources available at short notice including cash and cash equivalents (excluding bank overdrafts) of Â£5.3million (2016: Â£2.4million), investments available for sale of Â£1.1million (2016: Â£0.8million) and its Â£2m loan to Dragon Retail Properties Limited which accrues annual interest at 6.875 per cent. The above financial resources totalling Â£8.4million (2016: Â£5.2million).The net assets of the group reported as at year end were Â£17.7million (2016: Â£17.0million). Total assets remained stable at Â£36.6million (2016: Â£36.9million) mainly due to a decrease in inventory and trade receivables balances at year end, as outlined above, and the write off of the groups' joint venture investment in Ezimbokodweni Mining (Pty) Ltd of Â£1.8million offsetting the increase in the groups' cash and cash equivalents balance from Â£2.4million to Â£5.3million during the year. Liabilities decreased from Â£19.9million to Â£18.8million during the year primarily due to a decrease in current borrowings from Â£3.4million in 2016 to Â£1.3million in 2017. This decrease can mainly be attributed to a decrease in borrowings drawn from the groups' South African structured trade facility utilised by the groups' mining operations. The overall exchange gain recorded through the translation reserve on translation of the group's South African net assets at year end decreased to Â£0.1million (2016: Â£1.0million) as a result of the reduced movement of the South African Rand against UK sterling year to year.Further details on the group's cashflow and financial position are stated in the Consolidated Cashflow Statement on page 59 and the Consolidated Balance Sheet on page 56. FUTURE PROSPECTSAs we continue into 2018, the group's financial position remains strong and we expect to achieve significant additional value from our existing mining operations. The group continues to seek to expand its operations in South Africa through the acquisition of additional coal reserves, in particular in areas surrounding Black Wattle where additional value can be achieved through the use of our existing infrastructure. In addition, management is currently investigating other major investment opportunities in the domestic property sector in line with the groups' overall strategy of balancing the high risk of our mining operations with a dependable cash flow and capital appreciation from our UK property investment operations.Further information on the outlook of the company can be found in both the Chairman's Statement on page 2 and the Mining Review on page 6 which form part of the ***Strategic*** Report.Signed on behalf of the Boardof DirectorsGarrett Casey Finance Director20 April 2018 GovernanceManagement team1 Sir Michael Heller Chairman Bisichi Mining PLC2 Andrew Heller Managing Director Bisichi Mining PLC Managing Director Black Wattle Colliery3 Christopher Joll Senior Independent Director Chairman Audit and Remuneration Committees4 Garrett Casey Finance Director Bisichi Mining PLC Director Black Wattle Colliery5 Robert Grobler Director of Mining Bisichi Mining PLC Director Black Wattle Colliery6 Ethan Dube Director Black Wattle Colliery7 Millicent ZvarayiDirector Black Wattle Colliery8 Nico Serfontein Mine Manager Black Wattle CollieryDirectors and advisors Sir Michael Heller MA, FCA (Chairman) Andrew R Heller MA, ACA (Managing Director) Garrett Casey CA (SA) (Finance Director) Robert Grobler Pr Cert Eng (Director of mining)O+ Christopher A Joll MA (Non-executive) Christopher Joll was appointed a Director on 1 February 2001. He has held a number of non-executive directorships ofquoted and un-quoted companies and is currently senior partner of MJ2 Events LLP an event management business.O John A Sibbald BL (Non-executive) John Sibbald has been a Director since 1988. After qualifying as a Chartered Accountant he spent over 20years in stockbroking, specialising in mining and international investment. Member of the nomination committee+ Senior independent directorOMember of the audit, nomination andremuneration committees. Secretary and registered officeGarrett Casey CA (SA) 24 Bruton Place London W1J 6NEBlack Wattle Colliery DirectorsAndrew Heller (Managing Director) Ethan Dube Robert Grobler Millicent Zvarayi Garrett CaseyProperty portfolio asset managerJames Charlton BSc MRICSCompany RegistrationCompany registration No. 112155 (Incorporated in England and Wales)Website[*www.bisichi.co.ukE-mailadmin*](http://www.bisichi.co.ukE-mailadmin)@bisichi.co.ukAuditorBDO LLPPrincipal bankersUnited Kingdom Santander UK PLC National Westminster Bank PLC Investec PLCSouth Africa ABSA Bank (SA) First National Bank (SA) Standard Bank (SA)Corporate solicitorsUnited Kingdom Fladgate LLP, London Memery Crystal, London Olswang LLP, LondonSouth Africa Brandmullers Attorneys, Middelburg Herbert Smith Freehills, JohannesburgHogan Lovells, Johannesburg Tugendhaft Wapnick Banchetti andPartners, JohannesburgStockbrokersShore Capital & Corporate LtdRegistrars and transfer officeLink Asset Services 65 Gresham Street London EC2V 7NQ Telephone 0871 664 0300(Calls cost 12p per minute + network extras) or +44 (0) 371 664 0300 for overseascallers   [*www.linkassetservices.com*](http://www.linkassetservices.com) Email: [*shareholderenquiries@linkgroup.co.uk*](mailto:shareholderenquiries@linkgroup.co.uk) Five year summary 2017 Â£'000 2016 Â£'000 2014 Â£'000 2013 Â£'000 2012 Â£'000 Consolidated income statement items Revenue 37,459 22,815 25,655 26,500 35,105 Operating profit/(loss) 3,763 637 150 1,364 123 Profit/(loss) before tax 1,485 346 (147) 1,568 102 Trading profit/(loss) before tax 3,317 (74) (188) 1,157 17 Revaluation and impairment profit/(loss) before tax (1,832) 420 41 411 85 EBITDA 3,734 2,415 1,365 4,609 3,039 Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) 5,819 1,516 1,717 4,276 3,834 Consolidated balance sheet items Investment properties 13,245 13,245 12,800 11,575 11,559 Fixed asset investments 925 2,703 2,112 4,090 4,370 14,170 15,948 14,912 15,665 15,929 Available for sale investments 1,050 781 594 796 822 15,220 16,729 15,506 16,461 16,751 Other assets less liabilities less non-controlling interests 1,922 (72) (196) 854 (123) Total equity attributable to equity shareholders 17,142 16,657 15,310 17,315 16,628 Net assets per ordinary share (attributable) 160.6p 156.0p 143.4p 162.2p 156.3p Dividend per share 5.00p 4.00p 4.00p 4.00p 4.00p Financial calendar 6 June 2018 Annual General Meeting 27 July 2018 Payment of final and special dividend for 2017 (ifapproved) Late August 2018 Announcement of half-year results to30June 2018 Late April 2019 Announcement of results for year ending 31December 2018 Directors' reportThe directors submit their report together with the audited financial statements for the year ended 31December 2017.Review of business, future developments and post balance sheet eventsThe group continues its mining activities. Income for the year was derived from sales of coal from its South African operations. The group also has a property investment portfolio for which it receives rental income.The results for the year and state of affairs of the group and the company at 31 December 2017 are shown on pages 54 to 94 and in the ***Strategic*** Report on pages 2 to 23. Future developments and prospects are also covered in the ***Strategic*** Report and further details of any post balance sheet events can be found in note 31 to the financial statements. Over 99 per cent. of staff are employed in the South African coal mining industry employment matters and health and safety are dealt with in the ***Strategic*** Report.The management report referred to in the Director's responsibilities statement encompasses this Directors' Report and ***Strategic*** Report on pages 2 to 23.Corporate responsibilityEnvironmentThe environmental considerations of the group's South African coal mining operations are covered in the ***Strategic*** Report on pages 2 to 23.The group's UK activities are principally property investment whereby premises are provided for rent to retail businesses. The group seeks to provide those tenants with good quality premises from which they can operate in an efficient and environmentally friendly manner. Wherever possible, improvements, repairs and replacements are made in an environmentally efficient manner and waste re-cycling arrangements are in place at all the company's locations.Greenhouse Gas EmissionsDetails of the group's greenhouse gas emissions for the year ended 31 December 2017 can be found on page 12 of the ***Strategic*** Report.EmploymentThe group's policy is to attract staff and motivate employees by offering competitive terms of employment. The group provides equal opportunities to all employees and prospective employees including those who are disabled. The ***Strategic*** Report gives details of the group's activities and policies concerning the employment, training, health and safety and community support and social development concerning the group's employees in South Africa.Dividend policyAn interim dividend for 2017 of 1p was paid on 9 February 2018 (Interim 2016: 1p). The directors recommend the payment of a final dividend for 2017 of 3p per ordinary share (2016: 3p) as well as a special dividend of 1p (2016: Nil) making a total dividend for 2017 of 5p (2016: 4p).Subject to shareholder approval, the total dividend per ordinary share for 2017 will be 5p per ordinary share.The final dividend and the special dividend will be payable on Friday 27 July 2018 to shareholders registered at the close of business on 6 July 2018.Investment propertiesThe investment property portfolio is stated at its open market value of Â£13,245,000 at 31 December 2017 (2016: Â£13,245,000) as valued by professional external valuers. The open market value of the company's share of investment properties included within its investments in joint ventures is Â£1,315,000 (2016: Â£1,315,000).Financial instrumentsNote 21 to the financial statements sets out the risks in respect of financial instruments. The Board reviews and agrees overall treasury policies, delegating appropriate authority to the managing director. Financial instruments are used to manage the financial risks facing the group. Treasury operations are reported at each Board meeting and are subject to weekly internal reporting.DirectorsThe directors of the company for the whole year were Sir Michael Heller, A R Heller, G J Casey, C A Joll, R J Grobler (a South African citizen), and J A Sibbald.The directors retiring by rotation are Mr A R Heller and Mr R J Grobler who offers themselves for re-election.Mr A R Heller has been an executive director of the company since 1998. He is a Chartered Accountant and has been employed by the group since 1994 under a contract of employment determinable at three months' notice. The board recommends the re-election of AR Heller.Mr R J Grobler was appointed as General Mine Manager by Black Wattle Colliery (Proprietary) Ltd on 1 May 2000. He was appointed to the Board of Bisichi Mining PLC as Director of Mining on 22 August 2008. He has over 40 years' experience in the South African coal mining industry. The board recommends the re-election of RJ Grobler.No director had any material interest in any contract or arrangement with the company during the year other than as shown in this report.Directors' shareholdingsThe interests of the directors in the shares of the company, including family and trustee holdings where appropriate, are shown on page 38 of the Annual Remuneration Report.Substantial interestsThe following have advised that they have an interest in 3 per cent. or more of the issued share capital of the company as at 16 April 2018:London & Associated Properties PLC 4,432,618 shares representing 41.52 per cent. of the issued capital. (Sir Michael Heller is a director and shareholder of London & Associated Properties PLC). Sir Michael Heller 330,117 shares representing 3.09 per cent. of the issued capital. A R Heller 785,012 shares representing 7.35 per cent. of the issued capital. Cavendish Asset Management Limited 1,892,654 shares representing 17.73 per cent. of the issued share capital. James Hyslop 351,126 shares representing 3.29 per cent. of the issued share capital.Disclosure of information to auditorThe directors in office at the date of approval of the financial statements have confirmed that as far as they are aware that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all reasonable steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that it has been communicated to theauditor.INDEMNITIES AND INSURANCEThe Articles of Association and Constitution of the company provide for them to indemnify, to the extent permitted by law, directors and officers (excluding the Auditor) of the companies, including officers of subsidiaries, and associated companies against liabilities arising from the conduct of the Group's business. The indemnities are qualifying third-party indemnity provisions for the purposes of the UK Companies Act 2006 and each of these qualifying third-party indemnities was in force during the course of the financial year ended 31 December 2017 and as at the date of this Directors' report. No amount has been paid under any of these indemnities during the year.The Group has purchased directors' and officers' insurance during the year. In broad terms, the insurance cover indemnifies individual directors and officers against certain personal legal liability and legal defence costs for claims arising out of actions taken in connection with Group business.CORPORATE GOVERNANCEThe Board acknowledges the importance of the guidelines set out in the Quoted Companies Alliance (QCA) published Corporate Governance Code and complies with these so far as is appropriate having regard to the size and nature of the company. The paragraphs below set out how the company has applied this guidance during the year.Principles of corporate governanceThe group's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management, but also as a positive contribution to business prosperity. The Board endeavours to apply corporate governance principles in a sensible and pragmatic fashion having regard to the circumstances of the group's business. The key objective is to enhance and protect shareholder value.Board structureDuring the year the Board comprised the executive chairman, the managing director, two other executive directors and two non-executive directors. Their details appear on page 27. TheBoard is responsible to shareholders for the proper management of the group. The Directors' responsibilities statement in respect of the accounts is set out on page 46. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is aprocedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the group. The Board has a formal schedule of matters reserved to it and meets bi-monthly.The Board is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters.The following Board committees, which have written terms of reference, deal with specific aspects of the group's affairs:The nomination committee is chaired by Christopher Joll and comprises the non-executive directors and the executive chairman. The committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist the process. Each director is subject to re-election at least every three years.The remuneration committee is responsible for making recommendations to the Board on the company's framework of executive remuneration and its cost. The committee determines the contractual terms, remuneration and other benefits for each of the executive directors, including ***performance*** related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The committee comprises the non-executive directors. It is chaired by Christopher Joll. The company's executive chairman is normally invited to attend meetings. The report on directors' remuneration is set out on pages 35 to 42.The audit committee comprises the two non-executive directors and is chaired by Christopher Joll. Its prime tasks are to review the scope of external audit, to receive regular reports from the company's auditor and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the group's internal control and risk management systems and processes. The committee also considers annually the need for an internal audit function. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The committee, which meets formally at least twice a year, provides a forum for reporting by the group's external auditors.Meetings are also attended, by invitation, by thecompany chairman, managing director and finance director.The audit committee also undertakes a formal assessment of the auditors' independence each year which includes:a review of non-audit services provided to thegroup and related fees;discussion with the auditors of a written report detailing consideration of any matters that could affect independence or the perception of independence;a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; andobtaining written confirmation from the auditors that, in their professional judgement, they are independent.The audit committee report is set out on page43.An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 4 to the financial statements.***Performance*** evaluation board, boardcommittees and directorsThe ***performance*** of the board as a whole and of its committees and the non-executive directors is assessed by the chairman and the managing director and is discussed with the senior independent director. Their recommendations are discussed at the nomination committee prior to proposals for re-election being recommended to the Board. The ***performance*** of executive directors is discussed and assessed by the remuneration committee. The senior independent director meets regularly with the chairman and both the executive and non-executive directors individually outside of formal meetings. The directors will take outside advice in reviewing ***performance*** but have not found this necessary to date.Independent directorsThe senior independent non-executive director is Christopher Joll. The other independent non-executive director is JohnSibbald.Christopher Joll has been a non-executive director for over fifteen years and John Sibbald has been a non-executive director for over twenty five years. The Board encourages Christopher Joll and John Sibbald to act independently. The board considers that their length of service and connection with the company's public relations advisers, does not, and has not, resulted in their inability or failure to act independently. In the opinion of the Board, Christopher Joll and JohnSibbald continue to fulfil their role as independent non-executive directors.The independent directors regularly meet priorto Board meetings to discuss corporategovernance issues.Board and board committee meetingsThe number of meetings during 2017 and attendance at regular Board meetings and Board committees was as follows: Meetings held Meetings Attended Sir Michael Heller Board Nomination committee 5 1 5 1 A R Heller Board Audit committee 5 2 5 2 G J Casey Board Audit committee 5 2 5 2 R J Grobler Board 5 1 C A Joll Board Audit committee Nomination committee Remuneration committee 5 2 1 1 5 2 1 1 J A Sibbald Board Audit committee Nomination committee Remuneration committee 5 2 1 1 5 2 1 1Internal controlThe directors are responsible for the group's system of internal control and review of its effectiveness annually. The Board has designed the group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.The key elements of the control system in operation are:the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility and with appropriate delegation of authority;there are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the group's financial ***performance*** against approved budgets and forecasts;UK property and financial operations are closely monitored by members of the Board and senior managers to enable them to assess risk and address the adequacy of measures in place for its monitoring and control. The South African operations are closely supervised by the UK based executives through daily, weekly and monthly reports from the directors and senior officers in South Africa. This is supplemented by monthly visits by the UK based finance director to the South African operations which include checking the integrity of information supplied to the UK. The directors are guided by the internal control guidance for directors issued by the Institute of Chartered Accountants in England and Wales.During the period, the audit committee has reviewed the effectiveness of internal control as described above. The Board receives periodic reports from its committees.There are no significant issues disclosed in the Annual Report for the year ended 31 December 2017 (and up to the date of approval of the report) concerning material internal control issues. The directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period.Communication with shareholdersCommunication with shareholders is a matter of priority. Extensive information about the group and its activities is given in the Annual Report, which is made available to shareholders. Further information is available on the company's website,   [*www.bisichi.co.uk*](http://www.bisichi.co.uk). There is a regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the group are dealt with informatively and promptly.Takeover directiveThe company has one class of share capital, ordinary shares. Each ordinary share carries one vote. All the ordinary shares rank pari passu. There are no securities issued in the company which carry special rights with regard to control of the company. The identity of all substantial direct or indirect holders of securities in the company and the size and nature of their holdings is shown under the "Substantial interests" section of this report above.A relationship agreement dated 15 September 2005 (the "Relationship Agreement") was entered into between the company and London & Associated Properties PLC ("LAP") in regard tothe arrangements between them whilst LAP is a controlling shareholder of the company. The Relationship Agreement includes a provision under which LAP has agreed to exercise the voting rights attached to the ordinary shares inthe company owned by LAP to ensure the independence of the Board of directors of thecompany.Other than the restrictions contained in the Relationship Agreement, there are no restrictions on voting rights or on the transfer of ordinary shares in the company. The rules governing the appointment and replacement of directors, alteration of the articles of association of the company and the powers of the company's directors accord with usual English company law provisions. Each director is re-elected at least every three years. The company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid. The company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.The Bribery Act 2010The Bribery Act 2010 came into force on 1 July 2011, and the Board took the opportunity to implement a new Anti-Bribery Policy. The company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance of the code is closely monitored.Annual General MeetingThe annual general meeting of the company ("Annual General Meeting") will be held at 24 Bruton Place, London W1J 6NE on Wednesday, 6 June 2018 at 11.00 a.m. Resolutions 1 to 9 will be proposed as ordinary resolutions. More than 50 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed. Resolutions 10 to 12 will be proposed as special resolutions. At least 75 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed.The directors consider that all of the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole. The Board recommends that shareholders vote in favour of all resolutions.Please note that the following paragraphs are only summaries of certain resolutions to be proposed at the Annual General Meeting and not the full text of the resolutions. You should therefore read this section in conjunction with the full text of the resolutions contained in the notice of Annual General Meeting.Directors' authority to allot shares (Resolution 9)In certain circumstances it is important for the company to be able to allot shares up to a maximum amount without needing to seek shareholder approval every time an allotment is required. Paragraph 9.1.1 of resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to an aggregate nominal value of Â£355,894. This represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report). Paragraph 9.1.2 of resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to a further aggregate nominal value of Â£355,894, in connection with a pre-emptive rights issue. This amount represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report).Therefore, the maximum nominal value of shares or rights to subscribe for, or convert any security into, shares which may be allotted or granted under resolution 9 is Â£711,788.Resolution 9 complies with guidance issued by the Investment Association (IA).The authority granted by resolution 9 will expire on 31 August 2019 or, if earlier, the conclusion of the next annual general meeting of the company. The directors have no present intention to make use of this authority. However, if they do exercise the authority, the directors intend to follow emerging best practice as regards its use as recommended by the IA.Disapplication of pre-emption rights (Resolution 10)A special resolution will be proposed at the Annual General Meeting in respect of the disapplication of pre-emption rights.Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. The directors will, at the forthcoming Annual General Meeting seek power to allot equity securities (as defined by section 560 of the Companies Act 2006) or sell treasury shares for cash as if the pre-emption rights contained in Section 561 of the Companies Act 2006 did not apply:(a) in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of Â£355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) and, in relation to rights issues only, up to a maximum additional amount of Â£355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares), in each case as at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report); and(b) in any other case, up to a maximum nominal amount of Â£53,384 which represents approximately 5 per cent. of the ordinary share capital of the company in issue (excluding treasury shares) as at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report).In compliance with the guidelines issued by the Pre-emption group, the directors will ensure that, other than in relation to a rights issue, no more than 7.5 per cent. of the issued ordinary shares (excluding treasury shares) will be allotted for cash on a non-pre-emptive basis over a rolling three year period unless shareholders have been notified and consulted in advance.The power in resolution 10 will expire when the authority given by resolution 9 is revoked or expires.The directors have no present intention to make use of this authority.NOTICE OF GENERAL MEETINGS (RESOLUTION11)Resolution 11 will be proposed to allow the company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. A resolution in the same terms was passed at the Annual General Meeting in 2017. The notice period required by the Companies Act 2006 for general meetings of the company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. Annual General Meetings must always be held on at least 21 clear days' notice. It is intended that the flexibility offered by this resolution will only be used for time-sensitive, non-routine business and where merited in the interests of shareholders as a whole. The approval will be effective until the company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the company must make a means of electronic voting available to all shareholders for that meeting.Purchase of own Ordinary Shares (Resolution 12)The effect of resolution 12 would be to renew the directors' current authority to make limited market purchases of the company's ordinary shares of 10 pence each. The power is limited to a maximum aggregate number of 1,067,683 ordinary shares (representing approximately 10 per cent. of the company's issued share capital as at 16 April 2018 (being the last practicable date prior to publication of this Directors' Report)). The minimum price (exclusive of expenses) which the company would be authorised to pay for each ordinary share would be 10 pence (the nominal value of each ordinary share). The maximum price (again exclusive of expenses) which the company would be authorised to pay for an ordinary share is an amount equal to 105 per cent. of the average market price for an ordinary share for the five business days preceding any such purchase.The authority conferred by resolution 12 will expire at the conclusion of the company's next annual general meeting or 15 months from the passing of the resolution, whichever is the earlier. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange. If granted, the authority would only be exercised if, in the opinion of the directors, to do so would result in an increase in earnings per share or net asset value per share and would be in the best interests of shareholders generally. In exercising the authority to purchase ordinary shares, the directors may treat the shares that have been bought back as either cancelled or held as treasury shares (shares held by the company itself). No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them.As at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report) the total number of new ordinary shares over which options have been granted was 380,000 shares representing 3.56 per cent. of the company's issued share capital (excluding treasury shares) as at that date. Such number of options to subscribe for new ordinary shares would represent approximately 3.95 per cent. of the reduced issued share capital of the company (excluding treasury shares) assuming full use of the authority to make market purchases sought under resolution 12.DonationsNo political or charitable donations were made during the year (2016: Nil).Going concernThe group's business activities, together with the factors likely to affect its future development are set out in the Chairman's Statement on the preceding page 2, the Mining Review on pages 6 to 7 and its financial position is set out on page 22 of the ***Strategic*** Report. In addition Note 21 to the financial statements includes the group's treasury policy, interest rate risk, liquidity risk, foreign exchange risks and credit risk.The group has prepared cash flow forecasts which demonstrate that the group has sufficient resources to meet its liabilities as they fall due for at least the next 12 months.In July 2017, the group increased its South African structured trade finance facility with Absa Bank Limited from R80million (South African Rand) to R100million. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. This facility comprises of a R80million revolving facility to cover the fluctuating working capital requirements of the group's South African operations, and a fully drawn R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The Directors do not foresee any reason why the facility will not continue to be renewed at the next renewal date, in line with prior periods and based on their banking relationships.The directors expect that the improved coal market conditions experienced by Black Wattle Colliery, its direct mining asset in 2017 and the first quarter of 2018 will be similar for at least the next 12 months. The directors therefore have a reasonable expectation that the mine will continue to achieve positive levels of cash generation for the group for at least the next 12 months. As a consequence, the directors believe that the group is well placed to manage its South African business risks successfully.In the UK, a Â£6 million term loan facility repayable in 2019 is held with Santander Bank PLC. The loan is secured against the company's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.If required, the group has sufficient financial resources available at short notice including cash, available-for-sale investments and its Â£2m loan to Dragon Retail Properties Limited which is repayable on demand. In addition its investment property assets benefit from long term leases with the majority of its tenants.As a result of the banking facilities held as well as the acceptable levels of profitability and cash generation the group's South African operations are expected to achieve for at least the next 12 months, the Directors believe that the group has adequate resources to continue in operational existence for the foreseeable future and that the group is well placed to manage its business risks. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.Audit committee reportThe committee's terms of reference have been approved by the board and follow published guidelines, which are available from the company secretary. The audit committee comprises the two non-executive directors, Christopher Joll (chairman), an experienced financial PR executive and John Sibbald, a retired chartered accountant.The Audit Committee's prime tasks are to:review the scope of external audit, to receive regular reports from the auditor and to review the half-yearly and annual accounts before they are presented to the board, focusing in particular on accounting policies and areas of management judgment and estimation;monitor the controls which are in force to ensure the integrity of the information reported to the shareholders;assess key risks and to act as a forum for discussion of risk issues and contribute to the board's review of the effectiveness of the group's risk management control and processes;act as a forum for discussion of internal control issues and contribute to the board's review of the effectiveness of the group's internal control and risk management systems and processes;consider each year the need for an internal audit function;advise the board on the appointment of external auditors and rotation of the audit partner every five years, and on their remuneration for both audit and non-audit work, and discuss the nature and scope of their audit work;participate in the selection of a new external audit partner and agree the appointment when required;undertake a formal assessment of the auditors' independence each year which includes: - a review of non-audit services provided to the group and related fees; - discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence; - a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and - obtaining written confirmation from the auditors that, in their professional judgement, they are independent.MeetingsThe committee meets prior to the annual audit with the external auditors to discuss the audit plan and again prior to the publication of the annual results. These meetings are attended by the external audit partner, managing director, director of finance and company secretary. Prior to bi-monthly board meetings the members of the committee meet on an informal basis to discuss any relevant matters which may have arisen. Additional formal meetings are held as necessary.During the past year the committee:met with the external auditors, and discussed their reports to the Audit Committee;approved the publication of annual and half-year financial results;considered and approved the annual review of internal controls;decided that due to the size and nature of operation there was not a current need for an internal audit function;agreed the independence of the auditors and approved their fees for both audit related and non-audit services as set out in note 4 to the financial statements.FINANCIAL REPORTINGAs part of its role, the Audit Committee assessed the audit findings that were considered most significant to the financial statements, including those areas requiring significant judgment and/or estimation. When assessing the identified financial reporting matters, the committee assessed quantitative materiality primarily by reference to the carrying value of the group's total assets, given that the group operates a principally asset based business. The Board also gave consideration to the value of revenues generated by the group, given the importance of production, and its Adjusted EBITDA, given that it is a key trading KPI, when determining quantitative materiality. The qualitative aspects of any financial reporting matters identified during the audit process were also considered when assessing their materiality. Based on the considerations set out above we have considered quantitative errors individually or in aggregate in excess of approximately Â£300,000 to Â£350,000 to be material.External AuditorsBDO LLP held office throughout the year. In the United Kingdom the company is provided with extensive administration and accounting services by London & Associated Properties PLC which has its own audit committee and employs a separate firm of external auditors, RSM UK Audit LLP (Formerly Baker Tilly UK Audit LLP). In South Africa Grant Thornton (Jhb) Inc. acts as the external auditor to the South African companies, and the work of that firm was reviewed by BDO LLP for the purpose of the group audit.Christopher Joll Chairman audit committee24 Bruton Place London W1J 6NE 20 April 2018Valuers' certificatesTo the directors of Bisichi Mining PLCIn accordance with your instructions we have carried out a valuation of the freehold property interests held as at 31 December 2017 by the company as detailed in our Valuation Report dated 20 February 2018.Having regard to the foregoing, we are of the opinion that the open market value as at 31 December 2017 of the interests owned by the company was Â£13,245,000 being made up as follows: Â£'000 Freehold 10,550 Leasehold 2,695 13,245 Leeds 20 February 2018 Carter Towler Regulated by Royal Institute of Chartered SurveyorsDirectors' responsibilities statementThe directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the groupfor that period.In preparing these financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; state with regard to the group financial statements whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; state with regard to the parent company financial statements, whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business; and prepare a director's report, a ***strategic*** report and director's remuneration report which comply with the requirements of the Companies Act 2006.The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's ***performance***, business model and strategy.Website publicationThe directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.Directors' responsibilities pursuant to DTR4The directors confirm to the best of their knowledge: the group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group. the annual report includes a fair review of the development and ***performance*** of the business and the financial position of the group and the parent company, together with a description or the principal risks and uncertainties that they face. Independent auditor's reportTo the members of Bisichi Mining PLCOpinionWe have audited the financial statements of Bisichi Mining Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash ?ow statement, the parent company balance sheet, the parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.In our opinion the financial statements:give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; andthe financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.Basis for opinionWe conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.Conclusions relating to going concernWe have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; orthe directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.Key audit mattersKey audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.The following key audit matters were identified for the period under review:The risk that estimates and judgments in the life of mine model may be inappropriate and mining assets require impairment.The risk that investment property valuations are inappropriate.The risk that judgments, estimates and disclosure associated with the carrying value of Ezimbokedwini and impairment charges are inappropriate

**Load-Date:** May 7, 2018

**End of Document**



[***Register of Commission documents: Annex 1 to Commission Implementing Decision amending Decisions adopting the Turkish Cypriot community programmes for the years 2014, 2015 and 2016 Document date: 2017-07-26 COM-AC\_DR(2017)D051891-02 Comitology - Right of scrutiny***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PKK-HMD1-F0YC-N3JP-00000-00&context=1516831)

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ANNEXI

The annex to Commission Implementing Decision C(2014) 9366 of 12 December 2014 adopting an Action Programme for the Turkish Cypriot community for the year 2014, as amended by Commission Implementing Decision C(2015) 9718 of 7 January 2016 and by Commission Implementing Decision C(2016) 6688 of 21 October 2016, is replaced in its entirety as follows:

Legal basis:

Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community and amending Council Regulation (EC) No 2667/2000 on the European Agency for Reconstruction.

Work Programme for 2014:

|  |  |
| --- | --- |
| Beneficiary | Turkish Cypriot community |
| CRIS/ABAC Commitment references Total cost EU Contribution Budget line | PHARE/2014/031-615 / SCR.DEC.031615.01 PHARE/2014/037-817 / SCR.DEC.037817.01   EUR 32,960,000 EUR 32,960,000 22.03.01.00 C1 EUR 31,482,280.00 22.03.01.00 C4 EUR 1,446,907.21 22.03.01.00 C5 EUR30,812.79 |
| Management Mode/ Entrusted Entity | Direct management by the European Commission Indirect management by entrusted entity: UNDP ? part of Action 2 |
| Final date for concluding delegation agreements under indirect management | 31 December 2015 |
| Final date for concluding procurement contracts,grant contracts and delegation agreements | 3 years following the date of validation of the budgetary commitment |
| Final date for contract implementation | 6 years following the date of validation of the budgetary commitment, with the following exception:   7 years following the date of validation of the budgetary commitment for contracts for Koutsoventis/Güngör landfill works and supervision, where the works concerning infrastructures justify a longer implementation period. |

|  |  |
| --- | --- |
| Final date for programme implementation (date by which this programme should be de-committed and closed) | 10 years following the date of validation of the budgetary commitment. |
| Programming Unit | SRSS.05 Cyprus Settlement Support |
| Implementing Unit | SRSS.05 Cyprus Settlement Support |

* The Programme

* Priorities selected under this programme and donor coordination

This Programme is for the continuing implementation of the Assistance Programme for the Turkish Cypriot community following the legal basis of Council Regulation 389/2006, the 'Aid Regulation', which establishes an instrument of financial support for encouraging the economic development of the Turkish Cypriot community. Between 2006 and the end of 2013, EUR 337 million was programmed for operations under this Regulation.

The Aid Regulation focuses on the economic integration of the island and on improving contacts both between the two communities and with the European Union in order to facilitate the reunification of Cyprus. The objectives, as laid down in Article 2, are:

* The development and restructuring of infrastructure, in particular in the areas ofenergy and transport, the environment, telecommunications and water supply;

1. The promotion of social and economic development including restructuring, in particular concerning ***rural*** development, human resources development and regional development;
2. Reconciliation, confidence building measures, and support to civil society;
3. Bringing the Turkish Cypriot community closer to the Union through inter alia information on the EU political and legal order, promotion of people to people contacts and Community scholarships
4. The preparation of legal texts aligned with the acquis communautaire for the purpose of these being immediately applicable upon the entry into force of a comprehensive settlement of the Cyprus problem;
5. Preparations for the implementation of acquis communautaire in view of the withdrawal of its suspension in accordance with Article 1 of Protocol No 10 to the Act of Accession.

The 2014 programme takes into account the resumption of settlement talks between the two communities after the Joint Statement of the two leaders of 11 February 2014. This was followed by high level contacts with the Commission and with the United Nations and completion, in April, of the review phase of the process, looking at previous negotiating positions. The Commission underlined that it is keen to play its part in supporting the negotiations and to offer all the support the parties and the UN find most useful. Under the assistance programme this includes anticipation of the need for implementation of the acquis following settlement andforconfidence building.

Support to the Technical Committee on Cultural Heritage and to the Committee on Missing Persons will continue, noting the good ***performance*** and significant delivery under both these programmes in 2013.

The choice of actions within the wide objectives of the Aid Regulation are made to maintain continuity with previous ***interventions***, ensure sustainability and tackle weaknesses in the preparation for acquis implementation while respecting absorption limitations on the side of the beneficiaries. Reconciliation and confidence building measures remain high priority along with readiness to support advances in the political process, including revision of the programme if the evolving political scene requires it.

The programme choices for 2014 take stock of input received from Turkish Cypriot stakeholders and from relevant evaluations and needs assessments conducted in 2012-13. The views of the authorities of the Republic of Cyprus were also taken into consideration.

There is urgent need to repair the Famagusta sewerage network system, following the December 2013 termination of the construction contract. It is essential that protective measures are taken and major defects corrected while dispute arbitration of the cancelled contract is running. Defects in the partially implemented works are both inconveniencing the local community and damaging the treatment plant. Another significant component of the 2014 programme is the second phase of the Koutsoventis/Güngör landfill, since the first 'cell', completed earlier, has almost been filled.

The multiannual perspective offered by the MFF 2014-20 offers the opportunity for more ***strategic*** planning. In parallel, more systematic monitoring and ***performance*** evaluation is required and a new ***indicator*** set will be developed during 2014 to support the multi-annual perspective.

The Aid Regulation mentions other possible areas of ***intervention*** that are not targeted in the 2014 programme, either because they are already addressed by previous programmes or do not immediately offer projects of sufficient maturity. There is no 2014 allocation for Aid Regulation Objective 4: Bringing the Turkish Cypriot community closer to the Union, since both the scholarship programme and the Infopoint information centre are already financed until 2016. The 2014 programme, therefore, represents a concentration of effort, which will allow a more streamlined programme and contribute towards increasing the overall implementation rate.

The 2014 programme takes into account lessons learned from operational experience, from the 2009 and 2013 programme evaluations and from various 2012-13 sector assessments, the ECA ***performance*** audit[1] and from contract audits:

Achieving significant economic development is difficult under the current circumstances, given the local business, political and operating environment, although important contributions can be made to reconciliation, communicating EU values, social and environmental improvements and to modernised farming and other business practices. Economic convergence of the two communities is hard to achieve without the breakthrough in inter-communal contact that the political settlement would bring.

The Turkish Cypriot community struggles to put in place resources and structures for take-over and management of the investments made. This means that project follow-up, continued capacity building and, where appropriate, complementary investments are necessary to ensure sustainability.

Due to lack of experience of the beneficiaries, grant schemes have been difficult to implement, particularly those with an infrastructure component. A dedicated Project Management Unit (PMU) has been set up to assist grant beneficiaries. This PMU is based locally and makes frequent field trips to grant projects.

Apart from the EU assistance programme, there is little donor ***intervention*** in the northern part of Cyprus. USAID has funded ***interventions*** in the economic sector and civil society. USAID funding for civil society is implemented via UNDP, which already carries out some of the EU-funded activities. USAID is, however, decreasing its assistance to the northern part of Cyprus and moving to a regional approach. The British High Commission has a limited programme, recently on training of lawyers, and the British Council assists with language training and information on study possibilities. The EEA (Norway, Iceland, Liechtenstein) is supporting Cypriot civil society activities including inter-communal projects

* description and Implementation of the Actions

|  |  |  |
| --- | --- | --- |
| Action 1 | Social and economic development and infrastructure | EUR 17,220,000 |

(1) Description of the Action, objectives and expected results

The EU investments in infrastructure and social and economic development have been the major component under the Aid Regulation since 2006 with combined allocations of around EUR 240 million (about 70% of the total), covering an extensive range of activities in many sectors.The 2014 programme is very selective and concentrates on topics that need ongoing support, mainly wastewater and solid waste treatment.

Wastewater treatment

The water sector remains a critically important one, considering water scarcity on the island, deterioration of aquifer quality and the stipulations of the acquis requiring wastewater collection, treatment and discharge systems for population concentrations. Continued support to the water sector was one of the recommendations of the European Court of Auditors in 2012 and a sector assessment and technical workshops prioritised potential investments. The EU has funded much work in this area, with sewerage network replacement in main centres and three new wastewater treatment plants (WWTP) serving around 300,000 'population equivalents' i.e including commercial customers. The new, bi-communal Mia Milia/Haspolat outside Nicosia, handed over in 2013, was 70% funded by the Nicosia Sewerage Board and 30% funded under the Aid Regulation. The design phase for the return and re-use of treated water in the government-controlled areas was launched in 2014.

Work in Famagusta included both a new WWTP and a 47 km sewer network with seven pumping stations. The network has been laid, but serious defects, particularly at connection points have been found. Negotiation with the contractor to remedy this has not been successful and the contract was terminated by the Commission in December 2013. The dispute arbitration process continues in 2014.

The WWTP is accepting wastewater in the meantime, but is not yet handed over (mid-2014) and is suffering corrosion problems due to ingress of saline water into the network. The incomplete wastewater treatment in Famagusta is causing distress to the community. It is clear that the project must be completed and the WWTP brought to a status of efficient and sustainable operation. A further allocation is therefore required to cover immediate remedial works and supervision needs and also to provide resources to deal with the ongoing dispute settlement. A further phase will be necessary, before the system is complete, but additional financing will depend on the outcome of the continuing dispute settlement process. The 2014 resources include EUR 1 million from the cashed ***performance*** guarantees from the original works' contract.

The physical work to be undertaken includes design review, works and supervision. The activities will be re-excavation where CCTV or pressure tests indicate defects that cannot be repaired by lining the tubes, repair and connection as necessary of sewerage network. Attention will be given to correct completion of the house connections, where a large number of problems are already identified. After the repair, careful backfilling, compaction, closure and asphalting will be carried out.

Solid waste treatment

The northern part of Cyprus has a history of uncontrolled dumping of waste, scavenging by humans and animals, waste dump fires and environmental damage. Under the Aid Regulation, legal texts aligned with the acquis under the Waste Framework Directive 2008/98/EC have been drawn up for the purposes of these being immediately applicable upon the entry into force of a comprehensive settlement. Investments in physical waste management have also been made. A major dumpsite at Kato Dhikomo/Aşağı Dikmen was closed, covered and rehabilitated and a new landfill was constructed at Koutsoventis/Güngör. This is intended for all the solid waste of the northern part of Cyprus and a transfer station and trucks have also been provided. The landfill project was conceived with four phases. Phase 1, the major earthworks and the first cell of 62,500 m2 was already completed in 2011, but is likely to approach full capacity in 2015 and it is therefore necessary to implement Phase 2, which is the preparation and base sealing for a second cell of about 33,500m2. The expected operations are:

Design, works/supply and supervision for: removal of the temporary dam between cells 1 and 2 of the Koutsoventis/Güngör landfill; removal of the rainwater collection pond, levelling and compaction of the landfill base; construction of the base sealing system with drainage layer and enlargement of the leachate drainage pipe; supply and installation of degassing plant with blower and high temperature flare.

Support to veterinary health and ***agricultural*** data

These fields have major implications for consumer protection, food safety and Green Line trade. There are significant risks for the post-settlement period unless the Turkish Cypriot community is urgently brought up to EU standard in these areas. Activities are already underway for protection of animal health, eradication of animal diseases and disposal of animal by-products and carcasses, but the extent of the task is considerable and the beneficiary has substantial needs. An allocation is necessary under the 2014 programme to cover equipment and software requirements, including improvements to an animal Identification and Registration system and to a farm registry system, recording and tagging equipment, laboratory equipment, tools, vehicles. The aim is to have fully functioning and sustainable systems for recording and updating of animal and farm information.

Support to local communities

Bodies at local level have a significant stake and responsibility in local affairs and quality of life of local communities. This is especially important in the ***rural*** areas, where basic services are often poorly managed or non-existent. There is a framework of duties that include: health and social welfare, urban development, economic development, welfare and security, education-culture and tourism, ***agriculture*** and transport. Most of the local bodies do not have the capacities and the means to fulfil these duties. The Commission has already invested in ***strategic*** planning for the ***rural*** areas through the Local Development Strategies, in which the local bodies play a substantial role.Local communities will also need to understand their obligations under the acquis and be able to meet them and also to adapt to European initiatives such as the LEADER approach. Lack of resources often means that there is a struggle to maintain services and that badly needed investments have to be deferred or cancelled. Administrative and technical capacity is variable and there is and little opportunity for training.A Call for Proposals will be designed specifically to provide opportunities for investment in basic infrastructures and services linked to capacity building. It is expected that at least five local communities (out of the total of 28) will benefit.

Economic monitoring and studies

In parallel to the political settlement process, economic analysis and advisory services are required. The World Bank will be engaged under a PA (pillar assessed) Grant to collate and analyse macroeconomic data and produce regular monitoring reports, deliver financial and fiscal analysis and carry out studies on topics relevant to competitiveness, economic development and Green Line trade. Deliverables will be annual macroeconomic monitoring notes and study reports (indicative number: 4).

In addition, the 2014 programme will continue to helpenhance the capacity of the Turkish Cypriot community (TCc) to address challenges to economic development and implement the necessary reforms, and engage the expertise of the World Bank to build on the analytical and advisory work done so far and carry out the following additional tasks: (i) collect and analyse macroeconomic data and produce regular macroeconomic monitoring reports on aspects such as the economic cycle, the effects of currency appreciation or depreciation on domestic prices and the balance sheet, the trend in external imbalances, labour market trends, fiscal sustainability, and risks to the medium-term outlook; (ii) deliver financial and fiscal analyses looking into areas such as public investment management, macro-fiscal programming, and access to finance by households and enterprises; and (iii) carry out studies on topics relevant to competitiveness, economic development and Green Line trade, such as the business environment and the investment climate in the TCc, education (including vocational training), the labour market and the ***agriculture*** sector. Details of the assignment to be concluded under a separate PA (pillar assessed) Grant will be confirmed in consultation with all relevant stakeholders during the contract preparation stage. Under this grant, it is expected that the World Bank will produce annual macroeconomic notes (indicative number: 2) and actionable reports/policy notes on identified key sectors of growth in the TCc (indicative number: at least 4). These analyses will contribute to a better understanding of the constraints impeding economic development and will contain options for reforms. Furthermore, the World Bank will support the implementation of the reforms by organizing various workshops aimed at building the capacity of relevant stakeholders in the TCc.

(2) Assumptions and accompanying actions

There are several specific issues that must be resolved and agreed by relevant Turkish Cypriot community stakeholders before the 2014 programme can be fully implemented:

* All potential property-related issues must be identified, including site access issues, planning consents and methods of working;

1. The relevant services must be engaged and committed to collaboration in relocation or rerouting of services, traffic by-passes etc.;
2. Arrangements must be put in place for separation, processing and disposal of green and construction waste to avoid overburdening the landfill;
3. An appropriate and continuous management contract for the Koutsoventis/Güngör landfill must be in place;
4. House connections to the sewerage network must be carried out in Famagusta;
5. Relevant macroeconomic and other data must be available to the World Bank for the implementation of its tasks.

(3) Essential elements of the action (for direct management)

Procurement:

* theglobal budgetary envelope reserved for procurement:

Global amount: EUR 5,820,000

* the indicative number and type of contracts:

2 works, 2 service and 1 supply contracts and 1 specific contract under global Framework contract

* indicative time frame for launching the procurement procedure:

Works: 1Q16, 2Q17;

Services: 1Q15, 1Q16;

Supply: 2Q17;

Specific framework contract: 1Q15.

Grant – Call for proposal:

* Objectives and foreseen results:

Local communities will be supported to make essential investments, provide improved services and develop capacity in areas including administration, financial and technical management.

* The essential eligibility criteria:

Applicants shall be established in the northern part of Cyprus.

Entities may be natural or legal persons.

* The essential selection criteria:

Financial and operational capacity of the applicant (sufficient capable staff).

* The essential award criteria:

Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

* Maximum rate of EU cofinancing:

The maximum possible rate of EU co-financing for grants under this call is 90 % of the eligible cost of the action.

* Indicative amount of the call: EUR 4,850,000

1. Indicative date for launching the call: 2Q16

Grant - Direct grant awards:

* Objectives and foreseen results:

Action 1: Analysis of economic data. Outputs will be: annual macroeconomic monitoring notes and study reports (indicative number: 4).

Action 2: Economic monitoring/strategy. Objectives pursued: (i) enhance local understanding of constraints impeding economic development; (ii) identify options for necessary policy reforms; and (iii) provide support to build capacity for the implementation of these policy reforms. Expected results: (i) identification of the constraints faced by the TCc in improving policies in various sectors (including fiscal policy) as well as in improving overall policy coordination; (ii) suggestions for enhancing the capacity of the TCc to address these constraints and implement the necessary reforms; and (iii) capacity-building and concrete support for implementation. Outputs will be: annual macroeconomic notes (indicative number: 2) and actionable reports/policy notes on identified key sectors of growth in the TCc (indicative number: at least 4).

* Justification for the use of an exception to calls for proposals:

In line with the Rules of Application, Article 190(1)(f), twodirect award grantsare foreseen, because the work requires a sensitive interaction with the beneficiary and collection and analysis of data of a sensitive nature. It is likely that calls for proposals would result in grants award unacceptable to the project beneficiary. A body of respected international standing is therefore needed for the grant implementation. Besides this, the work is very technical in nature and reporting and analysis to World Bank standards is required for compatibility with past and ongoing work. In parallel, the World Bank is working on similar issues with the Republic of Cyprus and will also work on issues supporting the settlement.

The Financial Regulation foresees engagement of international organisations by direct management for tasks not involving budget implementation. The mechanism proposed for implementing this is the use of pillar assessed (PA) direct grants.

* The name of the beneficiary:

The World Bank Group

* The essential selection criteria are financial and operational capacity of the applicant.

* The award criteria:

Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

* Indicative amount of the grants:

Action 1: EUR 1,750,000 Action 2: EUR 4,800,000

* Maximumrate of EU cofinancing:

The maximum possible rate of EU financing will be 100% of the total cost of the action. Full financing of the actions is essential for the actions to be carried out and is justified in view of the engagement of the World Bank on a parallel, but complementary programme in support of the Cyprus settlement process and for sector studies for the Republic of Cyprus. This parallel programme is financed through World Bank and other donor resources.

* Indicative date for signing the grant agreements:

Action 1: 1 July2015

Action 2: 1 September 2017

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| --- | --- | --- |
| Action 2 | Reconciliation, confidence building | EUR 5,400,000 |

(1) Description of the Action, objectives, expected results

The reconciliation and confidence building actions is a centrepiece of the assistance given under the Aid Regulation and are highly visible and significant vehicles for intercommunal collaboration.

Reconciliation and confidence building measures

Central to the overall objective is the restoration of trust between the two communities and re-establishment of working relationships. In 2008, the leadership of the two communities in Cyprus agreed on the establishment of working groups and Technical Committees, which have been establishing a track record of cooperation. As hopes for a settlement of the Cyprus problem rise, stimulation of, and assistance to these Technical Committees and to other bi-communal and 'whole island' actions can have a catalytic effect.

There are some areas of great sensitivity, in which scars remain, even after 40 years, most notably that of the 'missing persons'. This, together with support for cultural heritage protection, will form the elements of the confidence building activities in the 2014 programme.

The EU supports the Committee on Missing Persons (CMP) in establishing the fate of those persons declared missing by both communities as a consequence of the tragic events of 1963-64 and 1974. The Committee has no mandate to establish the cause of death or attribute responsibility. The CMP aims to bring a sense of closure to their families and end a painful chapter in the history of the island. This is further encouraged by the participation of bi-communal scientific teams at all stages of the process e.g in undertaking awareness sessions on the CMP in high schools in both communities. The CMP has overcome bottlenecks encountered in past years: it has doubled the laboratory capacity for anthropological identification; it has contracted the International Committee on Missing Persons (ICMP) for DNA analyses at the ICMP facilities in Bosnia and Herzegovina to speed up DNA analysis; it has hired an identification coordinator to accelerate the cooperation between the teams in the project and, importantly, some progress has been made in obtaining access to areas under Turkish military control. The year 2013 was the most successful so far with 140 individuals identified and returned to their families. Up to February 2014, the remains of 1040 individuals had been exhumed and 479 identified and returned to their families. The EU is the main, but not the only donor to the CMP. In its report on 8 October (SWD(2014)307), the Commission noted that the process of granting the Committee full access to all relevant archives and military areas needs to be expedited.

Activities will be identification of new burial sites of the 'missing', exhumation of remains, analysis at the anthropological laboratory, identification by DNA and return of remains to relatives. At the same time, CMP is used as a vehicle for developing bi-communal cooperation and its work should continue to be facilitated. Technical capacity will be developed through experience and contacts with international experts. The CMP strategy will be communicated and community support and partnerships developed.

The bi-communal Technical Committee for Cultural Heritage (TCCH) created a platform for work on the protection of the cultural heritage island-wide. A 2010 study, requested by the European Parliament, examined conditions and estimated restoration costs and an inventory of approximately 2800 sites was made. Around 250 sites were ranked and about 120 detailed technical assessments were made. EU contributions under the Aid Regulation started in 2011 and, as the programme speed and achievements have increased, its value for reconciliation has become more apparent. Not only are historic sites salvaged and restored, but they have been brought back to life and the level of interest and bi-communal engagement has been high. The year 2013 was particularly successful with the completion of projects for Melandrina Church, Profitis Elias Church, Panagia Church and Denya Mosque. Various project events have been organized and increased the programme visibility.

The TCCH agreed a list of 23 priority monuments (churches, mosques and others) to be renovated. The assistance programme is working according to this list, but the choice of projects depends on the condition of the monument at the relevant time and the wishes of TCCH.The cultural heritage project also includes a public awareness component.

The Cultural Heritage and CMP projects will be implemented through indirect management by UNDP according to Article 58(1)(c) of the Financial Regulation.

Support to civil society

Direct connection to citizens through civil society organisations is important for the EU in its mission to spread European values of freedom, equality, respect for human rights etc., to develop pluralism and promote participatory democracy. Four grant schemes have been run under the Aid Programme so far. It is apparent from applications for the last scheme, launched in 2013 that there is good potential for a further campaign of grants, particularly for actions covering social dialogue and advocacy, awareness raising/social mobilisation and service provision. A new grant scheme will be run, with the aims of:

* establishment of platforms, networks, coalitions, formal civil society groups;

1. establishment of capacity building mechanisms;
2. promotion of links and partnerships with international Civil Society Organisations;
3. enhancement of advocacy and involvement in policy design of citizens advocacy groups in thematic fields such as health, environment, gender, good governance, democratisation;
4. development of awareness-raising campaigns to sensitise the population and induce social change;
5. service provision in social sectors.

 (2) Assumptions and accompanying actions

It is assumed that grant applications of sufficient quality will be generated. There are no accompanying actions specified, since activities are bi-communal (cultural heritage protection) or are aimed at civil society groups.

(3) Entity entrusted with budget implementation tasks

UNDP, as a UN agency, has a unique trusted, neutral role and facilitator of the settlement process. The Technical Committees, through which the Confidence Building projects are steered, were set up under the auspices of the UN. The projects (Committee of Missing Persons and Cultural Heritage Protection) involve dealing with delicate sensitivities of both communities.

The UNDP has considerable and current expertise of both the CMP and the cultural heritage protection role in Cyprus. Up to and including 2013, allocations were made for 7 Contribution Agreements (CAs) with UNDP for the CMP and 3 CAs with UNDP for the support to the preservation of cultural heritage. UNDP has a good track record in the implementation of these CAs and has built up a high level of efficiency, considering the particular circumstances of the implementation. The year 2013 produced strong results in both projects.

The UNDP is a very financially secure international organisation.

(4) Short description of the budget implementation tasks entrusted to the entity

Two Delegation Agreements are planned to be signed. One for the Committee of Missing Persons (indicative amount EUR 2,600,000 4Q14) and another for the Cultural Heritage Protection (indicative amount EUR 1,800,000 2Q15). The tasks entrusted will be project management, procurement, monitoring, payments, audit and evaluation.

(5) Essential elements of the action (for direct management)

Grant – Call for proposals:

* Objectives and foreseen results:

Civil society organisations will be supported to spread European values of freedom, equality, respect for human rights etc., to develop pluralism and promote participatory democracy.

* The essential eligibility criteria:

Applicants shall be established in the northern part of Cyprus.

Entities may be natural or legal persons.

* The essential selection criteria:

Financial and operational capacity of the applicant (sufficient capable staff).

* The essential award criteria:

Relevance, effectiveness and feasibility, sustainability and cost-effectiveness of the action.

* Maximum rate of cofinancing:

The maximum possible rate of EU co-financing:

95 % of the eligible cost of the action.

* Indicative amount of the call: EUR 1,000,000

1. Indicative date for launching of the call for proposals: 1Q15

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| Action 3 | Preparation for the implementation of the acquis | EUR 6,300,000 |

(1) Description of the Action, objectives, expected results

The Aid Regulation specifically foresees assistance to prepare for the implementation of the EU acquis and for the preparation of legal texts aligned with the EU acquis to be immediately applicable upon the entry into force of a comprehensive settlement of the Cyprus problem. The pace and developments in the settlement process will determine the need and shape the priorities in this respect.

In addition, the Commission is required to provide continued support for the implementation of Council Regulation 866/2004[2] (the Green Line Regulation) and Commission Regulation 1480/2004[3], thereby supporting the economic integration of the island.

The TAIEX instrument is used for these activities and delivers: seminars and conferences; workshops; expert missions; study visits to EU Member States; mobilisation of longer-term experts; provision of tools and information products for, among others, translation and interpretation activities; and co-ordination and monitoring, in close co-operation with Member States and Commission services.

The TAIEX operations also support attainment of the remaining objectives of the Aid Regulation, with activities in many fields including environment, phytosanitary and veterinary health. TAIEX transfers technical know-how and underpins and complements the other actions in the programme. Furthermore, by increasing Turkish Cypriot awareness and understanding of EU law, TAIEX helps to lay the foundations for future cooperation between the communities on the island and also to build confidence that procedures and rules in many areas of competition, quality, consumer protection and environment will be fair and equivalent across the island.

Following the re-launch of Cyprus talks in February 2014, the Commission sees continuing TAIEX assistance in this area as particularly vital. As the new phase of settlement talks advances, acquis preparation and the economic integration of the two communities will become more pressing and it will be necessary to address a wide range of acquis areas. Sufficient provision must therefore be made to ensure that the assistance programme facilitates the settlement in this respect and that solutions in the technical topics related to acquis preparation are found. This requires flexibility to adjust the extent, quantity; format and content of EU funded assistance for acquis preparation.

TAIEX is contracted as a single contract for activities in IPA and ENP regions as well as for the Turkish Cypriot community.

(2) Assumptions and accompanying actions

There are specific issues that must be resolved and agreed by relevant Turkish Cypriot community stakeholders before the 2014 programme can be fully implemented:

* Implementation and enhancement of absorption capacity in line with the (PFAA) priority set by the beneficiary.

1. Efficiently functioning working groups programming TAIEX assistance.

(3) Essential elements of the action (for direct management)

Procurement:

* theglobal budgetary envelope reserved for procurement:

Global amount: EUR 6,300,000

* the indicative number and type of contracts:

2 service contracts

* indicative time frame for launching the procurement procedure:

1. 4Q14, 3Q16.

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| --- | --- | --- |
| Action 4 | Support facility | EUR 4,040,000 |

(1) Description of the Action, objectives, expected results

Under the Aid Regulation: assistance may also be used to cover in particular the costs for supporting activities such as preliminary and comparative studies, training, activities linked to preparing, appraising, managing, implementing, monitoring, controlling and evaluation of assistance, activities linked to information and visibility purposes as well as costs for supporting staff, renting of premises and supply of equipment.

The Support Facility will provide resources for visibility actions, evaluations, audits and monitoring and supporting studies and technical input. An important component of this will be ***performance*** monitoring of the programme and projects against ***indicators*** and consolidated annual reporting on all ***indicators***.

The Support Facility may also provide resources for particular or horizontal activities to facilitate the settlement process, which the EU undertakes to support. This may take the form of, for example, symposia, community information or technical input.

(2) Assumptions and accompanying actions

It is assumed that the settlement progress will develop and that data necessary for monitoring purposes will be made available by the Turkish Cypriot community.

(3) Essential elements of the action (for direct management)

Procurement:

* theglobal budgetary envelope reserved for procurement:

Global amount: EUR 4,040,000

* the indicative number and type of contracts:

1 service contract and 3 specific framework contracts under global framework contract for services

* indicative time frame for launching the procurement procedure:

Service: 1Q16; Specific framework contracts: 2Q15, 4Q15, 2Q16.

* Indicative Budget Table

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Action | Procurement | Call for Proposals / Direct Grant Award | Indirect Management with IOs/MS Body | Totals |  |
| EUR | EUR | EUR | EUR | % |  |
| Action 1 Social and economic development and infrastructure | 5,820,000 | 11,400,000 | 0 | 17,220,000 | 52,2 |
| Action 2 Reconciliation and confidence building | 0 | 1,000,000 | 4,400,000 | 5,400,000 | 16,4 |
| Action 3 Acquis preparation | 6,300,000 | 0 | 0 | 6,300,000 | 19,1 |
| Action 4 Support facility | 4,040,000 | 0 | 0 | 4,040,000 | 12,3 |
| TOTAL | 16,160,000 | 12,400,000 | 4,400,000 | 32,960,000 | 100 |

* Implementation modalities and General rules for procurement and grant award procedures

direct management:

Part of this programme shall be implemented by direct management by the Commission / by the Union Delegations in accordance with article 58(1)(a) of the Financial Regulation and the corresponding provisions of its Rules of Application.

Procurement shall follow the provisions of Part Two, Title IV Chapter 3 of the Financial Regulation No 966/2012 and Part Two, Title II, Chapter 3 of its Rules of Application.

Grant award procedures shall follow the provisions of Part One Title VI and Part Two Title IV Chapter 4 of the Financial Regulation No 966/2012 and Part One Title VI and Part Two Title II Chapter 4 of its Rules of Application.

The International Federation of Consulting Engineers (FIDIC) conditions of contract shall be used for works contracts implemented through direct management.

The Commission may also use services and supplies under its Framework Contracts concluded following Part One of the Financial Regulation.

indirect management:

Part of this programme shall be implemented by indirect management with entrusted entities other than the beneficiary in accordance with Article 58(1)(c) of the Financial Regulation and the corresponding provisions of its Rules of Application.

The general rules for procurement and grant award procedures shall be defined in the relevant delegation agreements between the Commission and the entrusted entity implementing such action.

The change of management mode from indirect management to direct management, whether partially or entirely is not considered a substantial change provided that all essential elements of the actions have been specified in the initial text of the financing decision.

Monitoring

The Commission may undertake any actions it deems necessary to monitor the programmes concerned.

Evaluation

Programmes financed under Council Regulation 389/2006 shall be subject to ex ante evaluations, as well as interim and/or, ex post evaluations. The results of evaluations shall be taken into account in the programming and implementation cycle. The Commission may also carry out ***strategic*** evaluations.

* Special Conditions

In the implementation of actions financed under this Financing Proposal, the rights of natural and legal persons, including the rights to possessions and property shall be respected in line with Art 7 of Council Regulation 389/2006.

Nothing in this financing proposal is intended to imply recognition of any public authority in the areas, other than the Government of the Republic of Cyprus.

As regards participation in the award of procurement or grant contracts, the term “all natural and legal persons of Member States of the European Union in Article 9 paragraph 1 of Council Regulation 389/2006” includes all genuinely existing domestic legal persons residing or established in the areas. This will be specified in the calls for tenders and proposals.

[1]European Court of Auditors Special Report No. 6, 2012: European Assistance to the Turkish Cypriot Community

[2]               Council Regulation (EC) N°886/2004 of 29 April 2004 on a regime under Article 2 of Protocol 10 to the Act of Accession

[3]               Commission Regulation N°1480/2004 of 10 August 2004 laying down specific rules concerning goods arriving from the areas not under the effective control of the Government of Cyprus in the areas in which the Government exercises effective control

**Load-Date:** September 29, 2017

**End of Document**



[***-Berkeley Energia Limited - 2017 Annual Report***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PM7-PKK1-F0K1-N4F3-00000-00&context=1516831)

ENP Newswire

October 2, 2017 Monday

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**Length:** 12711 words

**Body**

The Directors of Berkeley Energia Limited submit their report on the Consolidated Entity consisting of Berkeley Energia Limited ('Company' or 'Berkeley' or 'Parent') and the entities it controlled at the end of, or during, the year ended 30 June 2017 ('Consolidated Entity' or 'Group').

Highlights

Berkeley is a company focussed on developing Europe's largest uranium project, the Salamanca mine, whilst delivering sustainable jobs and fuelling Europe's clean energy future.

Subsequent to the end of the financial year, the Company entered into an investment agreement with the sovereign wealth fund of the Sultanate of Oman ('SGRF') agreeing to invest, subject to shareholder approval, up to US$ 120 million to fully fund the Salamanca mine into production.

The investment will position the fund as a long term ***strategic*** investor in the Company as well as a potential offtake partner.

Infrastructure works on site are progressing well. The road deviation programme is well advanced and land is now being cleared to allow for the installation of the processing plant.

The primary crusher, delivered to site in July 2017, and the secondary crusher, which is currently in Madrid, were fabricated by Sandvik in Finland. Vibramech, based in South Africa, is on track with the fabrication of the vibrating grizzly feeder and screens.

The recent arrival on site of the primary crusher marks a significant milestone for the Company as it evolves from the development phase to the construction phase.

Equipment procurement for realignment of the electrical power line has been completed and the line deviation will commence once the road construction has been completed.

Employment levels are increasing with nearly seventy employees and contractors now on site and this will rise to 450 when the mine is in production. Over 120 locals have now completed the Company's skills training programmes equipping them with the skills necessary for positions with the Company.

These rising levels of employment are already having a positive effect on a local community that has been badly affected by long term unemployment, especially amongst its youth.

The Company remains committed to environmental excellence and as part of the Environmental License and the Environmental Measures Plan will plant 30,000 young oak trees, a six fold increase on the number of older trees being cleared, greatly improving the ecological and ***agricultural*** value of the area. The agreement will come into force once the favourable report issued by the Environmental Territorial Service of Salamanca has been approved by the General Directorate of Natural Environment of the Castilla y Leon Regional Government.

This reforestation programme commenced earlier this year with an agreement with the highly supportive local municipality of Vitigudino which details the arrangements for the planting of the first 20,000 young oak trees over a 50 hectare plot.

The Company is currently evaluating quotes from a number of experienced mining contractors and is encouraged by the competitive bids received. A key focus is the management of cost escalation over the term of these and all major contracts and suppliers to the Company.

Capital and the main contractual operating costs were finalised following the completion of the Front End Engineering and Design ('FEED') being undertaken by AMEC Foster Wheeler and came in 1% below the Definitive Feasibility Study ('DFS') estimates, reinforcing the Salamanca mine's position at the bottom of the cost curve.

The next phase of the Company's exploration programme will focus on discovering additional deposits with similar characteristics to Zona 7. Following extensive structural mapping and the interpretation of regional geological structures, two areas have been selected for an intensive geochemical sampling programme incorporating the latest uranium exploration techniques, in addition to some others like radiometrics and radon emissions.

The Company has noted increased public tender activity by major global utilities looking to enter into long term uranium supply contracts in the medium to long term. The Company is actively pursuing both public and private off-take opportunities with global utilities in the ordinary course of business and will report regularly on how this progresses.

The Company's view is that whilst uranium prices may remain flat in the near term, from late 2018, when the Salamanca mine is scheduled to come into production, the market is expected to be dominated by US utilities looking to re-contract who will at the same time be competing with Chinese new reactor demand, which may lead to higher spot and term contract prices.

The Company currently has 2.75 million pounds of U3O8 concentrate under long term contracts over the first six years of production. Potential exists to increase annual contracted volumes further as well as extend the existing supply contracts by a total of 1.25 million pounds.

Across the Company's portfolio, the average fixed price per pound of contracted and optional volumes is above US$ 42 per pound. This compares favourably with the current spot price of around US$ 20 per pound. The Company will continue to build its sales book as the market continues to improve.

US$ 120 million sovereign wealth fund ***strategic*** investment to bring Salamanca into production

Subsequent to the end of the year, the Company announced that it had entered into an investment agreement with SGRF agreeing to invest up to US$ 120 million to fully fund the Salamanca mine into production.

The investment will position SGRF as a long term ***strategic*** investor in the Company as well as a potential offtake partner, and is structured as:

an interest-free and unsecured convertible loan of US$ 65 million which can be converted into ordinary shares at 50 pence per share resulting in the fund owning approximately 28% of the Company and

three tranches of options convertible at a weighted average price of 85 pence per share contributing a further US$ 55 million towards the later phases of the Company's development of the Salamanca mine resulting in the fund holding a further 9% of the Company.

SGRF will have the right to appoint a non-executive director to the Board and has the right to match future uranium off-take transactions on similar commercial terms subject to certain limitations on volume.

At the time of announcing the transaction, Managing Director, Paul Atherley, commented: 'We are delighted to welcome Oman's sovereign wealth fund as a long-term ***strategic*** investor in the Company and look forward to working closely with them to realise the full potential of the exciting Salamanca mine.

The Salamanca mine is one of the only major uranium mines in development in the world today at a time when spot uranium prices are at a decade low.

The project benefits from a rare combination of low up front capital cost and very low operating costs and due in part to its location in the heart of the European Union we are able to contract supply at prices well above the current spot price.

The fund's interest in matching our future off-take contracts will further enhance our revenue stream.'

Primary Crusher Delivered to Site

The delivery of the primary crusher to site in July 2017 marked a key milestone in the construction of the mine.

The crusher is the first major piece of processing equipment to be delivered to site and its arrival marks the Company's transition from the development phase to the construction phase. The construction and commissioning phases are estimated to be completed during the second half of 2018.

The 400 tonne per hour crusher was manufactured by Sandvik Group in Finland, who have also fabricated the secondary crusher, which is currently in Madrid and will be delivered in the coming months. Sandvik is one of the world's leading suppliers of mining equipment and the crusher was one of the long lead items included in the use of proceeds from the equity raise completed in the fourth quarter of 2016.

Infrastructure development continues and major contracts being evaluated

Initial infrastructure development commenced in August 2016 with the re-routing of the existing electrical power line to service the mine and a five kilometre realignment of an existing road.

The road deviation continues to proceed as planned and will be completed in due course. The upgrade to the existing electrical power line will commence shortly and is expected to be completed by the end of the year. The deviation programme has been designed to create pedestrian footpaths and secure cattle paths in order to maximize the benefit to the local community.

The clearing of land where the processing plant, medium voltage substation, reagent storage facilities and buildings will be built, and the laydown area for mining and construction contractors, has commenced. Many of the trees being cleared from these plots of land are suffering from a fungal pest that prevents them from growing and are being replaced with young, healthy oak trees that will improve the ecological value of the area. The cleared trees have been used for biomass.

Quotes from a number of experienced mining contractors are currently being evaluated and the Company is encouraged by the competitiveness of the bids received. A key focus is the management of cost escalation over the term of these and all the major contracts with and suppliers to the Company.

Committed to the highest environmental standards

The Salamanca mine is being developed to the highest international standards and as such, the Company's commitment to the environment remains a priority.

The mine has been designed according to the very latest thinking on sustainable mining. The extraction and treatment areas will be continuously rehabilitated as operations progress and with minimum disturbance during operations. Once operations are complete, all areas utilised by the Company will be fully restored to a condition of increased ***agricultural*** value.

As part of the Environmental License and the Environmental Measures Plan over 30,000 young oak trees will be planted over an area of 75 to 100 hectares in the local area.

For every tree being cleared six will be planted in its place, which will greatly improve the ecological value of the area. The reforestation programme began earlier this year following an agreement with the highly supportive municipality of Vitigudino, as part of the Company's commitment to environmental excellence.

This agreement details the arrangements for the planting of 20,000 trees over a 50 hectare plot in the municipality of Vitigudino. This plot forms part of an area of more than 500 hectares owned by the municipality that is currently used by cattle farmers, despite its deteriorating ecological value.

The Company will make payments to the municipality of Vitigudino for the next three years to cover the costs of planting and maintaining the young trees and looks forward to entering into similar agreements with the municipalities of Retortillo, Villavieja and Villares de Yeltes.

Capital costs for Salamanca reduced by 1% to EUR82.3 million

The capital cost for the construction of the Salamanca mine has reduced to EUR82.3 million (US$ 93.8 million), a 1% reduction over previous estimates, confirming the project's status as one of the lowest cost uranium mine developments in the world today.

The project benefits from well-established EU infrastructure and a highly competitive cost environment combined with short lead times for major equipment items.

The estimate for bringing the mine into production was prepared as part of the FEED by the Amec Foster Wheeler Group, one of the world's largest engineering groups.

The FEED is the execution phase of the project during which the overall engineering and process design is translated into equipment procurement packages and awards to specialist sub-contractors. A number of Spain's most reputable engineering groups provided their input into the Company's study work, including Madrid IBX-35 listed companies Ferrovial and OHL.

The final capital costs reflect all detailed design work carried out during the FEED, and resulted in an update to the nature and quantity of materials required to build the Salamanca mine, with costs from contractors and suppliers being amended based on final bidding packages.

The Company will continue to pursue cost optimisation opportunities as it commences full construction this summer, which includes the evaluation of the indirect costs.

Exploration programme expanded targeting Zona 7 style deposits

The next phase of the Company's exploration campaign has commenced and will focus on discovering additional deposits with similar characteristics to Zona 7, which is located close to surface and without a strong radiometric anomaly present.

The discovery of the high grade extensions at the Zona 7 deposit in late 2014 transformed the economics of the mine and changed the Company's geological model for the region.

In parallel with the ongoing development on site, the Company continues to conduct further exploration programmes aimed at increasing the project's production profile or mine life.

Following extensive structural mapping and the interpretation of regional geological structures, two areas totalling 100 km2 have been selected for an intensive geochemical sampling programme, which will include 2,500 samples on a 200m x 200m grid.

The programme will incorporate the latest uranium exploration techniques with samples being tested for mobile metal ions using the Ionic Leach technique. This highly sensitive technique can detect extremely low levels of uranium and other critical elements and is widely acknowledged to be the most adept at identifying subtle anomalies.

To complement the soil sampling/Ionic Leach programme, the Company will also undertake ground radiometric survey readings and radon emissions tests at each of the sample collection points.

Two field crews will be focussed on carrying out the planned exploration activities over the two priority areas during the coming months, with the goal of identifying drill targets.

In addition to this new exploration programme, the Company will continue with exploration below Zona 7, where previous high grade intercepts were found beneath the current defined resource, demonstrating continuity of mineralisation and potential for the resource to increase at depth.

Off-Take programme update and notable increase in public tender activity

The Company currently has 2.75 million pounds of U3O8 concentrate under long term contracts over the first six years of production. Potential exists to increase annual contracted volumes further as well as extend the contracts by a total of 1.25 million pounds.

The Company has maintained its preference to combine fixed and market related pricing across its contracts in order to secure positive margins in the early years of production whilst ensuring the Company remains exposed to potentially higher prices in the future.

Across the portfolio, the average fixed price per pound of contracted and optional volumes is above US$ 42 per pound. This compares favourably with the current spot price of around US$ 20 per pound.

The Company notes an increase in public tender activity by major global utilities looking to enter into long term contracts in the medium to long term time horizon. The Company is actively pursuing both public and private off-take opportunities with global utilities in the ordinary course of business and will report regularly on progress.

The Company's view is that whilst uranium prices may remain flat in the near term, from late 2018, when Salamanca is scheduled to come into production, the market is expected to be dominated by US utilities looking to re-contract who will at the same time be competing with Chinese new reactor demand, which may lead to higher spot and term contract prices.

Major land acquisitions completed ahead of commencement of Salamanca mine construction

Following the US$ 30 million equity raise, the Company completed some key land acquisitions which will accelerate the development of its Salamanca mine.

The successful acquisition and lease of over five hundred hectares of land will allow for the completion of the initial infrastructure currently underway and the commencement of construction of the processing plant together with construction of a medium voltage substation, reagent storage facilities and buildings.

Commitment to the community

The Company continues to be committed to the rejuvenation of the local community and being a good neighbour and community business partner and stakeholder. The Company has already invested over EUR70 million in the area over the past decade and is planning to invest an additional EUR250 million in the coming years as the mine develops.

The Company has been by far the biggest investor in a ***rural*** community suffering from decades of under investment and high levels of unemployment, especially amongst its youth.

The Company has signed Cooperation Agreements with the highly supportive local municipalities, demonstrating its commitment to working collaboratively with the community.

To date, through these agreements, the Company has provided wifi networks for local villages, built play areas for children, repaired sewage water plants, upgraded sports facilities, and sponsored various sporting events and local festivals.

Employment and training

The policy of preferentially hiring and training local residents has been very well received with the training programmes continuing to be heavily oversubscribed; to date, over 120 locals have attended courses organised by the Company and 25% of residents from the local area have applied for jobs.

The Company has received over 21,000 applications for the first 200 direct jobs it will create. The mine will create over 450 jobs once in full production and the University of Salamanca has estimated that for this type of business there will be a multiplier factor of 5.1 indirect jobs for every direct job created, resulting in over 2,500 direct and indirect jobs being created as a consequence of the Company's investment in the area.

During the year, the Company added a further 20 employees to its team at the Salamanca mine bringing the total number of employees and contractors at site to close to 70.

The recently appointed candidates are carrying out activities such as fencing the project, preparing for the next exploration campaign, preparing the 50 hectare plot in Vitigudino for reforestation activities and readying other areas of the site to allow for imminent construction.

Training programmes will continue to run throughout the year to ensure that sufficient people from the local communities are qualified for jobs created during the construction and mining phases.

Permitting update

There is strong support for the Salamanca mine throughout all levels of government. To date, the Company has received more than 90 favourable reports and permits for the development of the mine.

The Urbanism Commission of Salamanca gave an Express Resolution for the granting of the Authorisation of Exceptional Land Use, with the licence to be formally issued in due course.

With the Mining Licence, Environmental Licence and the Authorisation of Exceptional Land Use already obtained, the remaining approval is the Construction Authorisation by the Ministry of Industry, Energy and Tourism for the treatment plant as a radioactive facility, which is currently in process.

Corporate

Board strengthened with the appointment of two Non-Executive Directors

Mr Nigel Jones and Mr Adam Parker were appointed as an independent Non-Executive Directors of the Company on 7 June 2017 and 14 June 2017 respectively.

Mr Jones has thirty years' experience in the international mining sector. He has considerable corporate development and marketing expertise, including being responsible for the negotiation of key uranium supply agreements for Rio Tinto.

Mr Jones spent two decades at Rio Tinto, where ultimately he held the position of Global Head of Business Development and prior to that Managing Director of Rio Tinto Marine, Head of Investor Relations and Marketing Director, Uranium.

Mr Parker joins the Company after a long and successful career in institutional fund management in the City of London spanning almost three decades, including being a co-founder of Majedie Asset Management, which today manages assets of approximately GBP14 billion.

He was instrumental in building Majedie Asset Management into the successful investment boutique that it is today. He managed funds including the Majedie UK Opportunities Fund, the Majedie UK Smaller Companies Fund and a quarter of the Majedie UK Focus Fund, which all outperformed their benchmarks during his tenure.

Mr Parker retired from Majedie Asset Management in 2015 and has no ongoing input or influence in the management of its investments, including the firm's current ownership of approximately 5.30% of the Company.

On 7 June 2017, Dr Jim Ross retired from the Board after over twelve years of excellent service.

Appointment of Chief Financial Officer

During the year, Mr Paul Thomson was appointed as CFO of the Company. Mr Thomson joined Berkeley having had many years of experience in the mining industry.

Mr Thomson was CFO of Aureus Mining Inc., a gold producer in West Africa, from 2011 to 2016 during which time the company evolved from an explorer, to a developer and then a gold producer. Prior to Aureus, he was in Business Development at Kazakhmys Plc. Mr Thomson is a chartered accountant who previously worked with Ernst & Young.

Mr Thomson's appointment has bolstered the finance department of the Company and his experience in his previous roles will be highly relevant as the Company prepares for construction.

US$ 30 million raised from London institutions in oversubscribed fundraise

During the year, the Company successfully raised US$ 30 million from London's generalist blue chip institutions who now constitute a significant portion of the share register. The placing was completed at a price of 45 pence per share, a slight discount to the share price at the time.

Proceeds from the raise are being used to accelerate the development of the Salamanca mine, including construction of the crushing circuit, the centralised processing facility and land acquisition. In addition, the funding allowed for the completion of the FEED activities, the commencement of construction and provide working capital.

This strong institutional support for this successful financing was a positive endorsement of the Salamanca mine.

Results of Operations

The Consolidated Entity's net loss after tax for the year ended 30 June 2017 was $ 16,049,740 (2016: $ 13,641,054). This loss is partly attributable to:

Exploration and evaluation expenses of $ 11,045,135 (2016: $ 9,213,493), which is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure incurred subsequent to the acquisition of the rights to explore and up to the successful completion of definitive feasibility studies and permitting for each separate area of interest. The increased exploration and evaluation expenditure for the year ended 30 June 2017 is a reflection of additional activities undertaken in the year.

Business development expenses of $ 2,697,276 (2016: $ 1,614,099) which includes the Groups investor relations activities including but not limited to public relations costs, marketing and digital marking, conference fees, travel costs, consultant fees, broker fees and stock exchange admission costs.

Non-cash share-based payments expense of $ 1,020,106 (2016: $ 1,713,364) was recognised in respect of incentive securities granted to directors, employees and key consultants. The Company's policy is to expense the incentive securities over vesting period (which for ***Performance*** Rights is generally the life of the security). The decrease in this expense is a direct result of less incentive securities on issue.

Recognition of interest income of $ 463,639 (2016: $ 237,065). The increase in interest income reflects the higher average cash position from 2016 to 2017.

Financial Position

At 30 June 2017, the Group had cash reserves of $ 34,814,971 and no debt. This puts the Group in an excellent financial position as the Company moves towards the development and construction of the Salamanca mine.

The Group had net assets of $ 48,466,610 at 30 June 2017 (2016: $ 26,301,977), an increase of 84% compared with the previous year. This increase is consistent with the higher cash balance and increased property plant and equipment. The increase is offset somewhat by the loss for the year, comprising: (i) the current year's net loss after income tax, and (ii) movement in reserves.

Business Strategies and Prospects for Future Financial Years

Berkeley's ***strategic*** objective is to create long-term shareholder value by becoming a uranium producer in the near term, through the ongoing development and construction of the Salamanca mine.

To achieve its ***strategic*** objective, the Company currently has the following business strategies and prospects:

Progress with seeking further offtake partners. The Company has maintained its preference to combine fixed and market related pricing across its contracts in order to secure positive margins in the early years of production whilst ensuring the Company remains exposed to potentially higher prices in the future;

Advance the Salamanca mine through the development phase into the main construction phase and then into production;

Complete permitting so that construction of the radioactive facilities can commence;

Continue to explore the Company's portfolio of tenements in Spain targeting further Zona 7 style deposits aimed at making new discoveries and converting some of the 29.6 million pounds of Inferred resources into the mine schedule with the objective of maintaining annual production at over 4 million pounds a year on an ongoing basis and Assess other mine development opportunities at the Salamanca mine.

As with any other mining projects, all of these activities are inherently risky and the Board is unable to provide certainty that any or all of these activities will be able to be achieved. The material business risks faced by the Company that are likely to have an effect on the Company's future prospects, and how the Company manages these risks, include but are not limited to the following:

The Group's projects are not yet in production - As a result of the substantial expenditures involved in mine development projects, mine developments are prone to material cost overruns versus budget. The capital expenditures and time required to develop new mines are considerable and changes in cost or construction schedules can significantly increase both the time and capital required to build the mine;

The Company may be adversely affected by fluctuations in commodity prices - The price of uranium fluctuates widely and is affected by numerous factors beyond the control of the Company. Future production, if any, from the Salamanca mine will be dependent upon the price of uranium being adequate to make these properties economic. The Company currently does not engage in any hedging or derivative transactions to manage commodity price risk, but as the Company's Project advances, this policy will be reviewed periodically;

The Company's activities are subject to Government regulations and approvals - Any material adverse changes in government policies or legislation of Spain that affect uranium mining, processing, development and mineral exploration activities, income tax laws, royalty regulations, government subsidies and environmental issues may affect the viability and profitability of the Salamanca mine. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could adversely impact the Group's mineral properties and Global financial conditions may adversely affect the Company's growth and profitability - Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and energy markets, and a lack of market liquidity. A slowdown in the financial markets or other economic conditions may adversely affect the Company's growth and ability to finance its activities.

With the Mining Licence, Environmental Licence and the Authorisation of Exceptional Land Use already obtained, the remaining approval is the Construction Authorisation by the Ministry of Industry, Energy and Tourism for the treatment plant as a radioactive facility, which is currently in process. Various appeals have been made against these permits and approvals, as allowed for under Spanish law, and the Company expects that further appeals will be made against these and future authorisations and approvals in the ordinary course of events. All appeals to date have been unsuccessful. The Company will continue to comply with its continuous disclosure obligations in relation to any such appeals.

The construction phase of the Salamanca mine will require substantial financing - Failure to complete and settle the SGRF transaction may result in delaying or the indefinite postponement of any development of the mine. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

The successful development of the Company's project will also be dependent on the granting of all permits necessary for the construction and production phases. As with any development project, there is no guarantee that the Company will be successful in applying for and maintaining all required permits and licences to complete construction and subsequently enter into production. All appeals to date have been unsuccessful and the Company has no reason to believe that future appeals will not also be unsuccessful. Should an appeal be made and advice is received that the appeal has some chance of success the Company will advise in the normal course of events.

DIRECTORS

The names of Directors in office at any time during the financial year or since the end of the financial year are:

Mr Ian Middlemas Chairman

Mr Paul Atherley Managing Director

Mr Nigel Jones Non-Executive Director (appointed 7 June 2017)

Mr Adam Parker Non-Executive Director (appointed 14 June 2017)

Mr Robert Behets Non-Executive Director

Dr James Ross Non-Executive Director (retired 7 June 2017)

Unless otherwise disclosed, Directors held their office from 1 July 2016 until the date of this report.

Mr Middlemas is a Chartered Accountant, a member of the Financial Services Institute of Australasia and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director with a number of publicly listed companies in the resources sector.

Mr Middlemas was appointed a Director and Chairman of Berkeley Energia Limited on 27 April 2012. During the three year period to the end of the financial year, Mr Middlemas has held directorships in Apollo Minerals Limited (July 2016 - present), Cradle Resources Limited (May 2016 - present), Paringa Resources Limited (October 2013 - present), Prairie Mining Limited (August 2011 - present), Salt Lake Potash Limited (January 2010 - present), Equatorial Resources Limited (November 2009 - present), Piedmont Lithium Limited (September 2009 - present), Sovereign Metals Limited (July 2006 - present), Odyssey Energy Limited (September 2005 - present), Syntonic Limited (April 2010 - June 2017) and Papillon Resources Limited (May 2011 - October 2014).

Mr Atherley has developed strong connections within Chinese business, industry bodies and senior government officials, including the most senior levels of the state owned energy companies. Until recently he was the Chairman of the British Chamber of Commerce in China, Vice Chairman of the China Britain Business Council in London and served on the European Union Energy Working Group in Beijing. He has been a regular business commentator on China, hosting events in Beijing and appearing on CCTVNews and China Radio International.

Mr Atherley was appointed a director of Berkeley Energia Limited on 1 July 2015. During the three year period to the end of the financial year, Mr Atherley has also held directorships in Leyshon Resources Limited (May 2004 - present) and Leyshon Energy Limited (January 2014 - present).

Nigel Jones

Non-Executive Director

Qualifications - MA OXON (Alumnus of London Business School where Mr Jones completed a Corporate Finance Programme)

Mr Jones has thirty years' experience in the international mining sector. He has considerable corporate development and marketing expertise, including being responsible for the negotiation of key uranium supply agreements for Rio Tinto.

Mr Jones spent two decades at Rio Tinto, where ultimately he held the position of Global Head of Business Development and prior to that Managing Director of Rio Tinto Marine, Head of Investor Relations and Marketing Director, Uranium.

Mr Jones was recently appointed as Head of Private Side Capital Markets at ICBC Standard Bank, the global markets subsidiary of ICBC Bank, which is the world's largest bank by assets.

He was appointed a Director of Berkeley Energia Limited on 7 June 2017. He has not been a Director of another listed company in the three years prior to the end of the financial year.

Adam Parker

Non-Executive Director

Qualifications - MA.Chem (Hons), ASIP

Mr Parker joined the Company after a long and successful career in institutional fund management in the City of London spanning almost three decades, including being a co-founder of Majedie Asset Management, which today manages assets of approximately GBP14 billion.

Mr Parker began his career in 1987 at Mercury Asset Management (subsequently acquired by Merrill Lynch and now part of BlackRock) and left in 2002 when he co-founded Majedie Asset Management.

He was instrumental in building Majedie Asset Management into the successful investment boutique that it is today. He managed funds including the Majedie UK Opportunities Fund, the Majedie UK Smaller Companies Fund and a quarter of the Majedie UK Focus Fund, which all outperformed their benchmarks during his tenure.

He was appointed a Director of Berkeley Energia Limited on 14 June 2017. He has not been a Director of another listed company in the three years prior to the end of the financial year.

Robert Behets

Non-Executive Director

Qualifications - B.Sc (Hons), FAusIMM, MAIG

Mr Behets is a geologist with over 25 years' experience in the mineral exploration and mining industry in Australia and internationally. He was instrumental in the founding, growth and development of Mantra Resources Limited, an African focused uranium company, through to its acquisition by ARMZ for approximately A$ 1 billion in 2011. Prior to Mantra, Mr Behets held various senior management positions during a long career with WMC Resources Limited.

Mr Behets has a strong combination of technical, commercial and managerial skills and extensive experience in exploration, mineral resource and ore reserve estimation, feasibility studies and operations across a range of commodities, including uranium, gold and base metals. He is a Fellow of The Australasian Institute of Mining and Metallurgy, a Member of the Australian Institute of Geoscientists and was also previously a member of the Australasian Joint Ore Reserve Committee ('JORC').

Mr Behets was appointed a Director of the Company on 27 April 2012. During the three year period to the end of the financial year, Mr Behets has held directorships in Apollo Minerals Limited (October 2016 - present), Cradle Resources Limited (May 2016 to present), Equatorial Resources Limited (February 2016 to present), Piedmont Lithium Limited (February 2016 to present) and Papillon Resources Limited (May 2012 - October 2014).

Mr Dylan Browne

Company Secretary

Qualifications - B.Com, CA, AGIA

Mr Browne is a Chartered Accountant and Associate Member of the Governance Institute of Australia who is currently Company Secretary for a number of ASX and European listed companies that operate in the resources sector. He commenced his career at a large international accounting firm and has since been involved with a number of exploration and development companies operating in the resources sector including Papillon Resources Limited and Prairie Mining Limited. Mr Browne was appointed Company Secretary and Chief Financial Officer of the Company on 29 October 2015.

OTHER KMP

Mr Francisco Bellon del Rosal

Chief Operations Officer

Qualifications - M.Sc, MAusIMM

Mr Bellon is a Mining Engineer specialising in mineral processing and metallurgy with over 20 years' experience in operational and project management roles in Europe, South America and West Africa. He held various senior management roles with TSX listed Rio Narcea Gold Mines during a 10 year career with the company, including Plant Manager for El Valle/Carles process facility and Operations Manager prior to its acquisition by Lundin Mining in 2007. During this period, Mr Bellon was involved in the development, construction, commissioning and production phases of a number of mining operations in Spain and Mauritania including El Valle-Boinas / Carles (open pit and underground gold-copper mines in northern Spain), Aguablanca (open pit nickel-copper mine in southern Spain) and Tasiast (currently Kinross' world class open pit gold mine in Mauritania). He subsequently joined Duro Felguera, a large Spanish engineering house, where as Manager of the Mining Business, he managed the peer review, construction and commissioning of a number of large scale mining operations in West Africa and South America in excess of US$ 1B. Mr Bellon joined Berkeley Energia Limited in May 2011.

Mr Javier Colilla Peletero

Chief Administration Officer

Qualifications - Econ (Hons), LLB (Hons), MBA

Mr Colilla is a Mineral Economist and Lawyer. With prior experience in auditing and insurance sectors, he has over 25 years' experience in the mining sector commencing as the Managing Director of an international drilling company in the early 1980's. He subsequently worked for Anglo American as General Manager of their Spanish subsidiaries, whilst also contributing as international staff member to several projects in Europe and South America. Mr Colilla held various executive management roles during a long career with the TSX listed Rio Narcea Gold Mines, including Vice President Business Development, Chief Financial Officer, Senior Vice President Corporate, as well as Administrator/Director of its subsidiaries. During this period, he was involved in all aspects of commercial, legal and joint venture management, permitting, stakeholder engagement, government liaison and project financing for a number of mining operations in Spain and internationally including El Valle-Boinas / Carles, Aguablanca and Tasiast. Following the acquisition of Rio Narcea Gold Mines by Lundin Mining in 2007, Mr Colilla consulted on renewable energies projects and advised several international leading legal firms in the areas of public aid financing (domestic and international) and due diligence exercises in relation to Spanish mining companies being acquired by multinational mining groups. Mr Colilla joined Berkeley Energia Limited in April 2010.

Mr Thomson is a chartered accountant with over two decades of experience in both the finance and the mining industries. Prior to joining the Company, he was CFO of Aureus Mining Inc., a gold producer in West Africa, from 2011 to 2016 during which time the company evolved from an explorer, to a developer and then to a gold producer. Before this he worked in Business Development at Kazakhmys Plc and for Ernst & Young in the energy corporate finance team. Mr Thomson is a member of the Institute of Chartered Accountants of Scotland ('ICAS') and holds a Corporate Finance Advanced Diploma ('ICAEW'). Mr Thomson joined Berkeley Energia in January 2017.

Mr Schumann commenced his career as a management consultant before moving into the natural resources sector, initially as part of an investing team in London focused on early stage mining projects and then working in corporate development functions for a number of listed mining and energy companies. He has a decade of experience in the financing and development of mining and energy projects globally across a range of commodities. He holds an MBA from INSEAD, is a CFA Charterholder and holds a Bachelor of Business Science (Finance CA) from the University of Cape Town. Mr Schumann joined Berkeley Energia Limited in July 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year consisted of mineral exploration and development. There was no significant change in the nature of those activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed below, there were no significant changes in the state of affairs of the Consolidated Entity during the year.

On 14 July 2016, the Company announced the results of the completed DFS which confirmed the Salamanca mine as one of the lowest cost producers capable of generating strong after tax cash flow through the current low in the uranium price cycle;

On 28 November 2016, the Company announced that it had signed a binding off-take agreement with Interalloys Trading Limited ('Interalloys') for the sale of the first production from the Salamanca mine. An average fixed price of US$ 43.78 per pound of contracted and optional volumes was agreed between the parties;

On 6 December 2016, the Company completed major land acquisitions at the Salamanca mine in order to accelerate the initial development infrastructure at the mine;

On 16 December 2016, the Company completed a placement of 53.6 million shares at an issue price of 45 pence per share to London's generalist blue chip institutions to raise gross proceeds of US$ 30 million;

On 20 December 2016, the Company announced that the order of the first major items for the crushing circuit which came in more than 20% below estimates from the DFS and On 17 March 2017, the Company announced additional high grade intersections below the Zona 7 deposit at the Salamanca mine which reported grades consistent with, or higher than, the average grade of the Zona 7 resource.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 6 July 2017, the Company announced that the capital cost for the construction of the Salamanca mine has reduced to EUR82.3 million (US$ 93.8 million), a 1% reduction over previous estimates, confirming the project's status as one of the lowest cost uranium mine developments in the world today;

On 12 July 2017, the Company announced that the primary crusher for the Salamanca mine had been delivered to site, marking a key milestone in the construction of the Salamanca mine and On 31 August 2017, the Company signed an investment agreement with SGRF agreeing to invest up to US$ 120 million to fully fund the Salamanca mine into production.

Other than as outlined above, as at the date of this report there are no matters or circumstances, which have arisen since 30 June 2017 that have significantly affected or may significantly affect: the operations, in financial years subsequent to 30 June 2017, of the Consolidated Entity; the results of those operations, in financial years subsequent to 30 June 2017, of the Consolidated Entity; or the state of affairs, in financial years subsequent to 30 June 2017, of the Consolidated Entity.

ENVIRONMENTAL REGULATION AND ***PERFORMANCE***

The Consolidated Entity's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve. Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities.

There have been no significant known breaches by the Consolidated Entity during the financial year.

In September 2012, Berkeley qualified for certification in accordance with ISO 14001 of Environmental Management, which sets out the criteria for an environmental management system, and UNE 22480 of Sustainable Mining Management, which allows for the systematic monitoring and tracking of sustainability ***indicators***, and is useful in the establishment of targets for constant improvement. These certificates are renewed following annual audits established by the regulations, with the most recent audit successfully completed in July 2015.

SHARE OPTIONS AND ***PERFORMANCE*** RIGHTS

At the date of this report the following Incentive Options and ***Performance*** Rights have been issued over unissued Ordinary Shares of the Company:

3,500,000 Incentive Options exercisable at GBP0.15 on or before 30 June 2018;

150,000 Incentive Options exercisable at GBP0.25 on or before 30 June 2018;

150,000 Incentive Options exercisable at GBP0.30 on or before 30 June 2018;

200,000 Incentive Options exercisable at GBP0.40 on or before 30 June 2018.

3,500,000 Incentive Options exercisable at GBP0.20 on or before 30 June 2019;

3,585,000 ***Performance*** Rights expiring on 31 December 2018;

100,000 ***Performance*** Rights expiring on 31 March 20019 and 4,925,000 ***Performance*** Rights expiring on 31 December 2019.

These Incentive Options and ***Performance*** Rights do not entitle the holders to participate in any share issue of the Company or any other body corporate. During the year ended 30 June 2017, 200,000 Ordinary Shares were issued as a result of the exercise of 200,000 Incentive Options and no Ordinary Shares were issued as a result of the conversion of ***Performance*** Rights. Subsequent to the end of the financial year and up and until the date of this report, no Ordinary shares have been issued as a result of the exercise of Incentive Options or conversion of ***Performance*** Rights.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors and the board committees held during the year ended 30 June 2017, and the number of meetings attended by each director. Subsequent to the end of the year the Board resolved to establish a Remuneration and Nomination Committee.

The Board as a whole currently performs the functions of an Audit Committee and Risk Committee, however this will be reviewed should the size and nature of the Company's activities change.

REMUNERATION REPORT (AUDITED)

This report details the amount and nature of remuneration of each director and executive officer of the Company.

There were no other key management personnel of the Company or the Group. Unless otherwise disclosed, the Key Management Personnel held their position from 1 July 2016 until the date of this report.

Remuneration Policy

The remuneration policy for the Group's KMP has been developed by the Board taking into account the size of the Group, the size of the management team for the Group, the nature and stage of development of the Group's current operations and market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

In addition to considering the above general factors, the Board has also placed emphasis on the following specific issues in determining the remuneration policy for key management personnel: the Group is currently focused on undertaking development and construction activities; risks associated with resource companies whilst exploring and developing projects and other than profit which may be generated from asset sales (if any), the Group does not expect to be undertaking profitable operations until sometime after the successful commercialisation, production and sales of commodities from one or more of its current projects, or the acquisition of a profitable mining operation.

Remuneration and Nomination Committee

Subsequent to the end of the year and in response to the Company receiving at least 25% of votes cast against the Remuneration Report at the 2016 AGM, the Board resolved to establish an independent Remuneration and Nomination Committee ('Remcom') to oversee the Group's remuneration and nomination responsibilities and governance. The remuneration committee members consist of three independent non-executive directors being Mr Parker (as Chair), Mr Jones and Mr Behets.

The Remcom's role will be to determine the remuneration of the Company's Executives, oversee the remuneration of KMP, and approve awards under the Company's long-term incentive plan ('LTIP').

The Remcom will review the ***performance*** of Executives and KMP and set the scale and structure of their remuneration and the basis of their service/consulting agreements. In doing so, the Remcom will have due regard to the interests of shareholders.

In determining the remuneration of Executives and KMP, the Remcom will seek to enable the Company to attract and retain executives of the highest calibre. In addition, the Remcom will decides whether to grant incentives securities in the Company and, if these are to be granted, who the recipients should be.

Remuneration Policy for Executives

The Group's remuneration policy is to provide a fixed remuneration component and a ***performance*** based component. The Board believes that this remuneration policy is appropriate given the considerations discussed in the section above and is appropriate in aligning KMP objectives with shareholder and business objectives.

Fixed Remuneration

Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits. Non-cash benefits may include provision of motor vehicles, housing and health care benefits.

Fixed remuneration will be reviewed annually by the Remcom. The process consists of a review of Company and individual ***performance***, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

***Performance*** Based Remuneration - Short Term Incentive

Some KMP are entitled to an annual cash bonus upon achieving various key ***performance*** ***indicators*** ('KPI's'), as set by the Board. Having regard to the current size, nature and opportunities of the Company, the Board has determined that these KPI's will include measures such as successful completion of exploration activities (e.g. completion of exploration programmes within budgeted timeframes and costs), development activities (e.g. completion of feasibility studies and initial infrastructure), corporate activities (e.g. recruitment of key personnel and project financing) and business development activities (e.g. project acquisitions and capital raisings). On an annual basis, after consideration of ***performance*** against key ***performance*** ***indicators***, the Board determines the amount, if any, of the annual cash bonus to be paid to each KMP. During the financial year, a total bonus sum of $ 680,465 (2016: $ 484,698) was paid, or is payable to KMP on achievement of KPIs as set by the Board (in future to be set by the Remcom) which included: (i) Completion of the investment agreement with SGRF; (ii) Completion of a positive DFS for the Salamanca mine; (iii) Completed the FEED for the Salamanca mine which reduced capital costs of the project by 1%; (iv) Conclusion of a number of off-take contracts for the sale of uranium production during the financial year; (v) Announcement of a key milestone in the construction of the Salamanca mine following the delivery of the primary crusher to site; (vi) Announcement of early stage construction activities at the Salamanca mine including land acquisition, the road deviation advancing, equipment procurement of the electrical power line and preliminary reagent supply agreement having been entered into; (vii) Announcement of further high grade intercepts below Zona 7 identified and (viii) Completion of an oversubscribed placement of 53.6 million shares at an issue price of GBP0.45 per share to London blue chip institutions to raise US$ 30 million (GBP24 million).

***Performance*** Based Remuneration - Long Term Incentive

The Group has adopted a LTIP comprising the 'Berkeley ***Performance*** Rights Plan' (the 'Plan') to reward KMP and key employees for long-term ***performance***. Shareholders approved the Plan in April 2013 at a General Meeting of Shareholders and ***Performance*** Rights were issued under the Plan in May 2013 and March 2014. Shareholders approved the renewal of the Plan in July 2015.

The Plan provides for the issuance of unlisted ***performance*** share rights ('***Performance*** Rights') which, upon satisfaction of the relevant ***performance*** conditions attached to the ***Performance*** Rights, will result in the issue of an Ordinary Share for each ***Performance*** Right. ***Performance*** Rights are issued for no consideration and no amount is payable upon conversion thereof.

To achieve its corporate objectives, the Company needs to attract and retain its key staff, whether employees or contractors. The Board believes that grants made to eligible participants under the Plan provides a powerful tool to underpin the Company's employment and engagement strategy, and that the implementation of the Plan will: enable the Company to recruit, incentivise and retain KMP and other eligible employees and contractors needed to achieve the Company's ***strategic*** objectives; link the reward of eligible employees and contractors with the achievements of ***strategic*** goals and the long term ***performance*** of the Company; align the financial interest of participants of the Plan with those of Shareholders and provide incentives to participants of the Plan to focus on superior ***performance*** that creates Shareholder value.

***Performance*** Rights granted under the Plan to eligible participants will be linked to the achievement by the Company of certain ***performance*** conditions as determined by the Board from time to time. These ***performance*** conditions must be satisfied in order for the ***Performance*** Rights to vest. Upon ***Performance*** Rights vesting, Ordinary Shares are automatically issued for no consideration. If a ***performance*** condition of a ***Performance*** Right is not achieved by the expiry date then the ***Performance*** Right will lapse.

During the financial year, ***Performance*** Rights had been on issue or granted to certain KMP and other employees and consultants with the following ***performance*** conditions:

Expanded Definitive Feasibility Study Milestone means delivery of a positive Definitive Feasibility Study incorporating Zona 7, and the Company making a decision to proceed to development of operation evidenced by the Board resolving to continue to develop the Project before 30 June 2017 (milestone was achieved on 14 July 2017 with the ***Performance*** Rights converting on 29 July 2017);

Project Construction Milestone means completion of approximately 25% of the project development phase, as per the project development schedule and budget approved by the Board in accordance with the Definitive Feasibility Study before 31 December 2018;

Finance Review Milestone means demonstrating the reduction in capital and operating costs of the Salamanca mine and a reduction to the overall financing requirement and cost of capital of the Company as approved by the board before 31 March 2019 and Production Milestone means achievement of first uranium production before 31 December 2019.

In addition, may provide unlisted Incentive Options to some KMP as part of their remuneration and incentive arrangements in order to attract and retain their services and to provide an incentive linked to the ***performance*** of the Group. The Board's policy is to grant Incentive Options to KMP with exercise prices at or above market share price (at time of agreement). As such, Incentive Options granted to KMP are generally only of benefit if the KMP has performed to the level whereby the value of the Company has increased sufficiently to warrant exercising the Incentive Options granted. No Incentive Options were issued to KMP during the current financial year.

Other than service-based vesting conditions (if any), there were no additional ***performance*** criteria on the Incentive Options granted to KMP, as given the speculative nature of the Group's activities and the small management team responsible for its running, it is considered that the ***performance*** of KMP and the ***performance*** and value of the Group are closely related.

The Company prohibits executives entering into arrangements to limit their exposure to Unlisted Options and ***Performance*** Rights granted as part of their remuneration package.

Remuneration Policy for Non-Executive Directors

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, incentive options have been used to attract and retain Non-Executive Directors. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. The maximum aggregate amount that may be paid to Non-Executive Directors is $ 350,000 during the financial year, as approved by shareholders at the a Meeting of Shareholders held on 6 May 2009. Director's fees paid to Non-Executive Directors accrue on a daily basis. Fees for Non-Executive Directors are not directly linked to the ***performance*** of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company. Given the size, nature and opportunities of the Company, Non-Executive Directors may receive Incentive Options or ***Performance*** Rights in order to secure and retain their services.

Fees for the Chairman were set at $ 50,000 per annum (2016: $ 50,000) (including post-employment benefits).

Fees for Non-Executive Directors' were set at $ 30,000 per annum (2016: $ 30,000) (including post-employment benefits). These fees cover main board activities only. Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees. From the 2018 financial year, Non-Executive Directors' will receive a fee of $ 45,000 per annum (including post-employment benefits) which reflects the transition of the Company from an explorer to a developer.

During the 2017 financial year, no Incentive Options or ***Performance*** Rights were granted to Non-Executive Directors.

The Company prohibits Non-Executive Directors entering into arrangements to limit their exposure to Incentive Options granted as part of their remuneration package.

Relationship between Remuneration and Shareholder Wealth

During the Group's exploration and development phases of its business, the Board anticipates that the Company will retain future earnings (if any) and other cash resources for the operation and development of its business. Accordingly the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore there was no relationship between the Board's policy for determining, or in relation to, the nature and amount of remuneration of KMP and dividends paid and returns of capital by the Company during the current and previous four financial years.

The Board does not directly base remuneration levels on the Company's share price or movement in the share price over the financial year and the previous four financial years. Discretionary annual cash bonuses are based upon achieving various non-financial KPIs as detailed under '***Performance*** Based Remuneration - Short Term Incentive' and are not based on share price or earnings. As noted above, a number of KMP have also been granted ***Performance*** Rights and Incentive Options, which generally will be of greater value should the value of the Company's shares increase (subject to vesting conditions being met), and in the case of options, increase sufficiently to warrant exercising the Incentive Options granted.

Relationship between Remuneration of KMP and Earnings

As discussed above, the Group is currently undertaking exploration and development activities, and does not expect to be undertaking profitable operations until sometime after the successful commercialisation, production and sales of commodities from one or more of its current projects.

Accordingly the Board does not consider earnings during the current and previous four financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. Fees for Non-Executive Directors are not linked to the ***performance*** of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and Non-Executive Directors have received ***Performance*** Rights and Incentive Options in order to secure their services and as a key component of their remuneration.

General

Where required, KMP receive superannuation contributions (or foreign equivalent), currently equal to 9.5% of their salary, and do not receive any other retirement benefit. From time to time, some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at cost to the company and expensed. Incentive Options and ***Performance*** Rights are valued using an appropriate valuation methodology. The value of these Incentive Options and ***Performance*** Rights is expensed over the vesting period.

Employment Contracts with Directors and KMP

Current Directors

Mr Ian Middlemas, Non-Executive Chairman, has a letter of appointment dated 29 June 2015 confirming the terms and conditions of his appointment. Effective from 1 July 2013, Mr Middlemas has received a fee of $ 50,000 per annum inclusive of superannuation.

Mr Paul Atherley, Managing Director, is engaged under a consultancy deed with North Asia Metals Ltd ('NAML') dated 16 June 2015. The agreement specifies the duties and obligations to be fulfilled by Mr Atherley as Managing Director. There is 12 month rolling term and either party may terminate with three months written notice. No amount is payable in the event of termination for material breach of contract, gross misconduct or neglect. Effective 1 July 2016, NAML has received an annual consultancy fee of GBP275,000 and will be eligible for an annual bonus of up to GBP250,000 to be paid upon successful completion of key ***performance*** ***indicators*** as determined by the Board. In addition, NAML, subject to the Corporations Act, will be entitled to receive a payment equivalent to the annual consultancy fee in the event of a change in control clause being triggered by the Company.

Mr Nigel Jones, Non-Executive Director, has a letter of appointment with Berkeley Energia Limited dated 5 June 2017 confirming the terms and conditions of his appointment. Effective from his appointment date (being 7 June 2017), Mr Jones has received a fee of $ 45,000 per annum.

Mr Adam Parker, Non-Executive Director, has a letter of appointment with Berkeley Energia Limited dated 5 June 2017 confirming the terms and conditions of his appointment. Effective from 28 August 2017, Mr Parker will receive a fee of $ 45,000 per annum for his Board duties and $ 15,000 for chairing the Remcom.

Mr Robert Behets, Non-Executive Director, has a letter of appointment dated 29 June 2015 confirming the terms and conditions of his appointment. Effective 1 July 2015, Mr Behets has received a fee of $ 45,000 per annum inclusive of superannuation. Mr Behets also has a services agreement with the Company dated 18 June 2012, which provides for a consultancy fee at the rate of $ 1,200 per day for management and technical services provided by Mr Behets. Either party may terminate the agreement without penalty or payment by giving two months' notice.

Current other KMP

Mr Francisco Bellon del Rosal, has a contract of employment dated 14 April 2011 and amended on 1 July 2011, 13 January 2015 and 16 March 2017. The contract specifies the duties and obligations to be fulfilled by the Chief Operations Officer. The contract has a rolling term and may be terminated by the Company giving six months' notice, or 12 months in the event of a change of control of the Company. In addition to the notice period, Mr Bellon will also be entitled to receive an amount equivalent to statutory unemployment benefits (approximately EUR25,000) and statutory severance benefits (equivalent to 45 days remuneration per year worked from 9 May 2011 to 11 February 2012, and 33 days remuneration per year worked from 12 February 2012 until termination). No amount is payable in the event of termination for neglect of duty or gross misconduct. Mr Bellon receives a fixed remuneration component of EUR190,000 per annum plus compulsory social security contributions regulated by Spanish law, as well as the provision of accommodation in Salamanca and a motor vehicle.

Mr Javier Colilla Peletero, has a contract of employment dated 1 July 2010 and amended on 12 December 2011 13 January 2015 and 22 March 2017. The contract specifies the duties and obligations to be fulfilled by the Chief Administration Officer. The contract has a rolling term and may be terminated by the Company giving six months notice, or 12 months in the event of a change of control of the Company or if the position becomes redundant. In addition to the notice period, Mr Colilla will also be entitled to receive an amount equivalent to statutory unemployment benefits (approximately EUR25,000) and statutory severance benefits (equivalent to 45 days remuneration per year worked from 1 July 2010 to 11 February 2012, and 33 days remuneration per year worked from 12 February 2012 until termination). No amount is payable in the event of termination for neglect of duty or gross misconduct. Mr Colilla receives a fixed remuneration component of EUR190,000 per annum plus compulsory social security contributions regulated by Spanish law, as well as an allowance for the use of his private motor vehicle.

Mr Paul Thomson, Chief Financial Officer, is engaged under a consultancy deed with Inverey Limited ('Inverey') dated 12 January 2017. The agreement specifies the duties and obligations to be fulfilled by Mr Thomson as the Chief Financial Officer. The Company may terminate the agreement with three months written notice. No amount is payable in the event of termination for material breach of contract, gross misconduct or neglect. Inverey receives an annual consultancy fee of GBP190,000 and will be eligible for a cash incentive of up to GBP50,000 to be paid upon successful completion of key ***performance*** ***indicators*** as determined by the Managing Director and Board of Directors. In addition Inverey will be entitled to receive a payment incentive worth the annual consultancy fee in the event of a change of control clause being triggered with the Company.

Mr Hugo Schumann, Chief Commercial Officer, is engaged under a consultancy deed with Meadowbrook Enterprises Limited ('Meadowbrook') which was updated on 15 May 2016. The agreement specifies the duties and obligations to be fulfilled by Mr Schumann as the Chief Commercial Officer. The Company may terminate the agreement with three months written notice. No amount is payable in the event of termination for material breach of contract, gross misconduct or neglect. Meadowbrook receives an annual consultancy fee of GBP150,000 and will be eligible for a cash incentive of up to GBP50,000 to be paid upon successful completion of key ***performance*** ***indicators*** as determined by the Managing Director and Board of Directors.

Mr Dylan Browne, Company Secretary, has a letter of appointment dated 29 October 2015 confirming the terms and conditions of his appointment. Mr Browne's appointment letter is terminable pursuant to the Company's Constitution. Mr Browne receives a fee of GBP5,500 per annum pursuant to this appointment letter. In addition Candyl Limited ('Candyl'), a company of which Mr Browne is a director and shareholder, has a consultancy agreement with the Company, which specifies the duties and obligations to be fulfilled by Mr Browne as the Company Secretary. Either party may terminate the agreement with three months written notice. No amount is payable in the event of termination for material breach of contract, gross misconduct or neglect. Candyl receives an annual consultancy fee of GBP60,500.

AUDITOR'S AND OFFICERS' INDEMNITIES AND INSURANCE

Under the Constitution the Company is obliged, to the extent permitted by law, to indemnify an officer (including Directors) of the Company against liabilities incurred by the officer in that capacity, against costs and expenses incurred by the officer in successfully defending civil or criminal proceedings, and against any liability which arises out of conduct not involving a lack of good faith.

During the financial year, the Company has paid an insurance premium to insure Directors and officers of the Company against certain liabilities arising out of their conduct while acting as a Director or Officer of the Company. Under the terms and conditions of the insurance contract, the nature of liabilities insured against cannot be disclosed.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

During the year, the Company's auditor, Ernst & Young, received, or is due to receive, $ 80,808 (2016: $ 72,898) for the provision of non-audit services. The Directors are satisfied that the provision of non-audit services is compatible with the general standard and independence for auditors imposed by the Corporations Act.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 59 of the Annual Financial Report.

This report is made in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

Competent Persons Statement

The information in this report that relates to the FEED was extracted from the announcement entitled 'Capital costs for Salamanca reduced by 1% to EUR 82.3 million' dated 6 July 2017, which is available to view on Berkeley's Energia Limited's (Berkeley) website at [*www.berkeleyenergia.com*](http://www.berkeleyenergia.com).

Berkeley confirms that: a) it is not aware of any new information or data that materially affects the information included in the original announcement; b) all material assumptions and technical parameters underpinning the FEED results included in the original announcement continue to apply and have not materially changed and c) the form and context in which the relevant Competent Persons' findings are presented in this announcement have not been materially modified from the original announcements.

The information in the original announcement that relates to the FEED costs is based on, and fairly represents, information compiled by Mr Francisco Bellon, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy. Mr Bellon is the Chief Operating Officer for Berkeley and a holder of shares, options and ***performance*** rights in Berkeley. Mr Bellon has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

The information in this report that relates to the Definitive Feasibility Study, Ore Reserve Estimates, Mining, Uranium Preparation, Infrastructure, Production Targets and Cost Estimation is extracted from the announcement entitled 'Study confirms the Salamanca project as one of the world's lowest cost uranium producers' dated 14 July 2016, which is available to view on Berkeley's website at   [*www.berkeleyenergia.com*](http://www.berkeleyenergia.com).

Berkeley confirms that: a) it is not aware of any new information or data that materially affects the information included in the original announcement; b) all material assumptions and technical parameters underpinning the Mineral Resources, Ore Reserve Estimate, Production Target, and related forecast financial information derived from the Production Target included in the original announcement continue to apply and have not materially changed and c) the form and context in which the relevant Competent Persons' findings are presented in this report have not been materially modified from the original announcements.

The information in the original announcement that relates to the Definitive Feasibility Study is based on, and fairly represents, information compiled or reviewed by Mr. Jeffrey Peter Stevens, a Competent Person who is a Member of The Southern African Institute of Mining & Metallurgy, a 'Recognised Professional Organisation' ('RPO') included in a list posted on the ASX website from time to time. Mr. Stevens is employed by MDM Engineering (part of the Amec Foster Wheeler Group). Mr. Stevens has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

The information in the original announcement that relates to the Ore Reserve Estimates, Mining, Uranium Preparation, Infrastructure, Production Targets and Cost Estimation is based on, and fairly represents, information compiled or reviewed by Mr. Andrew David Pooley, a Competent Person who is a Member of The Southern African Institute of Mining and Metallurgy', RPO included in a list posted on the ASX website from time to time. Mr. Pooley is employed by Bara Consulting (Pty) Ltd. Mr. Pooley has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

The information in the original announcement that relates to the Mineral Resources for Zona 7 is based on, and fairly represents, information compiled or reviewed by Mr Malcolm Titley, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Titley is employed by Maja Mining Limited, an independent consulting company. Mr Titley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Forward Looking Statement

Statements regarding plans with respect to Berkeley's mineral properties are forward-looking statements. There can be no assurance that Berkeley's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that Berkeley will be able to confirm the presence of additional mineral deposits, that any mineralisation will prove to be economic or that a mine will successfully be developed on any of Berkeley's mineral properties.

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[***Register of Commission documents: The sheep and goat sector in the EU: Main features, challenges and prospects Document date: 2017-08-31 EPRS\_BRI(2017)608663 Briefing***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PRD-4RD1-JDG9-Y48C-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing September 2017 EPRS | European Parliamentary Research Service Author: Rachele Rossi Members' Research Service PE 608.663 EN The sheep and goat sector in the EU Main features, challenges and prospects SUMMARY Sheep and goats grazing on meadows in the countryside are part of the landscape and cultural heritage of many European countries. They are a source of employment in disadvantaged ***agricultural*** areas and the high-quality traditional products they yield are broadly recognised as the result of a sustainable and multifunctional form of ***agriculture*** that contributes to preserving the environment and social cohesion in ***rural*** areas. Yet, the EU sheep and goat sector has been experiencing economic and structural difficulties in recent decades, mainly involving a consistent decrease in livestock numbers, following outbreaks of contagious diseases and policy changes in public funding schemes. With a population of about 98 million animals and a production that accounts for a small share of the total EU livestock output, the sheep and goat sector does not ensure self-sufficiency. That is why the EU is among the world's main importers of sheep and goats, mainly from New Zealand and Australia.

Moreover, as sheep and goat farming is among the less remunerative ***agricultural*** activities, it does not encourage investments or new entrants from younger generations of farmers. Several EU-level policy instruments are available for providing support to this sector in its capacity to deliver both food and public goods, such as landscape and biodiversity conservation. However, considering its low profitability and the fact that production is mostly located in less favoured areas, EU stakeholders are recommending the inclusion of specific policy measures in the framework of current discussions on the Common ***Agricultural*** Policy post-2020, as well as the adoption of communication and promotion measures to strengthen the position of the sector in respect of EU consumers' choices. In this briefing:  Facts and figures about the sheep and goat sector  The EU policy framework  Challenges and perspectives  Stakeholders  European Parliament  Main references EPRS The sheep and goat sector in the EU Members' Research Service Page 2 of 8 Facts and figures about the sheep and goat sector Population numbers and geographical distribution The EU's sheep and goat population numbers approximately 98 million heads, of which sheep represent 87 %. Due to the decoupling (removal of the link between subsidies and production) of the EU ewe and goat premium on the one hand, and the outbreak of animal diseases on the other, these numbers have been in constant decline (falling by 16 % in the case of sheep over the 2000– 2016 period). A more stable or slightly reversed trend can be observed in recent years.1 Sheep are reared on more than 850 000 EU farms, and goats on more than 450 000, corresponding to 14 % and 7 % of all EU farms with livestock, respectively. On average, there are 113 sheep and 26 goats per EU farm. However, due to local traditional specialisations, farm structures and market situations throughout the EU, these figures vary significantly between Member States, with the United Kingdom ranking first in both ***indicators*** for sheep farms and Greece and the Netherlands ranking first for goat farms, as shown in Table 1.2 Although the vast majority (about 70 %) are breeding sheep or goats, there are significant differences in terms of breeds, such as between heavier suckling and lighter dairy breeds. The UK has one of the highest densities of sheep per square kilometre in most of its regions, as do Greece, Cyprus, and to a lesser extent some regions of Italy (Sardinia), Spain (Extremadura and the Balearic Islands) and the Netherlands (North Holland) (see Map 1). Sheep flocks are generally larger than goat herds: the largest average sheep flock in West Wales (UK) is double the size of the largest average goat herd in the Canary Islands (Spain), with 618 and 315 heads, respectively. Table 1 – Main features of EU sheep and goat farms ***Indicator*** EU-28 Member State ranking 1st Member State ranking 28th Country Value Country Value Share of farms with sheep 14 % UK 51 % Poland 1 % Average No of sheep per farm 113 UK 449 Malta 10 Share of farms with goats 7 % Greece 27 % Finland 1 % Average No of goats per farm 26 Netherlands 119 Lithuania 3 Data source: Eurostat, Farm structure survey, 2013. Map 1 – Sheep flock density in the EU Data source: Eurostat, Farm structure survey, 2013. EPRS The sheep and goat sector in the EU Members' Research Service Page 3 of 8 The highest number of goats is found in Greece and Spain, with 31 % and 20 % of the EU total, respectively. Greek regions are amongst those with the highest density of goat herds in the EU, together with the Canary Islands, Cyprus and Madeira (Portugal), and to a lesser extent Malta, areas of the Netherlands, Portugal, France, Romania and the southern regions of Spain and Italy (see Map 2). Thus, sheep and goat rearing occurs mostly in disadvantaged ***agricultural*** areas, where grazing animals on pastureland is often the only way to add economic value and avoid the abandonment of areas where other types of ***agricultural*** activity would be impracticable. It is a regular practice to let animals graze on common land, especially in certain areas. There are about 45 million such animals,3 mostly located in Greece, Spain, Romania and the UK. The UK and Spain have the largest sheep flock, with 34 % and 17 % of the EU total, respectively. Sheep and goat production in volume and value Meat is the main product of the sheep and goat sector, but other products are also of economic importance, above all in areas where milk, cheese, wool or skin products made by traditional methods bring in significant revenue. Some of these products have quality labels that increase their economic potential. One such label is the Protected designation of origin (PDO), which has been assigned to the Italian sheep's milk cheese, Pecorino, the Greek sheep/goat's milk cheese, Feta, and the UK native Shetland wool, to name a few. Meat In 2016, sheep and goat meat production amounted to almost 755 000 tonnes4 and had a production value of about €5 300 million.5 As such, it represented less than 2 % of total EU meat production (45 million tonnes, including bovine, pig, sheep, goat and poultry meat), and less than 6 % of its value (€96 billion). However small, this production plays an important role in some Member States, such as the UK and Ireland, where sheep meat accounts for respectively almost 8 % and 6 % of the total meat produced, and Greece, where the value of sheep and goat meat production represents almost half of the total livestock production value. A European Commission dashboard shows that, because the EU is not self-sufficient in terms of sheep and goat products, it is one of the main importers (together with China and the USA), with New Zealand and Australia the source of almost all the EU's imports. On the other hand, the Commission's Short-term ***agricultural*** outlook of February 2017 shows that, although still marginal, EU exports are Map 2 – Goat herd density in the EU Data source: Eurostat, Farm structure survey, 2013. EPRS The sheep and goat sector in the EU Members' Research Service Page 4 of 8 increasing, with the export of live animals directed mostly to North Africa and the Middle East (almost 95 % of the total, the main importers being Libya and Jordan) and meat exports to Switzerland and Hong Kong. Of the total sheep and goat meat produced in 2016, sheep meat accounted for 94 % (of which, 82 % lamb and 18 % mutton) and goat meat for 6 %. The UK and Spain are the main producers, both in terms of tonnes (as shown in Figure 1) and production value (34 % and 18 %, respectively). Meat production levels have been relatively stable in recent years. The most severe drop, resulting from the decoupling of EU subsidies from production and the outbreak of Bluetongue disease in the preceding years, was registered in the years following 2008. Overall, EU sheep and goat meat production decreased by 34 % from 2005 to 2015, when the main producing countries registered a decrease ranging from 20 % to 40 %, with a smaller decrease of 9 % registered in the UK after the recovery from the foot-and-mouth disease outbreak of 2001. Finally, Eurostat data show that the price index of sheep and goats remained rather stable, with a 1.1 % decrease over the 2010–2015 period, while the selling prices of animal products per 100 kg of live weight varied from €688 in France to €25 in Portugal for sheep, and from more than €170 in Slovakia and Greece to €59 in Portugal for goats, in 2015. Milk and cheese In 2015, the quantity of milk produced in EU farms was approximately 168 million tonnes, of which 97 % was cow's milk and only 3 % was milk from animals other than cows (ewes, goats and buffalo), as shown in Figure 2. The bulk of the milk produced was delivered to dairies (71 % as regards sheep's and goat's milk) and the remainder was used on the farm to process, consume, use as feed or sell directly to consumers. Almost all of the sheep's and goat's milk (92 %) was produced in only five countries: Greece (24 %), Spain (23 %), France (19 %), Romania (14 %) and Italy (12 %).6 Almost all of the milk produced is used for cheese-making, whether on the farm or in industrial dairies. In 2015, EU cheese production from ewe's, goat's or mixed milk totalled about 850 000 tonnes (9 % of total cheese production). It was concentrated in a few Figure 1 – Main producers of sheep and goat meat in the EU (in tonnes) Data source: Eurostat, Animal production statistics, 2015. 39% 17% 12% 10% 8% 4% 10% United Kingdom Spain France Greece Ireland Italy Others (less than 3% each) Figure 2 – Production and use of milk in the EU (in million tonnes) Data source: Eurostat, Animal production statistics, 2015. Milk produced on farm •Cow's milk 162.8 •Ewe's milk 2.8 •Goat's milk 2.2 Milk delivered to dairies •Cow's milk 151.6 •Ewe's milk 1.9 •Goat's milk 1.5 EPRS The sheep and goat sector in the EU Members' Research Service Page 5 of 8 countries: Spain, Italy and France produced 93 % of total EU production of cheese from ewe's pure milk, France alone produced half of total EU production of cheese from pure goat's milk, and Greece and Spain produced 77 % of total EU production of cheese from mixed milk. Wool The value of raw wool production reached €159 million in 2015.7 This value was mostly concentrated in Romania and the UK, with more than €40 million each, and to a lesser extent in Spain and Italy, with €14 and 10 million, respectively, and in Ireland and Portugal, with €8 million each. It is only in Romania and Slovenia that raw wool production yields more than 1 % of the total national value of animal products (2.2 % and 1.7 %, respectively), while the EU average stands at 0.2 %. Number of persons employed in sheep- and goat-rearing and their income Farms specialised in sheepand goat-rearing8 employ 1.5 million people on a regular basis,9 which corresponds to 7 % of the 22 million people working regularly on EU farms. If working time is also considered, this share rises to 8 % of the total full-time equivalent jobs in farming, meaning that there is slightly less part-time work in these farms compared to others. Farm Accountancy Data Network figures reveal a lower average ***agricultural*** income in EU farms specialised in sheep- and goat-rearing compared to the average income for all EU farms (the average values for 2013–2015 were €12 500 and €18 000 per annual labour unit, respectively), except for Spain, Greece, Malta, Romania and Slovenia (see Figure 3).10 The EU policy framework Single common market organisation The sheep and goat meat market is covered by Regulation (EU) No 1308/2013 (the CMO Regulation). Its single common market organisation (CMO) provisions regulate EU ***agricultural*** markets, and provide policy tools to help improve their functioning. Internal market An EU voluntary system for carcass classification and weekly Member State-price notifications to the Commission, together with statistics and expert working groups, constitute the market monitoring tools that help to apply ***intervention*** arrangements serving as a safety net in case of difficult situations. Examples of such arrangements are the aid extended to private operators for product storage (Articles 17-18), and the partfinancing of exceptional support measures concerning animal diseases (Article 220). Figure 3 – Average farm income per annual labour unit in selected EU countries (average for the 2013-2015 period, in euros) Data source: Farm Accountancy Data Network, 2013-2015 (2015 data provisional). - 10 000 20 000 30 000 40 000 50 000 Netherlands Germany UK Italy France Ireland Spain Czech Republic Hungary Austria Estonia Slovakia Greece Portugal Cyprus Bulgaria Malta Poland Romania Croatia Slovenia All farms Specialist sheep and goat All farms EU average = 18 000 Specialist sheep and goat EU average = 12 500 EPRS The sheep and goat sector in the EU Members' Research Service Page 6 of 8 International trade The CMO Regulation also covers issues related to international trade and competition rules, and introduces trade mechanisms such as licences and tariff quotas. More specifically, for imports of sheep and goat products, Commission Regulation (EU) No 1354/2011 provides a system of annual quotas with specific country allocations. Direct payments – voluntary coupled support Direct payments are a form of income support granted to EU farmers on a per-hectare basis, independently of the production of a specific product. Besides this basic support scheme, Member States may grant voluntary coupled support linked to production in the sheep and goat meat sector that may be undergoing difficulties, under the conditions laid down in Article 52 of Regulation (EU) No 1307/2013. All Member States except Denmark, Germany, Ireland, Luxembourg, Sweden and Slovenia have opted for this voluntary scheme, with an annual amount of about €485 million available at EU level, or approximately €12 per animal on average. ***Rural*** development measures Cooperation and innovative technology measures, as well as agro-environmental payments, are amongst the ***rural*** development instruments introduced by Regulation (EU) No 1305/2013 on support for ***rural*** development, which can assist the sheep and goat sector by creating synergies between its ***agricultural*** and ***rural*** dimensions. Risk management tools To help farmers confront price volatility (that is, substantial and unpredictable changes in product prices, which create uncertainty about incomes, thereby posing financial risks for producers), Articles 36–39 of Regulation (EU) No 1305/2013 introduce specific measures that EU Member States can activate via their ***rural*** development programmes to make financial contributions to insurance premiums and to mutual funds, or providing support to farmers who have suffered a severe drop in their income through an income stabilisation tool, in the form of financial contributions to mutual funds. The risk management instruments might develop further as they are high on the agenda of the debate on the future of the CAP. Promotion of EU farm products Sheep and goat products are amongst the ***agricultural*** products eligible for promotion initiatives in the EU and third countries in the context of the promotion policy laid down in Regulation (EU) No 1144/2014. The Commission defines the ***strategic*** priorities and available budget for promotion initiatives in an annual work programme and publishes calls for proposals for its implementation. The overall co-financing budget for 2016 was €111 million, with the sheep and goat sector covered by several promotion campaigns; the 2017 budget amounts to €133 million, with plans for this figure to increase in the coming years. Animal traceability and health Sheep and goats are subject to the identification and registration system established by Council Regulation (EC) No 21/2004 and based on the principle of individual traceability through electronic or visible identifiers (such as ear-tags) and registers. Traceability serves to localise animals for the purpose of controlling infectious diseases, but it also allows keeping track of livestock production and supervision of livestock premiums. As regards transmissible animal diseases, the Animal health law adopted by the European Parliament and the Council of the EU in 2016 introduces a regulatory framework that substitutes a number of existing legal acts and focuses on disease prevention. EPRS The sheep and goat sector in the EU Members' Research Service Page 7 of 8 Challenges and prospects Intrinsic weaknesses The EU sheep and goat sector is very diverse in terms of flock sizes, breeds and scale of production. Low average incomes – which limit investments in the sector and are not attractive to potential younger entrants – as well as the remoteness of the areas where production takes place, present challenges to the sector. Research findings on sheep and goat farming in Greece highlight a host of issues, such as low levels of modernisation; infrastructure weaknesses; lack of information, training, or a commercialisation strategy; and ageing farmers with no one to pass their knowledge on to. Animal diseases as well as structural and policy changes have accelerated the decline in the sheep and goat population in recent years, while EU consumption of sheep and goat meat remains at levels that do not support the growth of the sector. Any increase in the domestic supply would have to cope with international competition from imports produced at lower cost. Medium-term developments Sheep meat is mainly produced and consumed in developing countries, which are also expected to support the increase by more than 20 % in both world production and consumption of sheep meat over the coming decade, according to figures from the OECDFAO ***Agricultural*** outlook. The Commission's latest Medium-term ***agricultural*** outlook shows a stable or very marginal increase in EU production and consumption, with possible scope for increased demand from the immigrant population in the EU or as a result of specific promotion programmes. Local market opportunities can emerge from ***rural*** tourism, such as direct sales of cheeses (from the milk of small ruminants) that are cherished as high-quality traditional products. Positive prospects can also arise from the sector's capacity to deliver public goods: as small ruminants are mainly reared with extensive methods on pastureland in disadvantaged ***agricultural*** areas, they play a key role in landscapes and biodiversity conservation, for instance, by removing dry vegetable material and thereby lowering the risk of fires, and by combating land abandonment. European Parliament Following a study commissioned by its Committee on ***Agriculture*** and ***Rural*** Development (AGRI), the Parliament voted on a resolution on the future of the sheep/lamb and goat sector in Europe on 19 June 2008. This initiative came in response to the Bluetongue outbreak, which had led to serious social and economic consequences. It advocated the maintenance of traditional, eco-friendly sheep and goat farming enterprises and called on the Commission and the Member States to ensure a profitable and sustainable future for the sheep and goat sector by encouraging the consumption of its products, attracting young farmers and reviewing policy instruments to provide needed sectoral support. A new own-initiative report is expected to be voted upon in the AGRI committee at the beginning of 2018 (rapporteur: Esther Herranz García, EPP, Spain). Stakeholders The ***strategic*** agenda of the Civil Dialogue Group on Animal Products, a consultative body ensuring stakeholder connections with the Commission, stresses the importance of the CAP –in both its first and second pillars – for the sheep and goat sector, considering its low profitability and the fact that production takes place predominantly in less favoured areas. In 2015 and 2016, the EU sheep meat forum convened at the initiative of Phil Hogan, Commissioner for ***Agriculture*** and ***Rural*** Development, to explore current and future challenges of the EU sheep meat sector, and to bring together representatives of Member States with significant production, as well as producers, processors and traders. EPRS The sheep and goat sector in the EU Members' Research Service Page 8 of 8 In October 2016, the forum adopted a set of policy recommendations, addressing key questions on policy, economics and animal welfare that likewise concern the goat sector too. Priority recommendations included strong CAP support for the sector (through coupled direct payments and targeted ***rural*** development measures, such as a new environmental payment), and a communication and promotion programme to better position the sector with respect to EU consumers' choices. Main references The EU sheep meat forum documents, November 2015 – October 2016. The future of the sheep and goat sector in Europe, Ernst & Young France, Institut de l'Elevage, National experts, March 2008. Endnotes 1 Data on sheep and goat numbers and their trends, extracted and processed from the Eurostat Livestock survey in April 2017. The data cover EU Member States with at least 500 000 sheep or goats. 2 Data on farms and animals, extracted and processed from the Eurostat Farm structure survey in April 2017. 3 Data on common land grazing, extracted from the Eurostat Survey on ***agricultural*** production methods in April 2017. 4 Data on meat production, extracted and processed from the Eurostat Animal production statistics in April 2017. 5 Data on livestock production value, extracted from the Eurostat Economic accounts for ***agriculture*** in June 2017. 6 Data on milk and cheese production were extracted and processed from the Eurostat Animal production statistics in May 2017. For milk derivatives, different entities intervene in the processing, from ***agricultural*** holdings to enterprises processing food and beverages for final consumption or for intermediate products for other manufacturing activities; therefore, statistics may underreport the real output in some cases or exclude part of it in other cases. 7 Data on raw wool, extracted and processed from the Eurostat Economic accounts for ***agriculture*** in April 2017. 8 According to the EU typology of ***agricultural*** holdings set out in Annex IV to Commission Implementing Regulation (EU) 2015/220, a farm is considered a specialist in sheep, goats and other grazing livestock, if: (1) the standard output obtainable from grazing livestock and forage for grazing livestock is more than 2/3 of the farm's total standard output, and (2) the standard output obtainable from grazing livestock other than cattle represents more than 2/3 of the grazing livestock's total standard output. The standard output of an ***agricultural*** product (a hectare of crop or a head of livestock) is the average monetary value of the output potentially obtainable from that product at farm-gate price. 9 Data on farm labour, extracted and processed from the Eurostat Farm structure survey in April 2017. Considering that small ruminant farms are often associated with other types of production on the same holding, data include people involved in farming activities other than rearing sheep and goats but exclude people who rear sheep and goats in farms with other specialisations. 10 Data on farm income per labour unit, extracted from the European Commission Farm Accountancy Data Network database in June 2017; results for countries with less than 15 sample farms classified as specialist in sheep and goat rearing are not shown, being considered not representative. The concept of farm income per labour unit is based on the notion of farm net value added (the remuneration to the fixed factors of production) per ***agricultural*** work unit. Disclaimer and Copyright The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2017. Photo credits: © fmr / Fotolia. [*eprs@ep.europa.eu*](mailto:eprs@ep.europa.eu) [*http://www.eprs.ep.parl.union.eu*](http://www.eprs.ep.parl.union.eu) (intranet)   [*http://www.europarl.europa.eu/thinktank*](http://www.europarl.europa.eu/thinktank) (internet)   [*http://epthinktank.eu*](http://epthinktank.eu) (blog)

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[***Register of Commission documents: Draft Commission Implementing Decision on the 2017 Annual Action Programme in favour of Cuba Document date: 2017-07-04 COM-AC\_DR(2017)D052017-01(ANN01) Comitology - Right of scrutiny***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PDW-MHD1-JDG9-Y374-00000-00&context=1516831)

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September 5, 2017 Tuesday

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**Body**

Brussels: Public Register European Parliament has issued the following document:

[1] EN ANNEX to the Commission Implementing Decision on the 2017 Annual Action Programme in favour of Cuba Action Document for 'Support to Cuba's Energy Policy' INFORMATION FOR POTENTIAL GRANT APPLICANTS WORK PROGRAMME FOR GRANTS This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.4.1 1. Title/basic act/ CRIS number Support to Cuba's Energy Policy CRIS number: 2016/040-077 financed under the Development Cooperation Instrument 2. Zone benefiting from the action/ location Cuba 3. Programming document Multiannual Indicative Programme (MIP) for Cuba 2014-2020 4. Sector of concentration/ thematic area Sector 2: Environment and climate change: Support for a better use of key natural resources for sustainable development DEV. Aid: YES 5. Amounts concerned Total amount of EU budget contribution: EUR 18,000,000 Total estimated cost: EUR 18,600,000 FIAPP contribution: EUR 300,000 Indicative Third Party Contribution from the call for proposals: EUR 300,000 [2] 6. Aid modality(ies) and implementation modality(ies) Project Modality Direct management: • Grants/ call for proposals • Procurement of services for Audit and Evaluation Indirect management with: • EU Member State Agency • UN Agencies 7 a) DAC code(s) Main DAC code: 230 – 100 % 23110 – 50 % 23183 – 25 % 23210 – 25 % b) Main Delivery Channel Channel 1: 10000 – Public Sector Institutions (Third country government – Delegation cooperation) Channel 2: 41000 – United Nations Agency Channel 3: 51000 – University 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance ☐ x ☐ Aid to environment ☐ ☐ x Gender equality (including Women in Development) x ☐ ☐ Trade Development x ☐ ☐ Reproductive, Maternal, New born and child health x ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity x ☐ ☐ Combat desertification x ☐ ☐ Climate change mitigation ☐ ☐ x Climate change adaptation x ☐ ☐ 9. Global Public Goods and Challenges (GPGC) thematic flagships N/A [3] SUMMARY Since 2008, Cuba has been undergoing a political and economic transformation process.

In this context, the Cuban government has engaged in a very ambitious plan to modify its energy matrix setting itself the goal of generating 24 % of its electricity in 2030 through renewable energy (compared to approx. 4.3 % of electricity generated by renewable energy sources in 2013), engendering high interest from investors throughout the world, especially in the current period after the signature of the EU-Cuba Political Dialogue and Cooperation Agreement. This EU Action is designed to make a meaningful contribution to Cuba's energy sector giving equal attention to both, renewable energies and energy efficiency targets. In line with the EU’s Agenda for Change1 and EU-Cuba priorities in the framework of the Multi-annual Indicative Programme 2014-20202, the Action is expected to support the Cuban government in the efficient and sustainable management of its energy resources. This objective will be reached by sharing best practices and providing training to Cuban key actors by experts with 'hands on' experience on related energy policy implementation in the sectors of renewable energy and energy efficiency, and by supporting the government in the design and execution of its strategy for attracting international investment in the energy sector. In this context, the proposed Action aims at the following specific objectives: - Support the effective implementation of the 'Policy for the perspective development of Renewable Sources and the Efficient Use of Energy' and its Regulatory framework. - Facilitate foreign investment in the sectors of Renewable Energy and Energy Efficiency as well as the access to international cooperation funds. - Support the implementation of the Programme for Energy Management and Conservation, including Energy efficiency. - Support local development enhancing the access of local communities to renewable energy, while encouraging efficient energy consumption. The Action is expected to start at the end of 2017 with a duration of 60 months. The project will finalise in 2022. 1. CONTEXT 1.1 Country Context The Republic of Cuba is the largest Caribbean island with a population of over 11.38 million inhabitants. Cuba´s nickel reserves are estimated at 5.5 million metric tons (the 5th largest in the world). The island accounts also for 8 % of the world’s cobalt production.3 The export of these commodities, of sugar and its by-products like rum, of tobacco and cigars as well as the increasing tourism are Cuba's main sources of the urgently needed foreign currencies. Despite its current economic and social challenges, Cuba ranked 67th out of 188 countries in the global 2014 Human Development Index (HDI) ranking. Cuba's HDI is given with 0.769, the average HDI in the 1 Chapter 3.3 of the Agenda for Change 2 [*https://ec.europa.eu/europeaid/sites/devco/files/mip-cuba-2014-2020\_en.pdf*](https://ec.europa.eu/europeaid/sites/devco/files/mip-cuba-2014-2020_en.pdf) 3   [*http://investorintel.com/gold-precious-metals-intel/cracking-open-cuba-next-vietnam*](http://investorintel.com/gold-precious-metals-intel/cracking-open-cuba-next-vietnam) 2 All data quoted from: UNDP Human Development Report, 2015 3 UNDP Human Development Report, 2015. [4] LAC region is 0.748 The GNI per capita is USD 7,301 per capita, while it is USD 14,242 per capita in the LAC region2. Cuba is a country with a low demographic growth, low levels of fertility and mortality (especially infant mortality: 4.2 % per 1,000 births), high life expectancy (79.4 years, LAC region: 75 years), a consequently aging population (18 % aged 60 and over) and a negative external migration balance. Under President Raúl Castro Ruz (since 2008), Cuba is undergoing a slow, but constant transformation process, seeking to uphold its political system and the achievements of the revolution, such as universal free healthcare and education. Cuba has the worldwide highest ratio of medical doctors per patients, has with 97 % one of the highest rate of alphabets worldwide and the mean time of schooling is high with 11.5 years compared to an average of 8.2 years in the LAC region.3 One of the key economic sectors due to be modernised and restructured is the energy sector. Cuba needs urgently to reduce its high dependency on imported fossil fuels for electricity generation and safeguard domestic financial resources. This is one of the core problems that hamper further social and economic development and that the government has to solve with urgency. The government is increasingly aware of the fact that the energy problem can only be solved by dealing with both sides of the same coin: the usage of its own indigenous renewable energy sources on one side and, in parallel, by introducing and applying energy efficient technologies and change the way energy is being utilised in all sectors of the society. While the 'Política para el Desarrollo Perspectivo de las Fuentes Renovables y el Uso Eficiente de la Energía' or Policy for the perspective development of Renewable Sources and the Efficient Use of Energy (June 2014) is not going to be published4, the regulatory framework for the energy sector is already formulated and it is expected to be approved and published in the Official Journal by the end of 2017. The nine principles of this policy (November 2015) are:5 1. Meet the energy demand and consumption as determined in the Cuban economic and social development plan up to 2030 (draft adopted in 2016). 2. Ensure energy supply security in the short, medium and long-term perspective. 3. Ensure a socially, economically, environmentally and sustainably compatible national energy mix that reduces Cuba's dependency from imported fossil fuels. 4. Support Cuba's policy to develop renewable energy resources and to apply energy efficiency in all sectors. 5. Strengthen the national production of crude oil and gas and their refinery by acceleration of studies and researches including new technologies and production capacities. 6. Ensure the optimal exploitation of national energy sources. 7. Ensure the consideration of all energy aspects (production, transformation, transport, distribution, consumption, environment, costs) as well as energy efficiency in the technology selection process. 8. Ensure a broad participation of foreign investors in the development of the energy sector. 9. Strengthen the international cooperation and regional integration for sustainable development. 4 Information on its main objectives has been shared with the media and within the framework of Business Fora and other public events. The Policy will be translated in the regulatory framework (decrees, resolutions and other legal instruments). 5 Summarised and translated from: PROPUESTA DE ASPECTOS A CONSIDERAR EN LAS INDICACIONES PARA LA ELABORACIÓN DE LA POLÍTICA ENERGÉTICA NACIONAL. G. Pereira. DPEEN. MINEM. XIII SENAE. Nov. 2015. [5] 1.1.1 Public Policy Assessment and EU Policy Framework The planned Action falls under focal sector 2 (Environment and Climate Change: Support for a better use of Key Natural Resources for Sustainable Development) of the EU-Cuba Multi-annual Indicative Programme 2014–2020 and seeks to support the implementation of Cuba's Energy Policy. The Guidelines (Lineamientos) adopted in 2011 and updated in 2016 for the period 2016-2021 outline Cuba's medium-term ***strategic*** development objectives in a package of more than 300 measures. Chapter 8 (guidelines 195 to 206) of the updated document is dedicated to Energy Policy. The measures concerning energy, renewable energy and energy efficiency aim to6. • Increase national production of crude oil and gas. • Increase the efficiency of national refinery of crude oil and gas products. • Significantly increase electricity generation efficiency. • Increase the thermal generation capacities. • Maintain an active policy of power load management to decrease consumption peaks and lower its impact on generation capacity. • Reduction of technical distribution losses by improvement of distribution grids. • Increase of electricity supply of unserved zones by applying the most economical solutions. • Foment co-generation and tri-generation, in particular in sugar industry. • Maximise the use of different sources of renewable energy, with a priority given to the sources with a greater economic impact (programme till 2030). • Give priority attention to the attainment of the energy-saving potential identified in the State sector, while in the residential sector, further efforts are foreseen to fully tap its efficiency reserves, which includes a review of the current electricity tariffs, so that they may play their role as regulators of demand. • Further improve the planning and control in the use of energy sources, through reinforcement of power metering, as well as of the quality of energy efficiency ***indicators*** and consumption rates. • Improve awareness on the benefits of energy efficiency and rational use of energy through the educational systems and in public media. Aligned to the Lineamientos, the Policy for the perspective development of Renewable Sources and the Efficient Use of Energy was approved by the Council of Ministers of Cuba in June 2014 but not published. The regulatory framework for the new national energy policy was due to be published in May 2015, then announced for May 2016, but is still not yet published until now. In 2014, the government disclosed the political and economic plan of diversifying significantly its energy matrix, aiming at increasing the use of renewable energy sources for electricity generation from approx. 4.3 % in 2013 (including 3.5 % from the sugar industry) to 24 % by 2030, generating some 7,245 GWh of electricity, avoiding GHG emissions equivalent to 4,463 tons of CO2. The Ministry of Energy and Mines (MINEM), in discussions with the EU, has commented their willingness to increase the aforementioned target of 24 % of renewable energy sources for electricity generation to 29% for the year 2025. This objective can only be achieved by attracting USD 3.7 billion of foreign investments. The Ministry of Foreign Trade and Investment (MINCEX) has been publishing every year since 2014 a portfolio of foreign investment opportunities ('Cartera de oportunidades de inversión extranjera'). This portfolio highlights the projects 'on offer' about which investors can start negotiating, including 6 Translated from: 'Actualización de los lineamientos de la política económica y social del partido ...... para el periodo 2016 - 2021....', August 2016 [6] 22 projects in the renewable energy sector with an investment per project estimated between USD 46 million and over 200 million. The last version of this investment catalogue was published in 2016. This call to international investment contrasts quite sharply from the policy undertaken until recently, where only a few selected and usually like-minded partners (Venezuela, China, Brazil, etc.) were admitted to make business in Cuba, usually under preferential terms. 1.1.2 Stakeholder Analysis The main institutions involved in the development of renewable energy (RE) and energy efficiency (EE) in Cuba are the following: • The Governmental Energy Commission was created in 2012 by a Presidential Decree to elaborate a new sustainable energy policy, carry out several key studies and evaluations and establish required norms. The Commission is made of the following members: 8 ministries (MINEM, MINAG, MINCEX, MINDUS, MEP, MINTUR, CITMA, MINAL7), 2 agencies (UNE8, AZCUBA9), and 6 universities10. The Ministry of Energy and Mines (MINEM) is the central government entity responsible for proposing and, once approved, controlling and managing government policies for the energy sector (including oil and electricity), as well as geological and mining sectors. Created in 2012, the Ministry controls several key state-owned companies such as the Grupo Empresarial CUBANIQUEL (minerals), the electric utility UNE (Unión Eléctrica de Cuba), the national oil and oil products company CUPET, and the Grupo Empresarial GEOMINSAL (geology and mining). The Renewable Energy Directorate is the department in charge of defining the regulatory framework for renewable energy and energy efficiency in Cuba. o Electricity management and supervision at municipal and provincial levels are done by staff from UNE, the Electric Utility. The UNE has the sole responsibility for the transmission, distribution and sale of electric energy to end-users. It defines the power tariffs for the consumers and purchases electricity from independent producers. Currently, UNE has 3,766,000 clients. Tariffs for electricity are regulated and controlled by the Ministry of Finance and Pricing. In the fossil fuels sector, CUPET is the state-owned company in charge of supplying fuel and lubricants to the national market, maximizing the value of national fuels compared to competitive products from the Caribbean area. 1 o The National Office for the rational use of energy, ONURE (Oficina Nacional de Uso Racional de la Energía), is a body depending from the MINEM, responsible for developing the country´s strategy regarding management and conservation of energy and applying energy efficiency measures in Cuba. It overlooks a group of about 400 energy auditors in charge of managing and planning the EE initiatives in the country. Those auditors deliver permits for new power installations and help propose appliances and equipment labelling standards for Cuba. • The Ministry of Foreign Trade and Investment (MINCEX) is the government entity responsible for the preparation of the policy regarding foreign trade activities, the creation of mixed companies, economic cooperation with foreign countries, organisations and foreign associations, and the negotiation of foreign investments. In addition, this organism supervises the international cooperation Cuba receives and provides. 7 MINAG: Ministry of ***Agriculture***; MINDUS: Ministry of Industries; MEP: Ministry of Economy and Planning; MINTUR: Ministry of Tourism; CITMA: Ministry of Science, Technology and Environment; MINAL: Ministry of Food Industry. 8 Electric Utility (Unión Eléctrica de Cuba). 9 Sugar State group – Grupo empresarial Azucarero. 10 Higher Polytecnical Institute 'Jose Antonio Echevarria' (CUJAE); Havana University (UH); Central University “Marta Abreu” of Las Villas (UCLV); Cienfuegos University; University “Maximo Gomez Baez” of Ciego de Avila; and University of Orient. [7] o PROCUBA belongs to the MINCEX and is the agency in charge of promoting foreign trade and investment services. • The Ministry of Economy and Planning (MEP) heads the implementation of the Guidelines and the economic planning, and consequently, has a more integrated and holistic view of the Cuban economy needs. The MEP coordinates the EU-financed “Expertise Exchange Programme” in Cuba. • The Ministry of ***Agriculture*** (MINAG) is the government entity responsible for State policies for the use and exploitation of ***agricultural*** land (either collectively or individually), and ***agricultural*** production. Its mandate also covers forestry. As such, it is also involved in sustainable energy by means of the use of forest products and residues (including marabou bush, an invasive species widespread on non-cultivated land throughout the country), ***agricultural*** residues, sugarcane bagasse and biodiesel. Biogas installations are also under its responsibility. • The Ministry of Science, Technology and Environment (CITMA) is the government entity overlooking the country’s environmental sustainable development. It is responsible for proposing and, once approved, executing, controlling and managing state policies and decrees regarding science, technology (including nuclear energy), and environment (including climate change). o CUBAENERGÍA (Centre for Information Management and Energy Development) is an agency of CITMA which: a) provides energy education, dissemination of information and outreach activities; b) promotes and undertakes research, development and innovation projects; and c) provides support services to ministries and business groups upon request (e.g advice on the development of the country’s RE strategy). It is probably the best informed entity as to Cuba's energy challenges and opportunities. • MINDUS (Ministry of Industries) is the government entity responsible for managing, executing and supervising the policies of the industrial activities. • MINTUR (Ministry of Tourism) leads the implementation and development of touristic sector in Cuba. It participates with other entities in developing the conservation of energy and energy efficiency policies in the tourism sector. • AZCUBA (Sugar State Group) is the government agency in charge of sugar policies in the country. It is also the owner of the sugar cane facilities and, consequently, the owner of all the associated thermal plants that uses sugarcane waste as main fuel. • Universities and Research Centres (depending on the Ministry of Higher Education – MES) play an important role in R&D projects, improving scientific skills and working closely with local authorities for developing specific projects. The Universities and Research Centres also work closely with the authorities in implementing the energy policies as technical advisors. The direct beneficiaries will be officials implicated in the implementation of the Cuban policy in the sectors of renewable energy and energy efficiency, both at national and local levels as well as relevant Research and Education centres and Cuban citizens in ***rural***/isolated areas benefitting from the electrification foreseen under the Programme. The indirect or final beneficiary will be the entire population of Cuba. 1.1.3 Priority Areas for Support / Problem Analysis Cuba's reality is slowly changing as a result of internal demand for economic and social advancement, as well as of external factors. Subsequently, foreign companies are increasingly seeking to invest in Cuba's economy, although very few investments are materialised. Various barriers, gaps and issues need to be addressed. These constraints are of different nature: [8] • Peculiar policy and institutional environment and scarce information: Most policies, strategies and figures are not public. As regards energy policy, the government has only disclosed its objectives with regards to the changes in its energy matrix. It argues that they have already carried out all the necessary studies that sustain their ambitions and only need financial support to reach them. Donors have no access to those studies, which makes it difficult to appreciate their overall quality. The government is in charge of the generation, transmission and distribution of energy. Investment risks: It is not clear how prioritisation of the projects referred in the portfolio for investment has taken place in terms of resource availability and variability, technology assessment and cost-benefit analysis. Negotiations with investors or donors are done in a bilateral manner, and information on how these negotiations are going-on, and what are the possible bottlenecks - if any - are usually not disclosed. Most likely, MINEM officials or those who negotiate (AZCUBA, MINAG) are not used to the rules of the market economy. Electricity tariffs are cross-subsidised among the different consumer groups paid by the government which creates an additional burden on the public budget and a risk for the private sector in order to invest. Moreover the lack of a transparent and functioning energy market is an additional risk for the private sector. Capacity, knowledge (expertise) and technological gaps: More qualified staff and specialists will be necessary if the ambitious 2030 target is to be achieved. Yet, the time period is relatively short to have people trained and get skilled local staff to work on all the energy installations that are planned to be constructed and in operation in the country by 203011. • The universities are educating people in RE and EE relevant disciplines (especially engineering), but often in a very theoretical way with little practical exposure to gain and improve skills and experience. Teachers, students, and officials as well (most of MINEM staff are engineers) have very limited knowledge of the most recent RE and EE practices (in particular on investment) and technologies used throughout the world. • Very limited knowledge at local level: The local governments are to play an increasingly important role in the decision-making processes regarding energy and development. People working in the local government will need some kind of training to understand better the challenges and opportunities in their localities. • Financial constraints to access to technology and equipment: Cuba needs to import much of the technology, equipment and spare parts needed, all to be paid in hard currency. In this regard, an overall and unsolved constraint is the dual currency of the Cuban Peso (CUP) and the Cuban Convertible Peso (CUC)12, and also the incompatibility of CUC with international currencies. In addition, research centres, universities but also companies work with obsolete equipment. While enterprises manufacturing export products and tourism-related enterprises pay their electricity bill in the convertible currency (CUC), domestic households and some State-owned enterprises pay their electricity bills in national currency (CUP). Reduced awareness of the potential benefits of energy efficiency measures: Despite the creation of ONURE, and the fact that energy efficiency is politically considered as an important way to ease the energy crisis, EE application is still at an infant stage in Cuba. The necessary metering instruments are not available to analyse the consumption of energy. In addition, there is a general lack of awareness. The subsidies of electricity, water, gas and other basic products are such that people care little about the quantities they consume and subsequently, there is no ‘saving and conservation’ 11 In less than 15 years’ time, Cuba will need to train people who can work in (updated in 2016) 25 new biomass power plants, 17 wind farms, 74 hydropower plants and an uncertain number of PV solar power plants (if we divided 700 MW among 4 MW, the minimum number is 175 PV solar power plants), yet there is very limited experience in the country to install, operate and maintain large RE-based power plants. 12 Official rate:   [*http://www.bc.gob.cu/Espanol/tipo\_cambio.asp*](http://www.bc.gob.cu/Espanol/tipo_cambio.asp) (1 CUC = 1 CUP); real rate: 1 CUC = 24 CUP [9] culture. MINEM has stated that tariffs for the residential sector will keep on being very highly subsidisd. 2 RISKS AND ASSUMPTIONS Risks Risk level (H/M/L) Mitigating measures No access to the Policy for the perspective development of Renewable Sources and the Efficient Use of Energy since this document will not be published M MINEM has informed the EU Delegation to Cuba that the policy on renewable energies will not be officially published. However, the 'Lineamientos' updated in August 2016, reflect the basics of the envisaged RE/EE development. Also the regulatory framework, that is expected to be published shortly, will be guiding the implementation of the Cuban energy policy. This regulatory framework - with the assistance of the EU Action - will be regularly reviewed. Lack of coordination at ministerial level and risk of staff turnover. L/M An appropriate management structure for the Action will be ensured which would include: - A Director of the Programme who will ensure the overall coordination and coherence of the Programme. - A management team mostly composed by officials from MINEM that will lead the implementation of the Action on behalf of the Cuban counterpart, including day-to-day coordination of the Programme, monitoring of activities, impacts and adjustment of the Action, if required. - A Steering Committee, chaired by MINEM, to coordinate all parties and guarantee the coherence and quality of all activities. It is essential to ensure a careful formulation of responsibilities of the Steering Committee and a meaningful selection of committee members. Annual Work Planning workshops with key stakeholders focusing on expected results will be also held. Deterioration of the political relation between Cuba and the EU L In the present context and after the signature of the EU-Cuba Political Dialogue and Cooperation Agreement this risk is considered low. [10] Deterioration of the political relation between the USA and Cuba M/H Considering the new US administration as of January 2017 and the announced stop or even reverse of the current improvement of the US-Cuban relationship this risk is considered moderate to high. Mitigation measures: - Establishing a stable relationship between the EU and Cuba. - Encouragement of the EU Member States to increase their Development Cooperation with Cuba. Difficult access to key decision-makers and interlocutors (for instance people involved in the Governmental Energy Commission) M The participatory approach used during the identification and formulation of the Action have ensured a high level of ownership and trust among key decision-makers and interlocutors which should ensure promptness and access during the implementation of the Action. As for the EU-Cuba Expertise Exchange Programme, a high level representative from this Ministry will have to be appointed to ensure a proper priorisation, coherence and follow-up of activities13. Participants to trainings and other Programme activities are not duly selected L/M The Action will provide short to medium-term technical assistance to the MINEM as main counterpart of the Action. However, MINEM has to carefully select the recipients of such assistance/trainings in order to maximise benefits. Replication of activities (train the trainers) is also to be ensured. Lack of involvement by local and national authorities All parties will agree ex-ante with the Cuban government who is the target population. Assumptions  The Cuban government remains committed to the implementation of its Energy Policy based on 'Lineamientos' and maintains its interest in this Action.  The Cuban government shares with the EU its regulatory framework.  The Financing Agreement between the EU and the Cuban Government is signed on schedule and the beginning of the Action is not postponed.  The Cuban government communicates the provisions of the energy regulatory framework to potential foreign investors and adapts it, as foreseen, to changing needs.  The proposed imports of equipment and components are fluid and customs clearings processes do not delay the implementation of the Action. 13 Other Ministries participating to this Programme are represented at the level of Advisor to the corresponding Minister (MEP, MES) [11] 3 LESSONS LEARNT, COMPLEMENTARITIES AND CROSS-CUTTING ISSUES 3.1 Lessons Learnt In the framework of the EU cooperation with Cuba, the EU has financed 3 grants directly promoting the use of renewable energy (including research-type projects) that concluded between 2015 and the first part of 201614, and one project dealing with climate change15, which addresses energy efficiency (i.e energy is not a core objective of the project). All those projects are linked with the ***agricultural*** sector. The official counterparts have been the MINAG16, the CITMA and the MES. None of these projects have been supervised directly by MINEM. Projects in Cuba suffer implementation delays of a year or more due to various obstacles, such as difficulties in accessing imported equipment (lack of clear importation procedures), limited availability of local equipment (inexistence of local suppliers) and problems with local transportation, excessive bureaucracy, lack of coordination and understanding at local level (not enough capacity building in the local sector, mainly in energy issues), and lack of sufficient support from ministries and decision-makers at national and local levels. Based on the experience with those projects, some of the key elements for success seem to be: • Ensure sufficient time to be able to consult with all parts and have their full understanding as to their involvement and level of responsibility. • Obtain high-level support right from the beginning (i.e identification and formulation phase) and ensure a close involvement of decision-makers in the monitoring of the project (high-level representatives attending Steering Committees as well as relevant meetings) throughout its implementation. • Find and work with committed partners. • Take into account logistical and administrative constraints specific to the Cuban context, especially according to imports of goods and equipment. • Set realistic goals according to the openness and effective dedication of government staff. • Invest significantly in capacity-building and awareness raising at all levels. • Invest in basic equipment. • Give priority to projects that build on successful experiences in order to promote its expansion and replicability, instead of experimenting new ideas unless those having high-level support. • Avoid construction or civil works unless decisive support and commitment from the authorities throughout the project is secured. • Have a clear prioritisation for investments, considering lead times and possible barriers, in such a way that low/zero investment projects that can be developed locally are supported. 14 (i) AGROENERGÍA: Fomento de fincas integrales agro-energéticas autosustentables para contribuir al desarrollo sostenible en zonas rurales de Cuba, with OIKOS, 1.4 M EUR; (ii) Fincas agropecuarias sustentadas en el uso de energías renovables en el sur oriental de Cuba, with HIVOS, 0.8 M EUR; (iii) BIOMASA MARABÚ: Aprovechamiento de la biomasa de marabú y otras especies energéticas como

combustible en la generación de electricidad y recuperación ambiental en Camagüey, with Sodepaz, EUR 1.6 million. 15 BASAL Bases Ambientales para la Sostenibilidad Alimentaria Local, with UNDP and JRC, co-financed by COSUDE, EU financing EUR 8.3 million. 16 MINAG has a renewable energy unit, but they have not shown much interest in the mentioned cooperation projects. [12] 3.2 Complementarity, Synergy and Donor Coordination As regards the current or future cooperation in the energy sector, important actors in this sector are: • Canada: Conclusions of the energy’s stocktaking mission performed in February/March 2016 are not available17. Currently, Canada supports UNE in the vocational training of staff members such as welders and electricians. • Switzerland / COSUDE: Their cooperation projects are mainly focused on local development, decentralisation including municipal training, transfer of knowledge, participatory mechanisms. Energy is also a priority and they are (co)-financing several interesting projects dealing with energy efficiency (BASAL – co-funded with the EU), bio-energy and biomass (use of Jatropha to produce bio-diesel, following the steps of the EU-funded project 'Agroenergía' and BIOMAS project), all undertaken in collaboration with the Estación Experimental Indio Hatûey (EEIH). • AECID (Agencia Española para la Cooperación y el Desarrollo) has been very active in Cuba, but not as much in this sector. In the past, AECID has supported the Cuban NGO CUBASOLAR on solar electrification projects. • UNDP: Energy has been part of UNDP portfolio for several years, along with environment. UNDP is implementing BASAL (climate change adaptation and mitigation component), and is now implementing a new GEF-funded project (2016-2020) dealing with bioenergy (project 'Tecnologías de Energía Limpia para las Áreas Rurales en Cuba', (focusing on the promotion of biogas and biodiesel essentially), together with CUBAENERGIA, MINEM and EEIH. UNDP had successfully carried out ***rural*** pilot electrification projects in the province of Guantanamo that can serve as examples for this Action. • UNIDO (United Nations Industrial Development Organization). Some successful cases on electrification such as Isla de La Juventud are in UNIDO’s portfolio in the country. The Isla de La Juventud project was aimed at demonstrating the technical/commercial feasibility of energy production by renewable energy (RE) and training qualified personnel. • AFD (French Agency for Development) opened an office in Havana at the end of 2016. They will implement an EU-funded LAIF Facility (EUR 3 million) to fund pre-feasibility and feasibility studies to attract foreign investments. The energy sector is one of the priorities together with sustainable ***agriculture***, water and sanitation and transport. The Cuban government has already submitted some investment projects on RE to AFD to be analysed for a possible loan. Coordination with AFD has to be ensured in the implementation of this Action. • Germany carried out two identification missions in May and September 2016 consisting of representatives of KfW, GIZ and PTB (German Institute for Metronomy). The main areas of ***intervention*** selected and agreed upon with the Cubans are: (i) grid stability (RE source fed into the national grid and respective analytical and protective measures); and (ii) support measures of the national PV production (technological aspects, quality improvement, increase of quantity of PV panels). Modalities of implementation are being discussed and could take some time. • The Netherlands were recently asked by the Cuban government to provide assistance in the area of wind power. • IRENA organised a workshop for technical experts of MINEM and UNE on 24-26 August 2016 to exchange experiences on planning and operating the electricity system with high shares of variable renewables. A follow up workshop intended to take place in the last quarter of 2017 will facilitate exchange of experiences with neighbouring countries. 17 The EU formulation mission took place in October-November 2016 [13] • China is an important partner of the Cuban Government in this sector, specially in capacity building. China invites Cuban public servants every year to a training on renewable energies (the subject is decided by both parts). There is a big potential for Chinese investment in the sector but not concretize yet, mostly in solar foltovoltaic technologies. 3.3 Cross-Cutting Issues Environmental considerations will be incorporated in the Action activities wherever relevant. In any case, it can already be foreseen the integration of environmental and climate change aspects in several exchanges and trainings and the strengthening of the CITMA's assessment role towards the MINEM and other key entities. It should also be ensured that the research activities take into account environmental aspects and that all the investment-related activities promoted are environmentally-sensitive. The gender dimension will also be a cross-cutting component of the Action. Gender equality is a declared objective of both the Cuban authorities and EU cooperation and the gender dimension will be integrated in the different activities to be undertaken in the framework of this Action. Participation by women from both the EU and Cuba will be ensured. MINEM has a gender team, integrated by representatives of the training centres of enterprises related to this Ministry, which has developed a diagnostic and is working on a Gender Institutional Strategy. The Programme will ensure coherence with this gender strategy and will support its implementation, including trainings to the mentioned team and other officials and managers. As for the human rights dimension, Cuba considers access to electricity as a fundamental right for every citizen. The Action, especially under specific objective 4, is expected to contribute to bring Cuban population access to electricity to 100 % (currently estimated at 99.6%18). 4. DESCRIPTION OF THE ACTION 4.1 Objectives and Results This programme is relevant for the Agenda 2030 and it contributes to the progressive achievement of SDG no. 7 'Ensure access to affordable, reliable, sustainable and modern energy for all'. The general objective is to support the Cuban Government efforts towards the efficient and sustainable management of its resources with a view to diversifying Cuba's energy mix. The specific objectives of the Action are: Specific Objective 1: Support the effective implementation of the 'Policy for the perspective development of Renewable Sources and the Efficient Use of Energy' and its Regulatory Framework. Specific Objective 1 aims at enhancing the renewable energy (RE) and energy efficiency (EE) knowledge and skills of key government officials, at national and local level, and of the academic sector, with a view to support the implementation of the national policy for RE and EE, e.g through, among others, exchange of experiences and best practices in RE and EE with other countries, especially from EU public administrations; revision of the existing regulatory framework and identify the gaps/points for improvement and/or adapt it accordingly to international best practices selected as most fitting the Cuban context; engaging, both at legal and regulatory level, in the ambitious RE and EE targets already announced for 2030; defining the milestones to assess the ***performance*** towards meeting these targets and link them to concrete measures to be taken in case of insufficient progress; creating a RE and EE roadmap towards meeting those targets, based on reliable measurements of sources. 18 MINEM estimates [14] In order to achieve this objective the following results will be sought: Res 1.1: Coherent legal and regulatory framework in the sectors of renewable energy and energy efficiency are in place and each time in line with the Policy objectives. Res 1.2: Improved know-how and skills of national and local governments and local officials. Res 1.3: Strengthened know-how and technical skills on RE and EE of Cuban research centres, universities and other educational institutions. Specific Objective 2: Facilitate foreign investment in the sectors of Renewable Energy and Energy Efficiency as well as the access to international cooperation funds. Specific Objective 2 is oriented to create an enabling environment to attract mainly foreign capital to invest in the Cuban energy sector. The Action also aims at supporting the Cuban government in creating a favourable investment environment and promoting its investment policy for foreign investors in the RE and EE areas, through among others, capacity building activities for government officials in negotiation techniques and public tendering procedures; increasing knowledge base about international experiences with incentives for foreign investments; identifying and updating financing schemes and mechanisms for development support, including through familiarising government officials with available international financial instruments and development cooperation in the the energy sector. In order to achieve this objective the following results will be sought: Res 2.1: Negotiation and investment promotion capacities as regards foreign investment strengthened. Res 2.2: Improved capacities of the Cuban government and organizations to take advantage of the financing opportunities in the energy sector. Specific Objective 3: Support the implementation of the Programme for Energy Management and Conservation, including Energy Efficiency. Specific Objective 3 deals with energy efficiency as an important element of the Cuban energy sector. The expected results are the adoption by decision makers of energy efficiency measures with a view to relieving Cuba's energy consumption through, among others, enabling technicians to carry out energy audits according to international best practices in key sectors (industrial, public, residential, transport and tourism); identifying the needs for EE measures and its implementation; developing energy efficiency demonstrative projects. In order to achieve this objective the following results will be sought: Res 3.1: EE needs assessment at identified institutional and corporate level (capacity building and equipment) undertaken Res 3.2: Capacities and equipment of identified State entities, firms and institutions involved in EE strengthened Res 3.3: EE demonstration projects elaborated and implemented Specific Objective 4: Support local development enhancing the access of ***rural*** communities to renewable energy, while encouraging efficient energy consumption Specific Objective 4 focuses on the improvement of life quality in ***rural*** communities by improving/providing energy access using renewable energy sources. This ***intervention*** will make maximum use of energy efficient technologies. This project will contribute to the ***rural*** electrification of un-served local households and communities contributing to achieve a country-wide 100% electricity [15] coverage. Currently the level of ***rural*** electrification in Cuba is around 99 %19; the Programme will contribute with the electrification of around 6,000 households, contributing to reach the 100 %. In order to achieve this objective the following results will be sought: Res 4.1: Needs and opportunities in terms of access to energy in some ***rural*** communities identified Res 4.2: Best practices with regards to the use of RE in Cuban local areas Res 4.3: Technical solutions using RE in local communities aiming at improvement of life quality and favouring the local productive development designed and implemented 4.2 Main Activities In order to serve the general objective of the Action and to achieve the above-mentioned specific objectives, the following indicative activities per result will be implemented. In addition, the following activity will be undertaken for each specific objective in order to ensure adequate monitoring of the Action (see 5.8 ): 'Define relevant baselines and milestones for each proposed ***indicator***'. Res20 1.1: Coherent legal and regulatory framework in the sectors of renewable energy and energy efficiency are in place and each time in line with the Policy objectives: • Enhance knowledge and understanding of the regulatory framework among relevant stakeholders. • Analyse different international cases of successful implementation of the regulatory framework, identifying elements that could be integrated in the Cuban one. • Design and establish a monitoring and evaluation system for the implementation of the regulatory framework. Res 1.2: Improved know-how and skills of national and local governments and local officials: • Train officials on the regulatory framework and on energy technologies and their applications (e.g RE principles of wind, hydro, solar power and bio-energy; EE principles, concepts and technologies; energy audits; and grid integration of RE). • Ensure access to a more actualized bibliography and international data on RE and EE. • Disseminate national and international experiences and best practices among officials. Res 1.3: Strengthened know-how and technical skills on RE and EE of Cuban research centres, universities and other educational institutions: • Provide access to knowledge (e.g academic exchanges; participation in international key conferences; trainings) and elaborate/implement train-the-trainer schemes to support a wide diffusion of RE and EE know-how towards Cuban universities and other educational institutions. • Update educational programmes related to RE and EE. • Develop research and innovation projects on RE and EE, with a special emphasis on the applicability of results to the development of Cuban enterprises in this sector. • Analyse/select international experiences related to RE and EE technical norms and standards that may prove relevant to Cuban context. 19 According to MINEM data 20 According to OECD DAC terminology, the term of 'result' covers three levels of the results chain: impact, outcome and outputs. Although some of the listed results are actually outputs; it has been decided to use the general term of 'result'. [16] Res 2.1: Negotiation and investment promotion capacities as regards foreign investment strengthened: • Training of officials in negotiating skills and in documenting results (e.g Memorandum of Understanding, letters of intention). • Training of officials and managers in investment promotion strategies. • Sharing experiences and best practices on foreign investment promotion in RE and EE. • Organization of and participation in investment promotion fairs on RE and EE.21 Res 2.2: Improved capacities of the Cuban government and organizations to take advantage of the financing opportunities in the energy sector: • Provide technical assistance to, according to international standards, analyse, interpret and update pre-feasibility and feasibility studies on investment opportunities and/or to elaborate new studies where necessary. • Provide technical assistance for the elaboration of proposals based on international mechanisms and opportunities. • Increase knowledge base in analysing and interpreting economic-financial documents/studies and risk assessments on investment opportunities. • Increase knowledge base and skills to access financing mechanisms for development cooperation. Res 3.1: EE needs assessment at identified institutional and corporate level (capacity building and equipment) undertaken: • Define sector ***indicators*** for energy efficiency in key pre-selected sectors (eg. touristic, industrial and residential sectors among others). • Identify measures needed to reach the ***indicators*** for the selected sectors. • Identify equipment and training needs at identified entities in key pre-selected sectors. • Identify equipment and training needs of employees of institutions involved in ensuring energy efficiency. Res 3.2: Capacities and equipment of identified State entities, firms and institutions involved in EE strengthened: • Elaborate strategies for the selected sectors to implement EE measures. • Raise awareness and create new capacities leading to improve EE ***performance***. • Improve the instrumentation infrastructure to measure energy efficiency data. Res 3.3: EE demonstration projects elaborated and implemented: • Select and implement EE demonstration projects in the identified sectors. Res 4.1: Needs and opportunities in terms of access to energy in some local communities identified and capacities on RE developed: • Identify needs in selected ***rural*** communities for energy access (e.g carry out enquiries to key actors but also take account of experiences of other projects). • Evaluate local potentials on RE (e.g carry out resource assessment in selected ***rural*** communities – capacity of animal farming, biogas production, yields of Jatropha cultivation, availability of Marabou, solar radiation, etc.). 21 For all the activities related to the promotion of foreign investment in Cuba, the key institution is ProCuba, which is currently participating to the EU-Cuba Expertise Exchange Programme [17] • Create networks for local capacity building in RE at community or provincial level to contribute to local development programmes. • Create or strengthen infrastructure at local level to provide local energy services (e.g ***rural*** energy service companies, ***rural*** energy centres or agencies). Res 4.2: Best practices with regards to the use of RE in ***rural*** areas and specifically using agroenergy identified and a number of them applied: • Share international experiences on RE applications in local areas with key actors. • Apply selected methodologies in identified ***rural*** areas. Res 4.3: Technical solutions using RE in ***rural*** communities aiming at improvement of life quality and favouring the local productive development designed and implemented: • Design and implement local electrification projects with RE in isolated communities and ***rural*** households with a local development approach (e.g around 6,000 households will be electrified). • Identify and suggest energy saving solutions for the small scale ***rural*** industry and communities. Additionally, the Action will include activities related to monitoring, evaluation and audit as well as communication with beneficiaries and impacted populations. 4.3 ***Intervention*** Logic The Cuban Government has decided to diversify its energy matrix in a substantial manner setting a very ambitious goal concerning the generation of electricity from renewable sources (from 4.3 % in 2013 to 24 % in 2030). Substantial foreign investment, estimated at USD 3.7 billion, is needed to achieve this objective. At the same time, a significant improvement in energy efficiency ***performance*** must be ensured. Besides, the Cuban Government aims at reaching 100 % of country electrification in order to ensure that even the most isolated areas have access to electricity, to which this Action will contribute with the electrification of around 6,000 households. The EU can offer considerable knowledge and expertise concerning the RE and EE sectors. EU-Cuba cooperation has already witnessed some successful experiences through pilot projects on renewable energies22. Also further to the signature of the Political Dialogue and Cooperation Agreement in December 2016 cooperation between EU and Cuba is further reinforced, which may lead to an increase in EU presence in this ***strategic*** sector in Cuba. The proposed ***intervention*** logic was developed at the formulation stage and is based on thorough discussions and exchanges with all the concerned stakeholders. The Action will be the first one implemented with the Ministry of Energy and Mines (MINEM) as main counterpart under an EU-funded project. The MINEM, specifically the Directorate of Renewable Energies, will be in charge of the coordination of the Programme in order to ensure coherence and alignment to the national policies. The four Specific Objectives have been grouped in three components. Component (1) focuses on Specific Objectives 1 (except Res 1.3) and 2, related to the institutional strengthening of the public entities associated to RE and EE and to the promotion of foreign investments in this sector in Cuba; whereas component (2) deals with Res 1.3, related to the academic strengthening on RE and EE; and component (3) addresses Specific Objectives 3 and 4, with a focus on specific measures and projects to promote EE and the use of RE as a driver for sustainable development. 22 See under 3.1 Lessons Learnt [18] For component (1), taking into account the leadership of the European Union in the implementation of policies on RE and EE, a network of EU agencies will be created (the 18 Member States represented in Cuba have already been consulted) to mobilise the most suitable experts on RE and EE. This network will also be open to, among others, agencies/institutions from Member States not represented in Cuba. Apart from this network, it is foreseen to create a roster of experts in order to enlarge as much as possible the pool of potential experts leading to a successful pre-selection of experts by the Member State entrusted agency. The final choice of experts would lay with the beneficiary Cuban institution. This component will be earmarked in the ongoing EU funded EU-Cuba Expertise Exchange Programme implemented by FIIAPP. The Direction of the Programme (Ministry of Economy and Planning) and the Ministry in charge of Cooperation (MINCEX) have supported the incorporation of MINEM. MINEM participation to this Programme will ensure relevant synergies with the institutions that are already taking part as all those institutions, to a different extent, are very relevant for the implementation of the national policy on RE/EE.23 The methodology for searching, pre-selecting and mobilising relevant experts has been constantly improved since the beginning of the first phase of the Programme (2014) and it nowadays enables a quick and relevant response to Cuban demands. AFD will be invited to contribute to the attraction of foreign investment in the sector, establishing synergies with the EU-funded LAIF Facility in Cuba (EUR 3 million); this Facility is implemented by AFD and intends to finance pre-feasibility and feasibility studies relating to investment projects in Cuba likely to be financed by International Financial Institutions. As for component (2), it responds to activities under Res 1.3 One call for proposals will be launched for European renewable energy and energy efficiency centres, other European public and private institutions (including universities and research centres), Cuban institutions and other educational institutions which will form consortia to respond to the Call. The successful consortium will have to work in close coordination with the entrusted Member States and UN agencies (see below) as well as with the EU Delegation and the Cuban counterparts. Concerning component (3), UNDP and UNIDO will be in charge of, among others, designing and implementing demonstrative projects, transferring know-how on RE and EE and electrifying ***rural***/isolated 23 Ministry of Economy and Planning, MINCEX, MES, Ministry of Justice, National Statistics and Information Office (ONEI), National Economic Research Institute (INIE), National Office for Tax Administration (ONAT), Chamber of Commerce, PROCUBA MINEM Directorate for Renewable Energy Consortium of EU-Cuba Research Cent r es / Universities UN Agencies (1) Support the effective implementation of the 'Policy for the perspective development of Renewable Sources and the Efficient Use of Energy' and its Regulatory Framework Facilitate foreign investment in the sectors of RE/EE as well as the access to international cooperation funds (3) Support the implementation of the Programme for Energy Management and Conservation, including Energy Efficiency Support local development enhancing the access of ***rural*** communities to renewable energy, while encouraging efficient energy consumption Implementer Component (2) Strengthen the knowhow and technical skills on RE and EE of Cuban research centres, universities and other educational institutions Member State Agency Coordination ensured by [19] houses/areas with a local development approach, providing capacity building to representatives of productive sectors. 5 IMPLEMENTATION 5.1 Financing Agreement In order to implement this Action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2 Indicative Implementation Period The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 N/A 5.4 Implementation Modalities 5.4.1.1 Grant: Call for Proposals 'Support to the Implementation of Cuban Energy Policy' (Direct Management) (a) Objectives of the Grant, Fields of ***Intervention***, Priorities and Expected Results: This grant as described in the present Chapter 5.4.1.1 is only one part of the overall Action as described in Chapter 4.1 of this Action Document, specifically to respond to Result 1.3 The call for proposals will be launched to bring together European renewable energy and energy efficiency centres, other European public and private institutions (including universities and research centres), Cuban Universities, research centres and other educational institutions who will be required to form consortia in view to strengthen their know-how and technical skills on RE and EE so the educational system will be able to respond at a greater potential to the needs of diversifying the energy matrix in terms of number of people trained and technical level required, but also in terms of R&D capabilities. Cuban research centres and universities play a central role in the implementation of the Energy policy and have been key actors in the design of the regulatory framework. The successful consortium will have to work in close coordination with the entrusted UN Organisations and with FIIAPP as well as with the EU Delegation and the Cuban counterparts. This modality will imply opening EU-Cuba bilateral funds for competition for the first time which will be an opportunity to share in practice our public tendering procedures, and jointly with MINEM evaluate the proposals submitted. The overall objective of the grant is to strengthen the Cuban research centres and universities know-how and technical skills. The main specific objectives of the grant are to: • Provide access to knowledge on RE and EE (e.g academic exchanges; participation in international key conferences; trainings) and implement train-the-trainer schemes to support a wide diffusion of RE and EE know-how towards Cuban universities and educational networks. [20] • Support the development of research and innovation projects on RE and EE in the country. The overall action final beneficiaries are the Cuban research and development institutions and universities, Cuban educational institutions and any other Cuban organisations involved in RE and EE issues. The following non-exhaustive list gives indications of the type of action, which may be considered for support, provided that they meet the overall and specific objectives of the Call for Proposals: • Actions aimed at consolidating and/or scaling-up of proven successful initiatives of EU and Cuban research world, having high impact on energy consumption reduction and renewable energies adoption at country level; • Actions supporting know-how transfer on RE, EE and environmental sustainability in Cuban research centres, universities and educational network; • Actions favouring the exchange of best practices among EU and Cuban educational network and the increasing of competences of Cuban trainers; • Actions supporting the system of Cuban enterprises in applying the results of the research and development sector achieved; • Research and innovation activities and projects on RE and EE. Expected Results: • Knowledge and technology transfer on RE/EE between European and Cuban universities, research centres and other education institutions reinforced. • EU and Cuban academic/educational networks promoted. • Research and innovation projects developed in order to support the implementation of the national policies on RE and EE, with special emphasis on the applicability of results to the development of Cuban enterprises in this sector. (b) Eligibility Conditions: • In order to be eligible for a grant, the applicant must: • Be a legal person, and • Be non-profit-making, and • Be a specific type of organisations such as: Civil Society Organisations (CSO)24 or their associations, and Local Authorities or their associations constituted in accordance with the legislation in force of the country concerned, including actors under private law; and • Be established in the Republic of Cuba or in a Member State of the European Union; and • Be directly responsible for the preparation and management of the Action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary Co-applicants and affiliated entities: the eligibility of Co-applicant and affiliated entities is restricted to all types of CSOs and/or their associations LAs and/or their associations and originating from the European Economic Area and/or CELAC Member States. 24 Civil society organisations include: NGOs, organisations representing indigenous peoples, organisations representing national and/or ethnic minorities, local traders' associations and citizens' groups, cooperatives, trade unions, organisations representing economic and social interests, organisations fighting corruption and fraud and promoting good governance, civil rights organisations and organisations combating discrimination, local organisations (including networks) involved in decentralised regional cooperation and integration, consumer organisations, women's and youth organisations, teaching, cultural, research and scientific organisations, universities, churches and religious associations and communities, the media and any nongovernmental associations and independent foundations, including independent political foundations, likely to contribute to the implementation of the objectives of this Regulation. [21] Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant will be between EUR 1,500,000 and 3000,000 and the grants may be awarded to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is 40 months (assuming that the call for proposal can only be launched in the second year of the overall duration of the Action of 60 months). (c) Essential Selection and Award Criteria: The essential selection criteria are financial and operational capacity of the applicant(s). The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the Action. (d) Maximum Rate of Co-financing: The maximum possible rate of co-financing for grants under this call is 90 %. In accordance with Articles 192 of Regulation (EU, EURATOM) No 966/2012, if full funding is essential for the Action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management. (e) Indicative timing to launch the call: Last quarter of the year 2017. 5.4.1.2 Procurement (direct management) Subject in generic terms, if possible Type (works, supplies, services) Indicative number of contracts Indicative trimester of launch of the procedure Evaluation Services 2 2020Q3; 2023Q2 Audit Services 2 2020Q2; 2023Q2 5.4.1.3 Indirect Management with a EU Member State agency A part of this Action will be implemented in indirect management with the Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas (FIIAPP) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the preselection and mobility of experts and civil servants, the logistics of the different activities and the procurement of equipment, inputs and visibility material. Taking into account the leadership of the European Union in the implementation of policies on renewable energies (RE) and energy efficiency (EE) and in the development of technologies in this sector, a network of EU agencies will be created (the 18 Member States represented in Cuba have been consulted) to mobilise the most suitable experts on RE and EE. This network will also be open to, among others, agencies and institutions from Member States not represented in Cuba and will be coordinated by FIIAPP in the framework of the existing Expertise Exchange Programme. FIIAPP will be requested to create a roster of experts in this thematic as well, in order to enlarge as much as possible the pool of potential [22] experts leading to a successful pre-selection of experts (the final choice of experts would lay with the beneficiary Cuban institution). Also, the Programme will encourage the signature of Memorandums of Understanding with institutions such the French Cooperation Agency (AFD) whose expertise proves relevant for topics related to the attraction of foreign investment in response to Objective 2 of this Programme; this would ensure due coordination with the EU/LAIF-funded Facility (EUR 3 million), implemented by AFD, which intends to finance pre-feasibility and feasibility studies relating to investment projects in Cuba likely to be financed by International Financial Institutions. It is considered that the EU-funded Expertise Exchange Programme Phase II whose implementation has been entrusted to FIIAPP and just started beginning of 2017 is the best placed to assume the implementation of Component 1 of this programme budgeted at EUR 4 million. FIIAPP will enable the operations foreseen under Component 1 to be running in a maximum period of 1 month from the signature of the corresponding Financing Agreement, i.e that exchanges and transfer of knowledge to the benefit of local officials and other stakeholders would be effective in record time, also national efforts to attract foreign investment and other financing lines are supported from the very start of activities seizing the momentum in Cuba and maximizing the chances to support opportunities as soon as they arise. This is the main reason why the FIIAPP has been entrusted with the implementation of this component. The inclusion of this component into the Expertise Exchange Programme will significantly contribute to ensure a relevant inter-ministerial25 and institutional coordination and the levelling-up of synergies created. Also, the use of an existing operational structure and a constantly improved methodology that is fully endorsed by authorities and has proven successful is the most efficient option, i.e lesser time and cheaper, as there are no start-up costs and it will create economies of scale for the implementer’s human resources-related costs. In addition, MINEM explicitly confirmed the adequacy of this ongoing Programme for the fulfilment of most of the training needs identified under Component 1 and for the identification of relevant experiences for the Cuban context. The Direction of the Programme (Ministry of Economy and Planning) and the Ministry in charge of Cooperation (MINCEX) also favour the participation of MINEM to the ongoing Programme. The entrusted entity would carry out the following budget-implementation tasks: conducting procurement and managing the resulting contracts, carrying out payments to contractors and recovery of undue payments. FIIAPP will be entrusted with the implementation of Component 1 that groups activities/results under Specific Objective 1 and 2 (excluding R.1.3). A new delegation agreement under the same conditions as those established in the PAGODA with FIIAPP (grant delegation agreement) covering the current EU-Cuba Expertise Exchange Programme (ie, no local office or permanent Team Leader placed in Havana under the programme, and same conditions for Human Resources). FIIAPP would be in charge of the pre-selection and mobility of relevant civil servants and experts for, among others, capacity building, on-the-job training, individual coaching, short and medium-term technical assistance, etc. FIIAPP would be also in charge of ensuring the logistics of the different activities (seminar, workshops, study visits, etc.) and the procurement of equipment, inputs and visibility material. 25 The Expertise Exchange Programme Cuba-UE II includes MINCEX, Ministry of Economy and Planning, Ministry of Higher Education, Ministry of Justice, Ministry of Finance and Prices. [23] 5.4.1.4 Indirect management with UN Agencies A part of this action may be implemented in indirect management with United Nation Development Programme (UNDP) and United Nations Industrial Development Organisation (UNIDO) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails among other tasks: (i) the increase of energy efficiency of priority sectors in Cuba, in close cooperation with Cuban organisations already engaged at country level; (ii) capacity building on energy auditing and other related topics; (iii) the implementation of projects aimed at promoting EE in key sectors; (iv) supporting the assessment of RE potentials in ***rural*** areas (including the provision of measurement instruments); (v) the completion of the electrification by RE of those Cuban households not connected to the grid (around 6,000 un-served households in ***rural*** areas); (vi) the implementation of demonstrative projects using RE to provide sustainable energy for local development. The entrusted entity would carry out the following budget-implementation tasks: conducting procurement and managing the resulting contracts, awarding and managing grant contracts, carrying out payments to contractors and recovery of undue payments. The proposal is to delegate the implementation of this component to UN Agencies accredited in Cuba and with a long history of work and support in this sector, for activities/result under Specific Objectives 3 and 4. The first option would be to sign a PAGODA with UNDP and UNIDO. If it is not possible to reach an agreement for this modality, the alternative proposal would be to sign a PAGODA with UNDP ensuring a full participation of UNIDO for activities and results under Specific Objective 3, related to the development of energy efficiency measures in selected sectors. UNDP and UNIDO are well established in Cuba, enjoy excellent relations with the Cuban government and prove very relevant experience in the implementation of cooperation projects, including in the energy sector. UNDP and UNIDO trust-building process with MINEM started 3 years ago. Professional UNDP and UNIDO teams have been or are in charge of environment / energy projects: excellent experience with the implementation of the BASAL project (EU funding: EUR 7.6 million26 for the UNDP component27) and successful experience of UNIDO with the renewal energy project in the Isla de Juventud (EUR 5.34 million); UNIDO is also providing advisory support on Industrial Policy. This implementation modality is justified because of UNDP and UNIDO experience both in the thematic area and in the country. UNDP e.g is engaged in ***rural*** development including the electrification of 702 houses in the Guantanamo province, the realisation of 602 bio-digesters and the implementation of technologies. Design and implementation of demonstration and pilot projects, know-how transfer on RE and EE issues, capacity building involving officials and technicians, representatives of ***rural*** productive sectors and service providers of EE and RE applications are other reference activities. PNUD is also implementing at the moment the PADIT (Plataforma Articulada para el Desarrollo Integral Territorial de Cuba programme, on territorial development. Also, UNDP experience in procurement of specialized equipment as well as the knowledge acquired under the EU-funded projects in the ***agricultural*** sectors on very specific and cumbersome importing procedures proves crucial to the success of this component considering the important bulk of equipment to be procured. UNIDO, starting in the 1990’s, strongly contributed to improve the skills of the operators of several industrial sectors for increasing energy efficiency and clean production in Cuban factories of various sizes (e.g project: “Red Nacional de Producción Más Limpia' involving more than 1,600 technical operators). The signature of the “Marco Programático de País” between the Cuban government and UNIDO in December 2015 provides a further proof for the trust and reputation UNIDO is enjoying in Cuba. This reconfirms Cuba's commitment to the exploitation of RE and the implementation of respective 26 COSUDE is also financing this project. 27 EUR 0.7 million are implemented by the JRC within the framework of the BASAL project. [24] environmental policies. UNIDO is also advising the government on formulating its industrial policy which offers a unique chance to implement Energy Efficiency as an obligatory principle in a priority sector in Cuba. 5.5 Scope of Geographical Eligibility for Procurement and Grants The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions: In accordance with Article 9(2)(a) of Regulation (EU) No 236/2014, the Commission decides that natural and legal persons from the following countries having traditional economic, trade or geographical links with neighbouring partner countries shall be eligible for participating in procurement and grant award procedures: CELAC member states. The supplies originating there shall also be eligible. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with [Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult. 5.6 Indicative Budget EU Contribution (Amount in EUR) Indicative Third Party Contribution (Amount in EUR) Direct Contract (Call for Proposal) 5.4.1.1 Grants: Call for Proposals 'Support to the Implementation of Cuban Energy Policy' (Direct Management) 3,000,000 300,000 5.4.2.1 Indirect Management with FIIAPP 4,000,000 300,000 5.4.3.1 Indirect Management with UN Agencies (UNDP/UNIDO) 10,500,000 Audit and Evaluation 200,000 Contingencies 300,000 TOTAL 18,000,000 18,600,000 [25] 5.7 Organisational Set-up and Responsibilities 5.7.1 General Coordination The Cuban Energy Ministry (MINEM), is the central government entity responsible for proposing, controlling and implementing the National Energy Policy and its regulatory framework to foster the application of energy efficient technologies in all sectors as well as the increased use of renewable energy sources and to achieve Cuba's ambitious energy goals. MINEM, specifically the Directorate of Renewable Energies, will be the Cuban counterpart for this Programme. As such, MINEM will be responsible for the overall coordination of the Programme, in close collaboration with the EU Delegation in Cuba, and will ensure proper coordination among the international implementing agencies and the relevant national stakeholders (other Ministries, universities, research centres, energy sector State companies, local governments, etc.). 5.7.2 Institutional Arrangements MINEM will appoint a Director of the Programme who will ensure the overall coordination and coherence of the Programme. MINEM will also nominate a management team mostly composed by officials from the Ministry that will lead the implementation of the Action on behalf of the Cuban counterpart, including day-to-day coordination of the Programme, monitoring of activities, impacts and adjustment of the Programme, if required. Both the Director and the management team will be in close contact with the EU Delegation. 5.7.3 Steering and Supervision A Programme Steering Committee, chaired by MINEM, will further guarantee the coherence and quality of all activities. A careful formulation of responsibilities of the Steering Committee and a meaningful selection of committee members will be ensured. The Steering Committee will meet at least once per year. Another technical/administrative committee will be created. It will be composed of, at least, the Director of the Programme, the implementing entities28 with their national counterparts and the EU Delegation in Cuba. They will meet on a regular basis and steer and supervise the implementation of the Programme as planned. 5.8 ***Performance*** Monitoring and Reporting The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the Action component for which they are responsible and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action component for which they are responsible, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the LogFrame matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the Action. The final report, narrative and financial, will cover the entire period of the Action component for which they are responsible implementation. Before the signature of the corresponding contract, each implementing partner/implementer (see 4.3 above) together with the Cuban Government and with the assistance of the EU Delegation to Cuba, will 28 See point 5.4 [26] elaborate a LogFrame Matrix for the component under its responsibility. As for relevant baselines and milestones for ***indicators***, they will be duly defined during the first year of implementation of the mentioned contracts. These baselines and milestones will be the base for the monitoring of the Action. The general LogFrame matrix of the whole Programme will be properly adapted in coherence with the baselines and milestones proposed for each component. MINEM, as main coordinator of the Action, will be responsible of the general monitoring and reporting of the whole Action. Besides regular meetings and exchanges, the Commission will undertake additional Programme monitoring visits through its own staff -at least two per year- and through independent consultants -at least one for each component- recruited by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews), based on previously defined ***indicators***. 5.9 Evaluation With regards to the importance of the Action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission and/or via an implementing partner. Mid-term evaluation will be carried out for learning purposes, in particular with respect to maximise the sustainability and impact of the programme. Final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Action will contribute to the implementation of governmental policies. The Commission shall inform the implementing partner at least three months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. Indicatively, two (2) contracts for evaluation services shall be concluded in 2020 and 2022. 5.10 Audit Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Indicatively, two (2) contracts shall be concluded following the signature of the Financing Agreement. 5.11 Communication and visibility Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section above. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements. [27] The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. The communication and visibility measures will be executed by the implementation entities.

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European Parliament 2014-2019 TEXTS ADOPTED Provisional edition P8\_TA-PROV(2018)0105 Strengthening economic, social and territorial cohesion in the EU European Parliament resolution of 17 April 2018 on strengthening economic, social and territorial cohesion in the European Union: the 7th report of the European Commission (2017/2279(INI)) The European Parliament, – having regard to Article 3 of the Treaty on European Union (TEU) and Articles 4, 162, 174 to 178 and 349 of the Treaty on the Functioning of the European Union (TFEU), – having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund, laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/20061, – having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/20062, – having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/20063, – having regard to Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/20064, – having regard to Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European 1 OJ L 347, 20.12.2013, p. 320. 2 OJ L 347, 20.12.2013, p. 289. 3 OJ L 347, 20.12.2013, p. 470. 4 OJ L 347, 20.12.2013, p. 281. Regional Development Fund to the European territorial cooperation goal1, – having regard to the Commission’s report of 9 October 2017 entitled ‘My region, my Europe, our future: The 7th report on economic, social and territorial cohesion’ (COM(2017)0583), – having regard to the Pact of Amsterdam establishing the Urban Agenda for the EU, agreed at the informal meeting of EU ministers responsible for urban matters held on 30 May 2016 in Amsterdam, – having regard to the judgment of the Court of Justice of the European Union of 15 December 20152, – having regard to the European Pillar of Social Rights, proclaimed on 17 November 2017 in Göteborg by the European Parliament, the Council and the Commission, – having regard to the Council conclusions of 25 April 2017 on ‘Making Cohesion Policy more effective, relevant and visible to our citizens’3, – having regard to the Council conclusions of 15 November 2017 on ‘Synergies and simplification for Cohesion Policy post-2020’4, – having regard to the Commission’s White Paper of 1 March 2017 on ‘The future of Europe – Reflections and scenarios for the EU-27 by 2025’ (COM(2017)2025), – having regard to the Commission’s reflection paper of 26 April 2017 on ‘The social dimension of Europe’ (COM(2017)0206), – having regard to the Commission’s reflection paper of 10 May 2017 on ‘Harnessing globalisation’ (COM(2017)0240), – having regard to the Commission’s reflection paper of 31 May 2017 on ‘Deepening Economic and Monetary Union’ (COM(2017)0291), – having regard to the Commission's reflection paper of 28 June 2017 on ‘The future of EU finances’ (COM(2017)0358), – having regard to the Commission staff working document of 10 April 2017 entitled ‘Competitiveness in low-income and low-growth regions: report on the regions whose development is lagging behind’ (SWD(2017)0132), – having regard to the Commission working paper entitled ‘Why regional development matters for Europe’s economic future’5, 1 OJ L 347, 20.12.2013, p. 259. 2 Judgment of the Court of Justice of 15 December 2015, Parliament and Commission v Council, C-132/14 to C-136/14, ECLI:EU:C:2015:813. 3 Doc.

8463/17. 4 Doc. 14263/17. 5 Iammarino, S., Rodríguez-Pose, A., Storper, M. (2017), ‘Why regional development matters for Europe’s economic future’, Working Papers 07/2017, Directorate-General for Regional and Urban Policy, European Commission. – having regard to the Commission communication of 14 February 2018 on ‘A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020’ (COM(2018)0098), – having regard to the Commission communication of 24 October 2017 on ‘A stronger and renewed ***strategic*** partnership with the EU's outermost regions’ (COM(2017)0623), – having regard to the opinion of the Committee of the Regions of 11 May 2017 entitled ‘The future of Cohesion Policy beyond 2020: For a strong and effective European cohesion policy beyond 2020’1, – having regard to the opinion of the European Economic and Social Committee of 25 May 2016 on the Commission communication ‘Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds’2, – having regard to its resolution of 9 September 2015 entitled ‘Investment for jobs and growth: promoting economic, social and territorial cohesion in the Union’3, – having regard to its resolution of 9 September 2015 on the urban dimension of EU policies4, – having regard to its resolution of 10 May 2016 entitled ‘New territorial development tools in cohesion policy 2014-2020: Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD)’5, – having regard to its resolution of 18 May 2017 entitled ‘The right funding mix for Europe’s regions: balancing financial instruments and grants in EU cohesion policy’6, – having regard to its resolution of 13 September 2016 on Cohesion Policy and Research and Innovation Strategies for Smart Specialisation (RIS3)7, – having regard to its resolution of 13 September 2016 entitled ‘European Territorial Cooperation – best practices and innovative measures’8, – having regard to its resolution of 16 February 2017 entitled ‘Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds: an evaluation of the report under Article 16(3) of the CPR’9, – having regard to its resolution of 13 June 2017 on building blocks for a post-2020 EU cohesion policy10, 1 OJ C 306, 15.9.2017, p. 8. 2 OJ C 303, 19.8.2016, p. 94. 3 OJ C 316, 22.9.2017, p. 132. 4 OJ C 316, 22.9.2017, p. 124. 5 OJ C 76, 28.2.2018, p. 2. 6 Texts adopted, P8\_TA(2017)0222. 7 Texts adopted, P8\_TA(2016)0320. 8 Texts adopted, P8\_TA(2016)0321. 9 Texts adopted, P8\_TA(2017)0053. 10 Texts adopted, P8\_TA(2017)0254. – having regard to its resolution of 13 June 2017 on increasing engagement of partners and visibility in the ***performance*** of European Structural and Investment Funds1, – having regard to its resolution of 6 July 2017 entitled ‘Promoting cohesion and development in the outermost regions of the EU: implementation of Article 349 TFEU’2, – having regard to its resolution of 24 October 2017 on the Reflection Paper on the Future of EU Finances3, – having regard its resolution of 13 March 2018 on lagging regions in the EU4, – having regard to its resolution of 14 March 2018 entitled ‘The next MFF: Preparing the Parliament’s position on the MFF post-2020’5, – having regard to the conclusions and recommendations of the High Level Group monitoring simplification for beneficiaries of ESI Funds, – having regard to Rule 52 of its Rules of Procedure, – having regard to the report of the Committee on Regional Development and the opinions of the Committee on Budgets, the Committee on Employment and Social Affairs and the Committee on Culture and Education (A8-0138/2018), A. whereas cohesion policy aims to promote harmonious and balanced development of the whole Union and its regions, leading to a strengthening of its economic, social and territorial cohesion, in a spirit of solidarity and with the aim of promoting sustainable growth, employment, social inclusion and reducing disparities between and within regions, as well as the backwardness of the least-favoured regions, in accordance with the Treaties; B. whereas the 7th Cohesion Report shows that regional disparities are narrowing again, but that the picture is highly uneven, whether measured by GDP per head, employment or other ***indicators***, and that certain disparities persist, or are shifting or growing, between and within regions and Member States, including inside the euro area; C. whereas the 7th Cohesion Report contains worrying information about unemployment rates, including youth unemployment rates, which in many regions have not reverted to the levels seen before the crisis, and about competitiveness, poverty and social inclusion; D. whereas 24 % of Europeans, or almost 120 million people, are poor, living at risk of poverty or being severely materially deprived and/or living in households with low work intensity; whereas the numbers of working poor are increasing and the numbers of unemployed young people continue to be high; 1 Texts adopted, P8\_TA(2017)0245. 2 Texts adopted, P8\_TA(2017)0316. 3 Texts adopted, P8\_TA(2017)0401. 4 Texts adopted, P8\_TA(2018)0067. 5 Texts adopted, P8\_TA(2018)0075. E. whereas unemployment and youth unemployment in the Union have been falling gradually since 2013, but are still above 2008 levels at 7,3 % and 16,1 % respectively (December 2017)1, with considerable differences between and within Member States, and especially in some of the Member States most affected by the financial crisis; whereas regional disparities have started to narrow; whereas the differences in unemployment rates between Member States are still significant, ranging from 2,4 % in the Czech Republic and 3,6 % in Germany to 16,3 % in Spain and 20,9 % in Greece, according to the latest figures2; whereas hidden unemployment – the phenomenon of unemployed people who are willing to work but are not actively searching for employment – stood at 18 % in 2016; F. whereas the 7th Cohesion Report draws attention to the great diversity of regions and territories, including within current categories of regions, owing to their specific circumstances (ultraperipherality, sparse population, low income, low growth, etc.), making a tailored territorial approach essential; G. whereas one of the key pieces of new information provided by the 7th Cohesion Report concerns the identification of certain regions described as being caught in the ‘middle-income trap’, which risk being left behind, stagnating or falling behind; H. whereas the 7th Cohesion Report emphasises the existence of pockets of poverty, the risk of territorial fragmentation and the widening of infraregional disparities, including in more prosperous regions; I. whereas the 7th Cohesion Report states that ‘the impact of globalisation, migration, poverty and a lack of innovation, climate change, energy transition and pollution is not limited to less developed regions’; J. whereas while cohesion policy has played a substantial role in the recovery of the EU economy through the promotion of smart, sustainable and inclusive growth, public investment in the EU is still below its pre-crisis level, with major gaps in some of the Member States most affected by the crisis, as it fell from 3,4 % of GDP in 2008 to 2,7 % in 2016; K. whereas the 7th Cohesion Report clearly presents the outcomes of cohesion policy in terms of growth, jobs, transport, energy, the environment and education and training, as evidenced in the 2014-2020 programing period by the support lent to 1,1 million SMEs, leading directly to the creation of a further 420 000 new jobs, helping more than 7,4 million unemployed find a job, and additionally helping over 8,9 million people to gain new qualifications, thus making the policy the glue that holds Europe together; The added value of cohesion policy 1. Considers it crucial that cohesion policy in the new programming period should continue to adequately cover all European regions and remain the European Union’s main public investment instrument based on long-term strategy and perspectives, with a budget commensurate with existing and new challenges, and ensuring the fulfilment of 1 [*http://ec.europa.eu/eurostat/documents/2995521/8631691/3-31012018-BP-EN.pdf/bdc1dbf2-6511-4dc5-ac90-dbadee96f5fb*](http://ec.europa.eu/eurostat/documents/2995521/8631691/3-31012018-BP-EN.pdf/bdc1dbf2-6511-4dc5-ac90-dbadee96f5fb) 2   [*http://ec.europa.eu/eurostat/documents/2995521/8701418/3-01032018-AP-EN/37be1dc2-3905-4b39-9ef6-adcea3cc347a*](http://ec.europa.eu/eurostat/documents/2995521/8701418/3-01032018-AP-EN/37be1dc2-3905-4b39-9ef6-adcea3cc347a) the basic goals of the policy; stresses that a concentration of cohesion policy exclusively on the least developed regions would hinder progress on the political priorities of the Union as a whole; 2. Emphasises that cohesion policy provides European added value by contributing to European public goods and priorities (such as growth, social inclusion, innovation and environmental protection), as well as to public and private investment, and that it is a fundamental tool for achieving the Treaty objective of combating disparities with a view to the upward adaptation of living standards and reducing the backwardness of the least favoured regions; 3. Reiterates its strong commitment to shared management and the principle of partnership, which should be maintained and strengthened for post-2020, as well as to multi-level governance (MLG) and subsidiarity, which contribute to the added value generated by cohesion policy; stresses that the added value of this policy stems primarily from its ability to take into account national development needs along with the needs and specificities of different regions and territories, and to bring the Union closer to its citizens; 4. Emphasises that European added value is strongly reflected in European territorial cooperation (ETC) in all its dimensions (cross-border, transnational and interregional cooperation, both internal and external), as contributing to the overall economic, social and territorial cohesion objectives, as well as to solidarity; reiterates the call for an increase in its share of the budget allocated to cohesion policy, while improving coordination between different programmes to avoid overlaps; recalls the importance of the implementation of macroregional strategies for the achievement of the cohesion policy objectives; 5. Notes that the implementation of cohesion policy in a region can generate externalities and direct and indirect spillover benefits in all of the EU, thanks inter alia to the increased trade generated, strengthening the single market; points out, however, that these benefits vary considerably from one Member State to the other, depending in particular on geographic proximity and the structure of the Member States’ economies; 6. Underlines the need to develop a ‘cost of non-cohesion policy’ methodology in order to provide additional quantifiable evidence on the European added value of cohesion policy, following the example of the work done by the European Parliament on the ‘cost of non-Europe’; The territorial dimension 7. Notes that urban areas combine, on the one hand, major growth, investment and innovation opportunities and, on the other, various environmental, economic and social challenges, inter alia because of the concentration of people and the existence of pockets of poverty, including in relatively prosperous cities; stresses, therefore, that the risk of poverty or social exclusion remains a key challenge; 8. Emphasises that efforts to consolidate the territorial dimension of cohesion policy require greater attention to be paid to peri-urban and ***rural*** problems, with reference to expertise of the local authorities and a particular focus on medium-sized towns in each Member State; 9. Stresses the importance of supporting ***rural*** areas in all their diversity, by valuing their potential, encouraging investment in projects that support local economies as well as better transport connectivity, accessibility and very high-speed broadband, and assisting those areas in meeting the challenges they face, namely ***rural*** desertification, social inclusion, lack of job opportunities, entrepreneurship incentives and affordable housing, population loss, the destruction of city-centre communities, areas without healthcare, etc; stresses, in this respect, the importance of the second pillar of the CAP in promoting sustainable ***rural*** development; 10. Calls for greater account to be taken of certain specific territorial characteristics, such as those of the regions mentioned in Article 174(3) TFEU, such as island, mountain, ***rural***, border, northernmost, coastal or peripheral regions, when investment priorities are set; underlines the importance of creating tailor-made strategies, programmes and actions for these different regions, or even exploring the possible launch of new specific agendas, following the example set by the Urban Agenda for the EU and the Pact of Amsterdam; 11. Recalls that the particular structural social and economic situation of the outermost regions justifies specific measures, including with regard to their conditions of access to the ESI Funds, in accordance with Article 349 TFEU; stresses the need to perpetuate all the derogations intended to compensate for their structural disadvantages, as well as to improve the specific measures for these regions by adjusting them whenever necessary; calls on the Commission and the Member States to take the judgment of the Court of Justice of the EU of 15 December 2015 as the basis for ensuring that Article 349 TFEU is properly applied as regards the conditions governing access to the Structural Funds; suggests in particular extending the specific allocation for the outermost regions to the social component, maintaining the current level of Union cofinancing in those regions, and better tailoring the thematic concentration; underlines the potential of outermost regions as, for example, privileged areas for the implementation of experimental projects; 12. Considers that the introduction of integrated strategies for sustainable urban development has been a success and should therefore be strengthened as well as replicated in other sub-regional territories, for example by establishing an integrated territorial approach alongside the thematic objectives, but without prejudice to thematic concentration; underlines the importance of community-led local development, strengthening the ability of cohesion policy to involve local actors; stresses the need to explore the possibility of introducing the preparation of national and regional operational programmes based on integrated territorial strategies and smart specialisation strategies; The ‘middle-income regions’: fostering resilience and preventing vulnerable territories from falling behind 13. Underlines that the ‘middle-income regions’ have not grown at the same rate as either the low-income regions (which still need to catch up with the rest of the EU) and the regions with very high income, as they face the challenge referred to as the ‘middle-income trap’, because of their excessively high costs in comparison with the former and excessively weak innovation systems in comparison with the latter; notes, moreover, that these territories are characterised by struggling manufacturing industries and by their vulnerability to the shocks caused by globalisation and the resultant socio- economic changes; 14. Is convinced that a major challenge for future cohesion policy will be to provide appropriate support to the middle-income regions, in order, inter alia, to create an investment-friendly climate, and that cohesion policy must both reduce disparities and inequalities and prevent vulnerable regions from falling behind, by taking the different trends, dynamics and circumstances into account; 15. Calls on the Commission to address the challenges faced by the middle-income regions which are characterised by a low growth rate compared to the EU average, in such a way as to promote the overall harmonious development of the Union; recalls that, in order to support these regions and offer solutions to their problems, the future cohesion policy should properly cover, support and include them in the next programming period, including through the creation and implementation of tailor-made strategies, programmes and actions; recalls, in this context, the importance of complementary ***indicators*** in addition to GDP in order to offer a more precise picture of the socio-economic conditions of these specific regions; considers that more attention should be paid to the early identification of vulnerabilities, so as to enable cohesion policy to support regions’ resilience and prevent the development of new disparities in all types of regions; 16. Welcomes the Commission’s launch of a pilot project to provide tailored support geared to the specific challenges facing regions in industrial transition; calls on the Commission to draw lessons from the pilot project, and expects to see the envisaged results as soon as possible; believes that smart specialisation strategies have the potential to offer, through a holistic approach, better support to these regions in their development strategies and, more generally, promote differentiated implementation at regional level, but could also be supported through additional cooperation and exchange of knowledge and experience among the regions; welcomes actions such as the Vanguard Initiative for using smart specialisation strategy to boost growth and industrial renewal in priority areas in the EU; 17. Stresses that social and fiscal convergence help foster cohesion while improving the functioning of the single market; takes the view that divergent practices in this area may run counter to the objective of cohesion and are liable to cause further problems for territories which are lagging behind or are the most vulnerable to globalisation, and draws attention to the continuous need for less developed regions to catch up with the rest of the Union; considers that cohesion policy could contribute to the promotion of social and fiscal convergence (alongside economic and territorial convergence) by providing positive incentives; underlines in this regard the possibility of relying, for instance, on the European Pillar of Social Rights; calls on the Commission to take better account of this aspect in the European Semester so that the social dimension of cohesion policy is better integrated with economic policy, while also properly involving local and regional authorities in order to increase the efficiency of the process and reinforce ownership of it; Fields of action 18. Supports a strong thematic concentration on a limited number of priorities linked to major European political objectives, while allowing managing authorities more flexibility in drawing up their territorial strategies on the basis of needs and potential, after inclusive local and regional consultation in the preparation of partnership agreements; stresses that employment (including youth unemployment), social inclusion, fighting poverty, supporting innovation, digitalisation, support for SMEs and start-ups, climate change, the circular economy and infrastructure should constitute priority areas for cohesion policy in future; 19. Welcomes the adoption of the European Pillar of Social Rights, which represents a step forward in building a social Europe; reiterates its commitment to the ESF as a strong integrated part of the ESI funds, and to the Youth Guarantee, the Youth Employment Initiative and the European Solidarity Corps, in view of their role in meeting the challenges of employment, economic growth, social inclusion, learning and vocational training; 20. Emphasises that future cohesion policy should focus more on protecting and supporting communities and territories adversely affected by globalisation (plant relocations, job losses) and also by similar intra-EU trends; calls for coordination between the Structural Funds and the European Globalisation Adjustment Fund in relevant cases to be explored, in order to cover, among other things, intra-EU relocations; 21. Notes that vulnerability to climate change varies widely from one region to another; considers that the ESI Funds should be used as effectively as possible to help the EU meet its commitments under the Paris Climate Agreement (COP21), e.g with reference to renewable energies, energy efficiency or exchange of good practices, in particular in the housing sector, and to take into account the UN Sustainable Development Goals; insists that funding under the solidarity instruments for use in the event of natural disasters should be made available as rapidly as is possible under the circumstances, and always in a coordinated manner; 22. Calls for the ESI Funds to be used to address, in a sustainable manner, the demographic challenges (ageing, population loss, demographic pressure, inability to attract or retain adequate human capital) which are affecting European regions in a variety of specific ways; stresses in particular the need to provide adequate support to territories such as certain outermost regions; 23. Stresses that a specific post-2020 financing mechanism must be created under Article 349 TFEU to integrate migrants in the outermost regions, which have to cope with greater migratory pressure owing to their specific characteristics, and thus contribute to their sustainable development; 24. Is of the opinion that the EU funds must respect the UN Convention on the Rights of Persons with Disabilities (UNCRPD) and should continue to foster deinstitutionalisation; 25. Stresses the potential of further investments in culture, education, heritage, youth, sport and sustainable tourism to create jobs, including in particular quality jobs for young people, as well as growth, and to improve social cohesion while also combating poverty and discrimination, which is of particular importance with respect, for example, to the outermost, ***rural*** and remote regions; supports the development of cultural and creative industries that are closely linked to innovation and creativity; Post-2020 programming framework 26. Stresses that the 7th Cohesion Report highlights the need to take account of ***indicators*** complementary to per capita GDP, which should remain the main ***indicator***, for the purpose of allocating funds and offering a more precise picture of socio-economic conditions, in line with the challenges and needs identified, including at sub-regional level; notes the importance of taking as a basis data which are of high quality, reliable, up-to-date, structured and available; requests, therefore, the Commission and Eurostat to provide the greatest detail and geographical disaggregation possible in statistics of relevance for cohesion policy so as to adequately reflect the needs of the regions in the process of programming; supports the use of social, environmental and demographic criteria, in particular the unemployment rate and the youth unemployment rate; 27. Advocates stepping up integrated approaches, and strongly emphasises that the ESF must remain an integral component of European regional policy, by virtue of its essential cohesion dimension; 28. Underlines that grants should remain the main cohesion policy funding instrument, but acknowledges that financial instruments can be an effective lever and that they should be promoted if they generate added value and on the basis of an appropriate ex ante assessment; stresses, however, that their use must not become an end in itself, that their effectiveness hinges on many factors (nature of the project, of the territory or of the risk) and that all regions, regardless of their level of development, must be free to determine the most appropriate method of financing; would oppose any binding targets for the use of financial instruments; 29. Calls for the conditions governing the use of financial instruments to be simplified and for the coordination of these instruments with grants to be facilitated with a view to complementarity, efficiency and territorial realities; emphasises the importance of administrative capacity and quality of governance, as well as of the complementary role played by national development banks and institutions in implementing financial instruments tailored to local needs; regards it as essential to harmonise the rules on financial instruments as much as possible, however they are managed; proposes, in addition to the already existing financial instruments for cohesion policy, promoting participatory financial instruments as well; 30. Believes that a link between cohesion policy and the guarantee of an environment conducive to investment, effectiveness and the proper use of funds is also helpful for the achievements of the cohesion policy objectives, while stressing that cohesion policy is not meant to be reduced to an instrument for serving priorities without reference to its objectives; stresses the need to apply the agreed position on the Stability and Growth Pact regarding flexibility for cyclical conditions, structural reforms and government investments; believes that the measures linking the effectiveness of the ESI Funds to sound economic governance, as outlined in Regulation (EU) No 1303/2013, should be carefully analysed, including through the involvement of all stakeholders; is of the opinion that the Commission should consider adjustments to how the cohesion policy and the European Semester are linked in order to strengthen the latter’s territorial and social dimension, and take account of other factors which contribute to the achievement of cohesion objectives, such as real convergence; calls on the Commission, in this context and in the framework of the European Semester, to look into regional and national cofinancing under the ESI Funds and its impact on national deficits; 31. Calls for the smart specialisation strategies to be intensified as a novel avenue to pursue investment in long-term growth potential in a context of rapid technological change and globalisation; acknowledges the usefulness of ex ante conditionalities, but stresses that in some cases they have been a source of complexity and delays in the development and launching of programming; takes note of the Court of Auditors’ observations on ex ante conditionalities in its Special Report 15/2017; calls on the Commission to consider reducing, where appropriate, the number of ex ante conditionalities and, in this field, to improve compliance with the principles of proportionality and subsidiarity, making maximum use of existing ***strategic*** documents which could fulfil future ex ante conditionalities; underlines that ex ante conditionalities should be closely related to the effectiveness of investments, while ensuring equal treatment for all Member States; 32. Notes that the quality and stability of public administration, for which good education, training and locally available advisory assistance are preconditions, remains a decisive factor for regional growth and the effectiveness of the ESI Funds; emphasises the need to improve the quality of governance, and to ensure that sufficient technical assistance is available, as these have a serious impact on the sound implementation of cohesion policy, and can vary substantially in Member States, as is especially visible in, for example, lagging regions; calls on the Commission, in particular, to evaluate the future JASPERS programme in the light of the recommendations of the European Court of Auditors; 33. Supports a shift in cohesion policy towards a greater focus on results and content, moving away from an accounting-based approach towards one which focuses on ***performance*** and allows managing authorities more flexibility as to how to achieve targets, while respecting the principles of, inter alia, partnership, transparency and accountability; 34. Considers it imperative to keep up the fight against fraud, and urges zero tolerance of corruption; A simplified cohesion policy 35. Calls on the Commission to take account of the recommendations of the High Level Group on Simplification in its future legislative proposals; 36. Stresses the need to provide a framework which guarantees legal stability through simple, clear and predictable rules, particularly as regards management and auditing, in order to ensure a proper balance between ***performance*** and simplification objectives; calls, in the next programming period, for a reduction in the volume of legislation and guidelines (with caution, so as to provide, in close cooperation with stakeholders, the necessary continuity of rules and procedures, which the interested subjects and managing authorities are familiar with); calls for the relevant documents to be translated into all the EU languages and for any retrospective application and interpretation of rules to be avoided as much as possible; calls for a unified legal framework and guidelines on cross-border projects; 37. Stresses, at the same time, the need to avoid over-regulation and to make operational programmes genuine ***strategic*** documents which are more concise and more flexible, establishing a simplified procedure for their targeted modification during programming (e.g in case of natural disasters), in order to adequately respond to changing global realities and regional demand; 38. Calls for a genuine single set of rules to be introduced for the ESI Funds, including the further harmonisation of common rules for instruments contributing to the same thematic objective; considers it necessary to streamline procurement procedures under the Funds and to accelerate state aid procedures where compliance is required; supports consistent treatment of European funds under direct management and cohesion funds where state aid is concerned in a more coherent manner, and, more generally, harmonised rules for European instruments aimed at the same beneficiaries; stresses the importance of greater complementarity between cohesion policy and the future EU research programme, in order to cover the full cycle from basic research to commercial applications; considers that thematic concentration should be preserved in order to enable synergies between different funding sources at project level; 39. Takes note of the establishment of a task force on subsidiarity and proportionality, and looks to that working group to make practical proposals to improve compliance with the two principles in the context of cohesion policy; supports ensuring the application of these principles with a view to a genuine MLG which requires appropriate empowerment for local and regional authorities as well as other stakeholders; 40. Regrets that the Commission has not come up with a more integrated evaluation of cross-cutting policies, while synergies between different European policies have not been reported; asks for ambitious strategies, financing and actions which will increase synergies with other EU funds and attract complementary financial support; stresses the need to further optimise the synergies between the ESI Funds and other instruments, including the European Fund for ***Strategic*** Investments (EFSI), as well as with the other centrally managed programmes such as Horizon 2020, which is complementary to cohesion policy in supporting research and innovation; 41. Calls for requirements in respect of the programming, implementation and monitoring of the ESI Funds in future to be based on the principles of differentiation and proportionality, grounded in transparent and fair criteria and in accordance with the amounts allocated to programmes, the risk profile, the quality of administration and the level of financing by recipients; 42. Regards it as essential that the relationship between the Commission and the managing authorities should evolve towards a ‘contract of confidence’; recalls, in this context, the importance of having an adequate and functioning MLG framework; calls on the Commission to build on the work already done in the area of sound public finance management, introducing the principle of a new label to reward managing authorities which have demonstrated their ability to comply with the rules; calls, in relation to monitoring, for greater reliance on national and regional rules where their effectiveness has been verified and validated; 43. Calls for the single audit principle to be strengthened, for the implementation of e-cohesion to be speeded up and for the use of simplified and standardised costs to be adopted across the board, since, among other things, this has proven easier to implement and has not given rise to any errors; stresses the potential of digitalisation as regards monitoring and reporting activities; is of the opinion that the exchange of expertise should be facilitated by establishing a knowledge-sharing portal to exchange good practices; 44. Calls on the Commission to put forward ideas for improving the response of cohesion policy to unforeseen events, and reiterates, in this context, its call for the creation of a reserve of a nature such as to give the regions additional flexibility without jeopardising the long-term goals of the operational programmes; Challenges and prospects 45. Is extremely concerned at the scenarios recently presented by the Commission, concerning the cuts to the cohesion policy budget that might be made under the next MFF and which would exclude many regions from the scope of cohesion policy; wishes to see an ambitious budget commensurate with the challenges facing the regions, and calls for cohesion policy not to be made an adjustment variable; points out that the coverage of all EU regions is a ‘red line’ for the European Parliament; stresses that the theory of ‘economic development clubs’ confirms the importance of differentiated support for all European regions, including regions with a very high income, which must remain competitive with their global competitors; 46. Considers that cohesion policy can help to meet new challenges, such as security or the integration of refugees under international protection; stresses, however, that cohesion policy cannot be the solution to all crises, and opposes the use of cohesion policy funds to cover short-term financing needs outside the policy’s scope, recalling that it is aimed at the socio-economic development of the EU in the medium and long term; 47. Notes the positive results of EFSI, which, however, must invest even more transparently and purposefully; stresses that cohesion policy and EFSI are based on different concepts and objectives which in certain cases can be complementary, but that one cannot be a substitute for the other, irrespective of the level of development of the regions, especially as EFSI, unlike the Structural Funds, is predominantly loan-based; recalls the importance of making an appropriate distinction between EFSI and cohesion policy, as well as identifying clear opportunities for their combination; 48. Reiterates its commitment to long-term programming; considers that the only viable alternative to the current period of seven years is an MFF period of 5+5 years, with a mid-term review; calls on the Commission to draw up a clear proposal setting out the methods for the practical implementation of a 5+5 financial framework; 49. Calls for every effort to be made to avoid delays in programming for the new period, in order to prevent late payments and decommitments which hamper positive results of cohesion policy; stresses the importance of submitting all documents relating to the future legal framework on time in all the official languages, so as to ensure fair and timely information for all beneficiaries; 50. Calls for measures to improve communication to the European citizens, thus raising public awareness of the concrete achievements of cohesion policy; calls on the Commission to enhance the role of the managing authorities and of project promoters who employ innovative local communication methods to inform people about the results of the use of the funds in the territories; emphasises the need to improve information and communication not only downstream (the ESI Funds’ achievements), but also upstream (financing possibilities), particularly in relation to small project organisers; calls on the Commission and the Member States to establish mechanisms and broad institutionalised platforms for cooperation in order to ensure better visibility and awareness-raising; 51. Notes that some European regions are particularly exposed to the impact of Brexit; stresses that the future cohesion policy must minimise the negative impact of Brexit on other European regions, and calls for detailed consideration to be given to the possibility of continuing partnerships in the context of territorial cooperation; ° ° ° 52. Instructs its President to forward this resolution to the Council and the Commission.

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EN EN EUROPEAN COMMISSION Brussels, 26.9.2017 SWD(2017) 314 final COMMISSION STAFF WORKING DOCUMENT Accompanying the document Report from the Commission to the European Parliament and to the Council Mid-term evaluation of Regulation (EU) No 652/2014 of the European Parliament and of the Council laying down provisions for the management of expenditure relating to the food chain, animal health and animal welfare, and relating to plant health and plant reproductive material, amending Council Directives 98/56/EC, 2000/29/EC and 2008/90/EC, Regulations (EC) No 178/2002, (EC) 882/2004 and (EC) No 396/2005 of the European Parliament and of the Council, Directive 2009/128/EC of the European Parliament and of the Council and Regulation (EC) No 1107/2009 of the European Parliament and of the Council and repealing Council Decisions 66/399/EEC, 76/894/EEC and 2009/470/EC {COM(2017) 546 final} {SWD(2017) 315 final} {SWD(2017) 316 final} 2 1. INTRODUCTION The European Commission provides financial support to a number of measures within the food chain policy, aimed to contribute to a high level of health for humans, animals and plants. The provisions for the management of this expenditure are laid down in Regulation (EU) No 652/2014 of the European Parliament and of the Council of 15 May 2014. In particular, it covers the spending for food chain, animal health and animal welfare, plant health and plant reproductive material.

It entered into force at the end of June 2014 and established a Common Financial Framework (CFF) for all these areas (hereinafter: the 'CFF Regulation'). Article 42 of the Regulation provides that the Commission establishes and presents to the European Parliament and to the Council a mid-term evaluation report by 30 June 2017. The Commission Report shall assess whether, in terms of their results and impacts, the measures referred to in Chapters I and II of Title II (respectively, animal health and plant health measures) and in Articles 30 and 31 of Chapter III (respectively, European Union Reference laboratories and training activities) of the Regulation achieve the objectives set out in Article 2(1), as regards the efficiency of the use of resources and its added value, at Union level. The Report shall address the scope for simplification, the continued relevance of all objectives, and the contribution of the measures to the Union priorities of smart, sustainable and inclusive growth. It shall also take into account results on the long-term impact of the predecessor measures. The present Staff Working Document (SWD) summarises the outcome of the mid-term evaluation based on the results of a study conducted by an external contractor and on an internal assessment performed by the Commission. The mid-term evaluation fully covers the implementation of the above-referred measures for 2014, 2015 and partially 2016, dependant on preliminary data available. It also takes into account results on the long-term impact of the predecessor measures. It provides a qualitative and quantitative overview of the measures implemented under the CFF Regulation, and assesses them against the five evaluation criteria set by the Better Regulation1 policies in the European Commission: relevance, European added value, effectiveness, efficiency and coherence. The assessment of the sectorial policies under which the financed measures fall are not in the scope of this evaluation. 2. BACKGROUND 2.1 The CFF Regulation In line with the Communication 'A Budget for Europe 2020'2, the CFF Regulation was envisaged in order to improve the functioning of the activities implemented within this area, as well as to focus on EU funding priorities providing real added value. In this view, it aimed 1 [*https://ec.europa.eu/info/law/law-making-process/better-regulation-why-and-how\_en*](https://ec.europa.eu/info/law/law-making-process/better-regulation-why-and-how_en) 2   [*http://ec.europa.eu/budget/library/biblio/documents/fin\_fwk1420/MFF\_COM-2011-500\_Part\_I\_en.pdf*](http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_I_en.pdf) 3 at modernising and rationalising the pre-existing financial provisions, providing a simplified financial framework covering the whole food safety area. Most of the spending measures covered by the CFF Regulation used to receive EU financial support under the previous legislation, notably: - in the veterinary area: eradication, control and surveillance programmes (hereinafter: 'veterinary programmes') implemented by the Member States, which are aimed to progressively eliminate animal diseases and zoonoses and to implement disease control measures; and the veterinary emergency measures, which are aimed to timely cope with emergency situations related to animal health: before the entry into force of the CFF, those activities were covered by the so-called 'veterinary fund', namely Council Decision 2009/470/EC; - in the phytosanitary area: emergency measures to timely cope with emergency situations related to plant health, while preventing further spread and introduction into the Union territory; prior to the CFF Regulation, they were co-financed under Directive 2000/29/EC; - in the area of official controls: the European Union Reference Laboratories (EURLs) activities, which are aimed to ensure high-quality, uniform testing in the EU and to support the Commission activities on risk management and risk assessment in the area of laboratory analysis; and the Better Training for Safer Food (BTSF) programme, which is a training initiative addressing national authority staff involved in official controls in the areas of food and feed law, animal health and welfare and plant health rules: before the CFF they received financial support under Regulation (EC) No 882/2004. Since the entry into force of the CFF Regulation, all the spending activities listed above have their financial provisions under a single framework, with harmonised procedures, standardised rates, clarified eligible costs and measures. From the operational point of view, they are being implemented in full continuity with the predecessor measures. The CFF Regulation introduced new measures in the phytosanitary area, namely the possibility to co-finance the implementation of survey programmes concerning the presence of pests in the Union territory. They consist of surveillance measures allowing preventing the introduction into the EU or the spread within the EU of harmful organism. 2.2 Objectives of the CFF Regulation The general policy objective of the CFF Regulation is to contribute to a high level of health for humans, animals and plants along the food chain and in related areas, by preventing and eradicating diseases and pests and by ensuring a high level of protection for consumers and the environment, while enhancing the competitiveness of the Union food and feed industry and favouring the creation of jobs. This general objective is crystallised into four specific objectives, one for each of the four spending areas covered by the regulation itself, namely: food safety, animal health and welfare, plant health, official controls. 4 The specific objectives are accompanied by a number of specific ***indicators***, also set out in the CFF Regulation itself, which provides a preliminary basis to conduct a sectorial evaluation of the measures implemented under each of the four covered spending areas. Following to the adoption of the CFF Regulation, those specific ***indicators*** were further translated by the DG SANTE policy units concerned into 21 operational technical ***indicators*** (listed in Annex VI), which were used in the context of the present evaluation. The CFF general objective, specific objectives, and specific ***indicators*** are shown in the table below: Table 1. CFF objectives and ***indicators*** General objective To contribute to a high level of health for humans, animals and plants along the food chain and in related areas, by preventing and eradicating diseases and pests and by ensuring a high level of protection for consumers and the environment, while enhancing the competitiveness of the Union food and feed industry and favouring the creation of jobs Specific objectives Food safety: to contribute to a high level of safety of food and food production systems and of other products which may affect the safety of food, while improving the sustainability of food production Animal health and welfare: to contribute to achieving a higher animal health status for the Union and to support the improvement of the welfare of animals Plant health: to contribute to the timely detection of pests and their eradication where those pests have entered the Union Official controls and other activities: to contribute to improving the effectiveness, efficiency and reliability of official controls and other activities carried out with a view to the effective implementation of and compliance with the Union rules (referred to in Article 1) 5 Specific ***indicators*** A reduction in the number of cases of diseases in humans in the Union which are linked to food safety or zoonoses An increase in the number of Member States or their regions which are free from animal diseases in respect of which a financial contribution is granted An overall reduction of disease parameters such as incidence, prevalence and number of outbreaks The coverage of the Union territory by surveys for pests, in particular for pests not known to occur in the Union territory and pests considered to be most dangerous for the Union territory The time and success rate for the eradication of those pests A favourable trend in the results of controls in particular areas of concern carried out and reported on by Commission experts in the Member States To achieve the objectives, the EU funding under the CFF Regulation addresses problems related to three major categories of needs in this area, namely the demands for:  increased protection, by preventing risks which might affect animals, plants or any step of the food chain;  proper and timely reaction in case of crisis, by extinguishing the emergency factor or containing its spread;  healthier animals and plants, and safer food, by eliminating diseases and pests which affect the EU Member States. The implementation of the CFF activities is articulated in several levels of ***intervention***, and the specific actions implemented vary depending on the degree of presence of the disease or pest concerned in the EU territory. If a disease or a pest is not present in the EU or in a Member State, but there is a risk that it could enter its territory, a number prevention measures are put in place to avoid its introduction. Particularly, these measures concern the so-called 'trans-boundary' diseases or pests, which are able to spread and transmit regardless of any geographical barrier. They mainly consist in the funding of monitoring activities to be conducted in a buffer zone in neighbouring third countries or regions. In addition, for some ***strategic*** animal diseases, a vaccine stock ('vaccine bank') is also established at EU level, to be immediately used in case of emergency situations. If a certain disease or pest is more likely to enter or has already entered the EU or a Member State, surveillance activities are put in place to, respectively, timely detect its introduction or assess its epidemiological evolution since the initial stages. The early detection is of fundamental importance especially in the case of certain animal diseases and plant which, 6 once entered, may have a potential devastating effect on animal and crop production and on public health. In case an outbreak occurs, early reaction measures are immediately implemented to prevent the spread of the disease or the pest, and to extinguish the outbreak in a short time, in order to minimize the impact on, for instance, plant and animal production and trade. These emergency ***interventions*** include felling of infected trees and phytosanitary treatments, culling of infected animals or, when possible, emergency vaccination, accompanied by movement restrictions. When an animal disease or a plant pest is endemic or detected in the Union territory, a number of cure activities are put in place to progressively eliminate it from the concerned area and prevent its further spread. Particularly, they consist in medium- or long-term eradication programmes implemented by the Member States, with a consequent positive impact for the Union as whole in terms of on public health, animal or plant productions, internal market and trade. The comprehensive set of measures described above, implemented by the Member States, is complemented by the funding of additional activities aimed to enhance the safety of EU food products in the interest of all European citizens. Particularly, financial support is given for the EU Reference Laboratories (EURLs), which ensures high-quality and uniform testing in the EU, and provides trainings to hundreds of National Reference Laboratories (NRL) in a number of food safety priority areas. Another main element of the EU co-financing for food safety is the initiative 'Better Training for Safer Food', aimed at training every year some 7000 officials of national competent authorities involved in official controls. 3. METHOD The basis for the evaluation was set up in the evaluation roadmap3. The evaluation was supported by an Interservice Steering Group, which oversaw the whole evaluation exercise. The evaluation focuses on the first three years of implementation of the CFF Regulation, fully assessing 2014 and 2015 and only partially 2016, based on preliminary data available. As requested by Article 42 of the CFF Regulation, the following domains were addressed:  Animal health: o Emergency measures. o Programmes for eradication, control and surveillance of animal diseases and zoonosis (hereinafter: veterinary programmes), where:  Eradication programmes aim to result in biological extinction of an animal disease or zoonosis. The final target of an eradication programme shall be to obtain the free or officially free-status of the territory according to Union legislation, where such possibility exists.  Control programmes aim to obtain or maintain the prevalence of an animal disease or zoonosis below a sanitary acceptable level. 3   [*http://ec.europa.eu/smart-regulation/roadmaps/index\_en.htm*](http://ec.europa.eu/smart-regulation/roadmaps/index_en.htm) 7  Surveillance programmes refer to activities to collect and record data on specific diseases in defined populations over a period of time, in order to assess the epidemiological evolution of the diseases and the ability to take targeted measures for control and eradication.  Plant health: o Emergency measures. o Survey programmes concerning presence of pests.  Official controls and other activities: o European Union Reference laboratories. o Training (Better training for Safer Food Initiative). The above-listed spending measures were firstly assessed using the set of 21 operational technical ***indicators*** previously developed and monitored at level, which were shared with the contractor at the very initial stages of the external study supporting the evaluation. The qualitative and quantitative description of those measures was complemented with the gathering of data, which was undertaken in a stepwise approach using the following sources:  Data sources of the Commission:  financial data (e.g budget implementation), technical data (e.g operational ***indicators***); annual financial and technical reports covering animal and plant health, implementation of emergency measures by Member States, EURLs and BTSF.  ***indicators*** on e.g trade, animal population;  Literature review: studies, evaluations, conducted either independently or on behalf of the Commission on CFF-related topics;  Stakeholder consultation, consisting of: ▪ Open public consultation: questionnaire published in English during 12 weeks on the European Commission ‘Public consultations’ website that received 5 responses ▪ Targeted stakeholder consultation with specific questionnaires for: o Competent authorities, stakeholders linked to the industry (including farmers' organisations, veterinary organisations), EU and national associations, international organisations and NGOs. o EU Reference Laboratories o Better Training for Safer Food initiative ▪ In-depth stakeholder interviews: addressing representatives of the European Commission, and other selected stakeholders (Competent authorities, industry representatives, NGOs) in a number of Member States. The aim of the interviews was to identify achievements, good practices, problems and challenges regarding implementation of the CFF Regulation. The main purpose of the interviews was to fill information gaps and check information retrieved from other sources for triangulation.  Case studies: covering a significant selection of animal diseases and plant pests; based on the assessment of the results from the desk study and questionnaires, several stakeholders were identified to be interviewed for the case studies. All relevant stakeholders group were reached by the consultation procedure, and most individual stakeholder contacted cooperated in the exercise. 8 The final report of the external study supporting the evaluation provides an overview of the measures implemented over the three-year period 2014-2016. There are however a number of issues to consider when assessing the strengths of the evidence base used for this study, specifically linked to the limited time available to undertake the evaluation:  The mid-term evaluation exercise started in the second half of 2016, where complete technical and financial data were only available for the first two years of implementation of the CFF Regulation.  A number of transitory measures applied during both 2014 and 2015, while the provisions laid down in the CFF Regulation are fully applicable only from 2016.  The mid-term evaluation has considered the long-term impact of predecessor measures except in the phytosanitary area, notably for the survey programmes which were firstly implemented in the framework of the CFF Regulation. Moreover, no cost-effectiveness analysis has been developed so far in the CFF area. Whilst a methodological approach to conduct this kind of economic analysis was expected to be delivered in the context of the external study, the task was not investigated as requested. Therefore, a significant instrument to perform the evaluation is missing. These shortcomings have objectively limited the external analysis, which is mostly descriptive and largely based on the opinions of the stakeholders and on the perceptions of the beneficiaries of the CFF financial support. It does not include an in-depth investigation of the causal effects behind the results and impacts achieved by the implementation of the CFF Regulation. The overall evaluation exercise is nevertheless complemented by the internal assessment conducted at EU level, which largely relies on the continuous analysis performed at policy, technical and financial level by the Commission services, including the constant dialogue with all CFF beneficiaries for both scientific and budgetary aspects. The monitoring of the operational technical ***indicators***' values was particularly useful in the context of this evaluation: even if they do not provide cost-effectiveness results, those ***indicators*** allow evaluating the achievements and/or the ***performance*** of the major activities implemented thanks to the EU funding in the areas covered by the CFF. 4. IMPLEMENTATION STATE OF PLAY The CFF has a maximum total ceiling for expenditure of EUR 1 891 936 0004 over the seven-year period 2014–2020. Table 2 below shows the amounts committed during the period under evaluation, which were substantially in line with the forecasted budget. For the concerned years, it was sufficient to cover the different needs, thanks to the good results achieved in the four spending areas; the positive trend mainly concerned the animal health field, especially eradication programmes, where the successful implementation of long-term measures led to the progressive reduction of the related spending, and veterinary emergency measures, whose ad hoc system of early detection and ***intervention*** allowed to timely extinguish or contain the outbreaks occurred in the period under evaluation, therefore limiting the associated costs. 4 In current prices 9 Table 2. Commitments for 2014, 2015 and 2016 CFF activities The main direct beneficiaries of the EU financial contribution made under the CFF are the competent authorities in the Member States, which receive a compensation for the eligible costs incurred to carry out the eligible measures. Both the eligible measures and the eligible costs are listed in the CFF Regulation. The Union financial contribution mostly takes the form of grants (the only exception being the voluntary payments to international organizations), with a basic reimbursement of no more than 50% of the eligible costs; under specific conditions, the applicable rate can be increased to 75% or 100%. 4.1 Animal health The CFF Regulation contribution for animal health covers the implementation of veterinary programmes, which are aimed to implement eradication, control or surveillance activities for animal diseases and zoonoses, and of veterinary emergency measures, carried out to timely intervene in the occurrence of outbreaks or epidemics affecting animals. The diseases eligible for EU financial contribution under veterinary emergency measures and programmes are listed, respectively, in Annex I and in Annex II to the CFF Regulation. The eligible costs (including, for example, the costs of animals slaughtering/culling and the vaccination costs) are also listed in specific articles of the Regulation. Annex III to the CFF Regulation lists the priorities for Union financial support as regards the orientation of veterinary programmes: based on these priorities for funding, and on the annual evaluation of the epidemiological situation and of the most immediate risks identified, 10 out of the 25 diseases listed in Annex II to the CFF Regulation have been identified as priority diseases for the period 2014-20165. Payments for veterinary programmes alone make up almost three quarters of the expenditure under the EU food chain budget. For the 2014 and 2015 programmes, it amounted to, respectively, EUR 136.22 and EUR 147.90 million. 5 African swine fever; avian influenza in poultry and wild birds; classical swine fever; rabies; bovine brucellosis; ovine and caprine brucellosis; transmissible spongiform encephalopathies; zoonotic Salmonella; bovine tuberculosis; bluetongue in endemic or high risk areas. 2014 2015 2016 Veterinary programmes and vaccines 172.356.231 164.017.000 161.553.100 Plant health survey programmes 205.500 7.585.000 11.375.400 Animal health and plant health emergency measures 12.662.896 16.111.611 27.376.398 EURLs 15.001.000 15.500.000 16.000.000 BTSF 14.885.000 14.685.000 15.365.000 Total 215.110.627 217.898.611 231.669.898 Forecast budget (in million euro) 253,4 258,5 261,0 10 Over the period considered, the programmes addressing five diseases, namely bovine tuberculosis, TSE/BSE/scrapie, rabies eradication, salmonella, and ovine & caprine brucellosis, represented between 84% and 90 % of the payments for veterinary programmes. The MSs with the highest co-funding of animal health programmes are UK, Spain, Italy, Ireland and Poland. The amounts strongly depend on the type of disease addressed, on the specific measures co-financed and on the epidemiological situation in the Member States concerned. If the total spending for veterinary programmes is consistent, payments for animal health emergency measures are volatile, depending on the changes in the epidemiological situation over the years. For the measures implemented in 2014 and 2015, they amounted to, respectively, EUR 7.67 and EUR 11.76 million. During the period considered, about 50% of the budget has gone to emergency payments for avian influenza, followed by African swine fever (17%) and bluetongue surveillance (14%). 4.2 Plant health The CFF Regulation contribution for plant health covers the implementation of survey programmes, which are aimed to support early detection of pests in the EU territory, and implement phytosanitary emergency measures in case of outbreaks. The list of pests eligible for EU co-financing under the survey programmes includes hundreds of harmful organisms, which are subject to an annual prioritisation. This list is not integrated in the CFF Regulation, but laid down in the specific plant health legislation. Survey programme were first established and co-financed in 2015, with 17 EU countries presenting a programme in 2015 and 22 in 2016. Payments for 2015 survey amounted to EUR 4.2 million, (payment for 2016 will be finalised by end of 2017). The implementation of phytosanitary emergency measures are instead developed for a limited number of pests which deserve a more targeted control strategy in order to prevent further spread and introduction into the rest of the Union territory. Among other pests, emergency measures have been developed so far for Xylella fastidiosa, Bursaphelenchus xylophilus (so called:'Pinewood nematode') Anoplophora chinensis and Anoplophora glabripennis, Pomacea, Epitrix spp., whose further spread into the Union territory can cause unacceptable social, environmental and economic consequences. The objective of eradication of plant pests remains a complex objective to achieve due to lack of effective treatment solutions, the high number of susceptible plant species, population dynamics and lifecycle of pests and their vectors present in forests, parks and plantations with high economic, social and environmental value. Very few experience has proven that eradication is possible only if decisive measures are put immediately in place. This was the case in two out of four outbreaks of Pinewood nematode in Spain, two outbreaks of Anoplophora chinensis in Denmark and in The Netherlands and two outbreaks of Anoplophora glabripennis in Germany and in The Netherlands. However, when the pest is considered to be established in a certain territory and eradication is no longer feasible, containment measures may still provide sufficient guarantees 11 to prevent further spread of the pests in the Union territory. In this respect, for example, the EU financial support has allowed to successfully containing Pinewood nematode in Portugal since 1999, minimising the risk of further spread to neighbouring Member States, while preserving the functioning of the internal market. Similarly to the animal health area, although very limited in scale, the amount paid in plant health for emergency measures varies substantially between years. For the measures implemented in 2014 and 2015, payments amounted to EUR 7.2 and EUR 0.9 million, respectively. In the period considered, as far as emergency measures are concerned, three pests alone, namely Bursaphelenchus xylophilus, Anoplophora glabripennis and Pomacea insularum, were responsible for almost all payments (91%) for plant health emergency measures. 4.3 Official controls The main spending measures carried out under the official controls area consist of the activities performed by the EU Reference laboratories, the implementation of the BTSF programme. EU Reference Laboratories (EURLs) activities are financed at 100% by the EU food chain budget, and are aimed to ensure high-quality and uniform testing in the EU, and to provide trainings to hundreds of National Reference Laboratories (NRL) in a number of food safety priority areas. This ensures that the regulatory framework is applied in a consistent way as regards laboratory analysis and compliance testing used in the context of official control.. Annual payments for EURLs have been increasing over the last years, from EUR 14,01 million for 2014 activities to EUR 14,46 million for 2015 and EUR 16 million for 20166. The 'Better Training for Safer Food' initiative is also financed at 100% by the EU budget, and consists of a training programme aimed to prepare national staff from both EU Member States and third countries in all areas covered by the CFF Regulation. The BTSF training programme has covered, for the three years considered, 52 topics of key importance for the CFF areas, such as: foodborne outbreak investigations, African swine fever outbreaks management. This initiative has trained every year some 7000 officials of competent authorities involved in official controls, promoting a common approach towards the implementation of EU legislation. Annual expenditure for BTSF activities amounted to EUR 15 million for 2014 trainings and to EUR 14,5 million for 2015 trainings. 5. ANSWERS TO EVALUATION QUESTIONS The mid-term evaluation assessed the relevance, efficiency, effectiveness, coherence and EU added value of the CFF Regulation, answering to the twelve evaluation questions addressed in respect to these five evaluation criteria. 6 Provisional data 12 5.1 Relevance To measure the relevance, questions were asked about the extent to which the objectives of the CFF Regulation are still valid and in accordance with food chain needs in Europe, and on whether new relevant needs have emerged since the adoption of the Regulation itself. EQ1. To what extent are the CFF objectives still valid and in accordance with food chain needs in the EU?’ The specific objectives set out in the CFF Regulation are mostly valid, and the EU financial supports towards their achievement continue providing a response to the specific EU needs in this field. In the animal health area, the contribution to a higher animal health status remains the overarching goal, which is being attained through the implementation of both emergency measures and veterinary programmes. Outbreaks of diseases having a high potential impact on human and animal health, as well as from the economic and social points of view, occur every year. As the number of outbreaks and their impact vary substantially between years, it is necessary to keep emergency funding at EU level, with financial resources specifically and immediately available to address crisis events, to ensure a rapid and comprehensive response in those cases. The CFF has also the facility to take action against new emerging diseases (such as LSD), therefore adapting to new needs. Veterinary programmes also remain a funding priority for the achievement of the relevant CFF objectives, especially eradication activities, in the light of the long-term impact of their implementation. Those programmes proved to be successful in most cases, and many of them, such as the programme addressing rabies, can be wound down in the near future due to complete eradication. As concerns plant health, the objective of the timely detection of pests and their eradication once they have entered the Union remains the key priority for the Union. However, very few experience has proved that eradication of plant pests is achievable and only in case effective measures are implemented at the very earliest stages of the outbreak (Eradication has been successful only in few cases: two out of four outbreaks of Pinewood nematode in Spain; two outbreaks of Anoplophora chinensis in Denmark and in The Netherlands; two outbreaks of Anoplophora glabripennis in Germany and in The Netherlands. Vice-versa, Member States have been able to successfully contain or minimise the risk of further the spread of some pests into the rest of the Union territory (e.g Pomacea in Spain, Pinewood nematode in Portugal). The contribution to the timely detection and to the implementation of strict emergency measures through EU funding is increasingly relevant, particularly when those activities are combined with surveillance programmes to check the presence of harmful organisms. The complementary activities carried out by the EURLs and in the context of the BTSF programme have been contributing to the effective implementation of and compliance with the Union rules in this area7. In fact, such activities - from the tests carried out by the laboratories to the trainings addressing national officials - have supported a uniform 7 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), pages 92-93 13 implementation of controls throughout the EU and to a common understanding across Member States of their obligations and how to best enforce relevant EU legislation.8 Their importance remains ***strategic*** within the overall food chain system, where a major objective is still the improvement of the effectiveness, efficiency and reliability of official controls. The validity

of the horizontal food safety objective is to be framed within the overall implementation of the CFF Regulation, considering that its achievement results from the combination of all sectorial measures financially supported by the CFF. Animal health, plant health, and official control activities all contribute to having a high level of safety of food and of food production systems, in the interest of all EU citizens. The safety of food requires safe and healthy animals, plants and a high-standard system of controls. The European ***agricultural*** productions are globally appreciated for their quality as well as for their high-level safety standards, making the EU agri-food industry the largest manufacturing sector in Europe and a leading player worldwide. In this context, the EU food safety budget plays an important role in supporting the specific measures contributing to achieve this objective9. EQ2. Are the needs identified at the time of the adoption of the CFF still relevant or have new needs emerged which necessitate an adjustment of the Regulation?’ The general food chain needs identified at the start of the CFF are still relevant, as they mainly consist of either long-term or permanent issues which have been successfully addressed thanks to the EU financial contribution. Being situated under the Commission's priority on security and citizenship, the CFF has to be seen within the context of protection of the EU's productions, its industry, as well as each single citizen. This need translates into the food safety policy, which is primarily aimed at protecting human, animal and plant health in the EU. Protection is a solid concept in this policy area: the principle 'prevention is better than cure' has been the leading thread since the launch of the EU animal health strategy (AHS), ten years ago, then embraced in the plant health area too. The strengthening of the protective approach is closely related to the continuous enhancement of the crisis preparedness system, which has been a pillar of the EU food safety system for a long time. It consists of a number of measures put in place in view of either avoiding or minimising the sanitary and economic impact of possible future crises, depending on the severity of the situation. The early detection is of fundamental importance especially in the case of certain animal diseases and plant pests which, once entered, may have a potential devastating effect on animal and crop/forests production and on public health. Thanks to early detection and to immediate application of EU co-funded emergency measures the EU has experienced no large-scale food safety crises for almost ten years, and all outbreaks have been successfully contained. Three year after the entry into force of the CFF Regulation, all the above mentioned needs remain fully relevant, and the EU financial ***intervention*** to ensure they are adequately covered has to be confirmed, in the interest of all European citizens. 8 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 113 9 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 96 14 Still, thematic priorities are discussed every year and adjusted to the epidemiological situation which is actually prevailing in the context of the annually approved Commission work programmes: aspects such as the impact on human health, and the potential to generate serious economic consequences are taken into consideration. In this respect, the CFF has shown the flexibility to integrate these needs into the current arrangements, with no need to make adjustment in the general provisions laid down in the legal basis. Besides the prioritization of animal diseases and plant pests, new specific needs have emerged during the very last years, particularly related to the occurrence of new diseases or pests or to their unexpected development. The evolution of diseases such as Peste des Petits Ruminants, LSD and Sheep Pox diseases, for example, which were previously addresses by emergency measures only, has required a more structured support at EU level through the implementation of veterinary programmes; the specific list of eligible diseases was integrated accordingly in 2016, and those programmes will be implemented in the Member States concerned from 2018. This new needs implied specific adjustments in the area of official controls too, where additional EURLs were created in 2016 for each of the three animal diseases mentioned above. The BTSF initiative has also proven flexibility to respond to new needs, notably during crisis events, when it has contributed to both prevention and crises-preparedness. A concrete example is the BTSF training organised in response to the African Swine Fever or to the plant bacterium Xylella fastidiosa emergency, as well as the training on foodborne outbreak investigations, which was organised during the three years considered and focused on subjects such as outbreak preparedness, outbreak management, and crisis communication, addressing national teams of public health, veterinary and phytosanitary experts and food safety authorities. 5.2 Effectiveness Effectiveness had questions on the extent to which the general and specific CFF objectives were achieved and on the impact of the CFF measures implemented. EQ5. “To which extent have the specific objectives been attained by the CFF? Which factors influenced the results achieved?” The implementation of veterinary measures represents the largest part of the expenditure under the CFF budget, with the veterinary programmes alone exceeding 75% of the total spending in the three years under evaluation. This budgetary relevance is also reflected in the fact that 12 out of the 21 technical ***indicators*** monitored in this context relate to this spending area.10 The chosen ***indicators*** focus on the priority animal diseases and zoonoses; they allow to monitor the geographical evolution of the EU areas which are free from specific animal diseases, and to measure technical parameters such as the prevalence, the incidence and the number of cases. The analysis of these ***indicators*** for the period 2014-2016 reveals a positive epidemiological trend for all priority diseases receiving EU financial support under the veterinary programmes, with a growing number of Member States or regions becoming free 10 See Annex 4 15 from animal diseases, and an overall reduction in all monitored parameters. A good example is the increased number of Member States free from bovine brucellosis: at the end of 2016, two out of the five Member States having a EU co-funded programme during the period considered, became free of this diseases; in the remaining three Member States, the main ***performance*** ***indicator***, monitoring the evolution of herd prevalence, has decreased by 25% over the same period, showing a very positive trend towards the complete eradication of the disease. Among the most remarkable successes, the eradication of several diseases in many Member States, as in the case of Bovine Spongiform Encephalopathy (BSE) in cattle, a disease transmissible to humans from the consumption of contaminated beef products. The long-term EU co-financed measures led to a drop in BSE cases from more than 2000 in 2001 to only 2 cases in 2016.11 The EU response to the BSE crises restored consumer confidence: beef consumption had dropped by up to 40% in late 2000, forcing prices steeply downward and requiring huge expenditure on market support measures at EU level.12 Another significant example is represented by the EU programmes addressing Rabies: this disease has been almost eradicated in the EU in wildlife (complete eradication is expected by 2020) and the number of cases has fallen from 80 in 2014 to only 18 in 201613, hugely reducing a significant risk to health and enabling free movement of cats and dogs within the EU. Considering a period longer than the evaluation timeframe, another success as well as the reduction of cases of human salmonellosis, dropped by 10% from 2010 to 2015 (latest available data). However, it should be noted that there are still some areas where the situation has not improved as expected, such as the cases of bovine tuberculosis (in 1 Member State out of the 5 with a EU co-funded programme) and ovine and caprine brucellosis (in 1 Member State and in a few regions of another Member State out of 6 with EU co-funded programmes). The implementation of emergency measures in the occurrence of veterinary disease outbreaks also plays a key role in achieving a higher animal health status in the EU, as well as to protect the EU economy from a serious and large-scale veterinary crisis. Thanks to early detection and to immediate application of EU co-funded emergency measures, all recent epidemics have been successfully contained, and major economic consequences - such as trade restrictions and the block of exports - have been avoided. A recent example is the fight against the epidemic of LSD. In 2016, this disease affected seven countries in the South East Europe, including Greece, Bulgaria and the Balkan region. All these countries resorted to mass vaccination with the support of a EU LSD vaccine bank, which was set up before the occurrence of the disease in the Union territory to be immediately used in case of emergency. This vaccination campaign resulted in the successful containment of the spread of the disease: no further Member States were affected, and the disease has not reoccurred in the vaccinated area. While the EU financial support for the implementation of plant health emergency measures has been provided for many years, the funding of plant health surveys programmes is still at an initial phase. Even if the EU Members States have welcomed their introduction through the 11 Data source: Annual technical reports provided by Member States 12 [*http://www.veterinaria.org/revistas/vetenfinf/bse/14Atkinson.html*](http://www.veterinaria.org/revistas/vetenfinf/bse/14Atkinson.html) 13 Data source: Annual technical reports provided by Member States 16 CFF Regulation, their evaluation remains complicated due to the extremely limited timeframe available and the absence of predecessor measures. To follow up the presence of pests into the Union territory and the results obtained as effect of the implementation of phytosanitary emergency measures, the Commission monitors the number of cases for a selection of priority pests, including some devastating plant bacterium such as the Xylella fastidiosa. The achievement of the eradication objective is more complicated than in the animal health area, as in most cases eradication of plant pests is not feasible, due to population dynamics and lifecycle of pests and their vectors present in forests, parks and plantations. However, in cases eradication is not considered a feasible option, a containment approach is still an effective approach in order to prevent further spread of the pest into the rest of the Union territory. This is the case, instead, for the Pinewood Nematode, detected in 1999 in Portugal, where EU financial support is in place to finally contain, since 2014, its further spread to neighbouring Member States.14 A similar situation concerns Xylella fastidiosa, which has affected the olives in a restricted part of an Italian region: in this case too, the implementation of a number of protective measures has led to the successful containment of this pest in a specific part of Apulia region.15 The EU financial support to the official controls system addresses two major instruments, and covers 100% of the eligible costs incurred: the testing activities carried out by the network of 43 EURLs, and the trainings provided in a number of food safety priority areas by both the EURLs, and in the context of the BTSF initiative. Four operational ***indicators*** have been developed to monitor their contribution to ensuring the effective implementation of and the compliance with the Union rules in the areas covered by the CFF. The EURLs have contributed, inter-alia, to the continuous update of diagnostic tools for the timely identification of pathogens. This is critical to uniform implementation of controls throughout the EU as it ensures confidence in the reliability of test results and a level competitive playing field. An average success rate of 85% by the participating laboratories in the proficiency tests performed by the EURLs network shows the successful application of testing methods of reference laboratories throughout the EU. Through continuous training, with an annual workshop organised by each EURL, National Reference Laboratories (NRLs) involved in the official controls system could upgrade their expertise. The average satisfaction rate of participants, as regards the training contents, was above 87%. The BTSF training initiative has covered, for the three years considered, 52 topics of key importance for the CFF areas. The programme was considered to be satisfactory by the participants, in both the EU Member States and in third countries, with a satisfaction rate above 90% for all years considered. Also the success rate of the tests performed by the participants after the training is very high, at about 88%. The trainings have provided support to a common understanding across Member States of their obligations and how best to enforce relevant EU legislation. The BTSF programme was considered the by Member State competent authorities to be helpful in responding to new needs, notably during crisis events, 14   [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02012D0535-20170310*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02012D0535-20170310) 15   [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02015D0789-20160514*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02015D0789-20160514)   [*https://ec.europa.eu/food/plant/plant\_health\_biosecurity/legislation/emergency\_measures/xylella-fastidiosa/latest-developments\_en*](https://ec.europa.eu/food/plant/plant_health_biosecurity/legislation/emergency_measures/xylella-fastidiosa/latest-developments_en) 17 when it contributed to both prevention and crises-preparedness.16 A concrete example is the BTSF training on foodborne outbreak investigations, which was organised during all three years considered and focused on subjects such as outbreak preparedness, outbreak management, and crisis communication, addressing national teams of public health, veterinary and food safety authorities.17 A particularly appreciated BTSF training on plant health was also organised for the plant bacterium Xylella fastidiosa together with EU Member States and Mediterranean non-EU Member States with the aim to transfer knowledge on prevention activities, early detection, management and control of outbreaks. The achievement of the food safety objective needs to be presented from an integrated perspective, being a horizontal goal resulting from the combination of all measures described above. Animal health, plant health, and official control activities all contribute to having a high level of safety of food and of food production systems, in the interest of all EU citizens. The safety of food requires safe and healthy animals, plants and a high-standard system of controls. There is therefore a direct and binding link with the achievement of a high level of animal health, plant health and official controls to meet this requirement. The main factors influencing the overall achievement of the CFF objectives relates to both financial and technical aspects. Budget limitations in some Members States, especially those struggling with economic crisis or other constraints, may limit or delay the implementation of measures necessary to contain the outbreak of a disease. Therefore, the EU financial contribution supports the EU crisis-management system in the event of an outbreak. The Union coordination also facilitates the process of prioritisation, which would be extremely difficult to address at individual Member States level. The key importance of the EU governance in the veterinary area is confirmed by a ***performance*** audit conducted by the Court of Auditors18, whose report was published in April 2016. The Report also acknowledged the good design and proper implementation of animal health programmes co-financed at EU level, highlighting that both the Commission and the Member States performed particularly well in this framework. A third major factor, which also complements the EU coordination in the CFF area, is the continuous and strict dialogue between the Commission and the Member States, from the design of the measures to their actual implementation. This cooperation takes place in institutional fora, like the Standing Committee on Plants, Animals, Food and Feed or ad hoc working groups, but also through the constant informal communication between the commission' services and the national competent authorities. A concrete example of the contribution of the three horizontal aspects mentioned above to the achievement of the CFF objectives is the EU crisis-preparedness and management system in the event of an outbreak. When a disease is suspected or confirmed, a number of prevention and control actions are immediately put in place under to address the emergency measures, including the temporary closing of borders and the regionalisation of the disease. For the covered diseases (namely Foot-and-Mouth disease (FMD), Classical Swine Fever (CSF) and 16 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 76 17 Better Training for safer Food Annual Reports 2014 and 2015 18   [*http://www.eca.europa.eu/Lists/ECADocuments/SR16\_06/SR\_ANIMAL\_DISEASES\_EN.pdf*](http://www.eca.europa.eu/Lists/ECADocuments/SR16_06/SR_ANIMAL_DISEASES_EN.pdf) 18 LSD), a EU vaccine bank is also available and accessible to all Member States, with an emergency stock of vaccines to be immediately used in the areas affected or at risk. The functioning of such ***intervention*** system requires a central level of management and coordination of activities between the Member States, complemented by a strict cooperation of those member States with the European Commission, but also the commitment of significant financial resources that would not be possible without the EU budget support. EQ6. What has been the impact achieved by EU financial support in terms of food safety, animal health, plant health and official controls? The CFF Regulation has provided financial support to the measures addressing the achievement of the specific objectives in this area, namely the overall improvement of the animal and plant health status in the EU, as well as of food safety and public health. As illustrated by the evolution of the technical aspects monitored through the operational ***indicators***, as illustrated in the previous section, positive progress have been made in all areas covered by the CFF regulation, perfectly in line with the targets discussed by the Commission with the technical experts from the Member States19. The EU territory is today a safer place, where the prevention and protection system have proven to work properly and where the safety and quality of food respect the highest international standards. The human cases due to zoonotic diseases have been progressively reducing over the years, and both the frequency and the severity of animal, plant, and food crises have decreased. No large scale outbreaks have occurred for a decade, and all emergencies have been successfully contained and put under control. In the plant health areas, EU funded programmes on surveys have permitted the early detection of new pests on the Union territory, allowing to actively contain some pests to the original outbreak areas (e.g Pinewood nematode in Portugal) while minimising the risk of further spread into the Union territory. EQ7. To what extent has the setting of CFF thematic priorities for Union financial support contributed to the achievement of the specific objectives?” Annex III to the CFF Regulation lists a number of thematic priorities for the implementation of veterinary programmes and of phytosanitary survey programmes. Those overarching priorities, including inter-alia the impact on human health and the potential to generate serious economic consequences, are discussed every year in the context of the preparation of the Commission work programmes. In the light of the major risks identified and on the epidemiological situation which is actually prevailing, priority animal diseases and plant pests are identified accordingly. This system has proven to be flexible enough to respond to the main challenges and the more immediate risks for the EU. The list of animal diseases eligible for EU financial support, for example, has been integrated in order to address the emergence of new epidemiological needs (as in the cases of LSD) and the allocation of the available financial resources could be oriented towards the most significant priorities. The multi-annual 19 See Annex 4 19 Commission work programmes covering 2015 and 2016, identified 3 categories; Group 1, for example, listed the diseases having an impact on both human and animal health. Priorities have been revised in the context of the recently adopted work programme for the period 2018-2020, with 4 categories identified, and where Group 1 addresses the major impact on animal health and trade. This flexible system ensures that the specific objectives laid down in the CFF Regulation are pursued and that the specific measures implemented to achieve them comply with the more recent development and needs in this area. EQ8. To what extent has the implementation of measures co-financed under the CFF contributed to a positive impact on the functioning of the internal market and to the competitiveness of the agri-food industry at global level? According to the last EUROSTAT data, in 2015, the output of the whole agri-food industry in the EU is estimated at more than EUR 410 billion, representing the largest manufacturing sector in Europe and a leading player worldwide. Overall, this sector provides some 44 million jobs in the EU, of which 22 million people are employed in farms. The competitiveness of the European food productions depends on their reputation, with the EU food safety budget playing a crucial role in contributing to the safety and quality of European food products. All issues relating to food and to food production are actually a concern for each single EU citizen: all Europeans expect to eat quality food, produced with the highest safety standards and under ethical conditions. It is a matter of fact that healthy food comes from healthy animals and plants. All European consumers therefore expect the EU to protect them and their interests by guaranteeing adequate ***interventions*** and controls all along the food chain. In 2015, the EU financial contribution for all the food safety measures has amounted to some EUR 250 million, notably 0,06 % of the output value of the food industry. The size of the EU food safety budget is therefore limited compared to the scale of the economic sector concerned; this relatively low financial support for food safety provided under the CFF supported the EU legal food and feed framework, which ensures the functioning of the internal market leading to a positive impact on the competitiveness of the EU’s agri-food industry at international level. 5.3 Efficiency The efficiency section included questions on the relationship between resources employed and results achieved, taking into account the financial procedures in place, as well as their contribution to the simplification and rationalisation in the areas covered by the CFF. EQ9. To what extent has the relationship between resources employed and results achieved been efficient? Could the same results have been achieved with fewer resources? 20 The improvement of the animal health status is accompanied by a progressive reduction of the financial resources needed in the area, that in the specific case of veterinary programmes dropped by 11 million euro over the three-year period under evaluation. Less predictable is the spending for emergency measures, which varies from one year to the other as a consequence of factors difficult to anticipate and to control, including climate change and the globalisation of vectors, as well as the cyclical reoccurrence of some endemic diseases. The already-mentioned special report from the Court of Auditors20, published in April 2016, considers the Commission’s strategy for animal diseases to be sound and well-developed, including a good framework for prioritising budget resources on priority programmes. According to its findings, the Member States performed well in managing the resources provided at EU level to co-fund the CFF measures. The implementation of the survey programmes aims to detect the presence of priority pests in the EU territory. In this view, an increment of the financial resources is needed and expected over the next years, supporting the objective to increase the coverage of the Union territory by those surveys by 2020. As in the case of veterinary emergency measures, the spending for phytosanitary emergency measures is variable and less predictable. Over the years 2014-2016, it mostly concerned four major pests only: the emergency measures addressing Pinewood nematode and Xylella fastidiosa, together with Anoplophora glabripennis and Pomacea insularum, were responsible for almost all payments (91%). For these emergencies, the EU has provided financial support to early detect new outbreaks and to prevent their further spread into the Union territory. The EURLs' activities and the BTSF initiative are financed at 100% by the EU, and each have an annual cost of about 15 million euro for the food safety budget. This limited cost has nevertheless allowed the EURLs to perform high-level testing activities and to train annually hundreds of NRLs, while in the context of the BTSF, some 6000 officials of national competent authorities involved in official controls were trained every year. These current funding arrangements, which fully cover the eligible costs, have proven to be a correct approach in motivating the Member States to carry out EU tasks. For all these measures, Table 2 illustrates that the amounts committed during the period under evaluation were substantially in line with the forecasted budget. The good results achieved in implementing the CFF budget show that the forecast budget for the concerned years was appropriate to cover the different needs. Still, it is very unlikely that the same results could have been achieved with fewer financial resources, for three main aspects already presented in the previous sections. Firstly, for the long-term nature of many CFF measures, namely eradication activities, which represent a very large share of the food safety budget: considering that the final targets are most of the time achieved after several years of implementation, the specific spending in these area needs to be confirmed during a long period of time without interruptions, both to ensure 20   [*http://www.eca.europa.eu/Lists/ECADocuments/SR16\_06/SR\_ANIMAL\_DISEASES\_EN.pdf*](http://www.eca.europa.eu/Lists/ECADocuments/SR16_06/SR_ANIMAL_DISEASES_EN.pdf) 21 continuity with past activities and to avoid jeopardising mid-term achievements.21 Over the three years considered, a considerable part of the CFF budget was invested in those kind of activities, for example for veterinary programmes addressing the eradication of Bovine Tuberculosis, or the surveillance of Avian Influenza. Secondly, the continuous emergence of new challenges affecting the safety of food, as well as the health of animal and plants, requires that the specific budget is both flexible and sound enough to guarantee that the changing needs in this area are addressed properly and timely.22 Third aspect, the fact that food crises, as well as outbreaks from animal diseases or plant pests are very difficult to anticipate, and tend to cyclically occur or re-occur affecting the EU territory. Those emergency situations might require significant financial resources, as proved by the past crises of FMD and swine fevers23. EQ10. Do the financial procedures in place ensure a swift and resource-saving decision-making process and thus a quick implementation of the ***interventions***? If there are shortcomings what are the reasons for this? Overall, there are no major limitations and shortcomings for an efficient resource-saving decision-making process and quick implementation, especially in emergency situations. When outbreaks of animal diseases or plant pests occur, the requested technical measures to eradicate or to contain them are implemented immediately, concurrently with the financial procedure, which do not interfere with an efficient decision making progress. Financial commitments are made quickly and also payments to the Member State are timely.24 EURLs can adapt quickly to urgent needs25, for example to provide technical assistance and diagnostic tools or vaccines. Representative from the ASF EURL provided urgent technical assistance to the Member States affected by the first outbreaks of ASF in 2014, in the framework of the Community Veterinary Emergency Team (CVET) tasks. Besides, the ASF EURL provided diagnostic tools to the neighbouring countries, to support them in the early detection of the disease. In relation to BTSF programmes,26 quick adjustment of training subjects once awarded is quite difficult. However, the possibility to introduce additional training has been used, for example in the case of ASF when this became an urgent threat 2015-2016. EQ11. To what extent has the entry into force of the CFF, which merges all measures in one single regulation, contributed to the simplification and rationalisation of the Union co-financing in the food chain area? 21 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 15 22 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), pages 12-13, 21, 56, 63-68, 82, 148 23 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 59 24 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 117 25 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 127 26 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 127 22 The entry into force of the CFF Regulation provided with a modernised financial framework in the food chain area, introducing a number of adjustments aimed at simplifying and rationalising the pre-existing legislation. Particularly, the CFF Regulation:  adapted the food safety expenditure to the structure of the EU budget 2014-2020, where its budget lines are not part of the AGRI budget any longer, but belong to Heading III 'Security and citizenship';  simplified the previous legal framework, over-complex and often out-of-date, by replacing it with a single piece of legislation covering the whole food and feed area;  aligned the financial tools used in these spending area to the new Financial Regulation, especially by introducing some adjustments concerning Title VI, on grants;  harmonised the procedures in the phytosanitary and veterinary fields;  standardised the funding rates, providing only three reimbursement rates (50%, 75%, 100%) applicable under specific conditions, instead of the manifold and unclear funding rated used for predecessor measures;  clearly listed measures and costs eligible for EU co-financing;  introduced a more transparent division of responsibilities between the Commission and the Member States;  in its Annex III, lays down priorities for veterinary and phytosanitary programmes, to be adjusted annually or multi-annually. The implementation of unit costs and ceilings in veterinary programmes is also an example of simplification and rationalisation of the system. It contributes to a lower administrative burden for the Commission as well as for the Member States, facilitating the requests for funding and for reimbursements. It currently covers about 50% of the eligible costs and a further revision of the system is ongoing, in view of extending it to other CFF spending measures. Current reporting requirements were in some cases considered disproportionate by some Member States, namely for smallest veterinary programmes and emergency measures. However, the principles of transparency and accountability require that a proper justification is given for the way public money is spent, even if the size of the budget concerned is limited. Therefore, some administrative constrains for managing financial files cannot be avoided, in the interest of all EU citizens. 5.4 Coherence Coherence was about the consistency of the EU spending for food and feed measures with the political priorities in the food safety area. EQ12. To what extent was the EU spending for food and feed measures consistent with the political priorities in the food safety area? The food safety political priorities are scattered across the sectorial legislation in each area covered by the CFF Regulation, and then confirmed in the CFF itself. In this context, the CFF Regulation acts as a very technical piece of legislation, where eligible measures and costs for each spending area are formally listed in specific sections. This bounds the possibility to 23 provide financial support to a range of measures which is quite substantial, but nevertheless clear and limited. Those measures are conceived to explicitly address the political priorities in the areas covered by the CFF, mostly as a result of the long-term experience of the EU spending in the food safety area. In addition, the CFF offers the possibility for providing financial support to additional non-listed measures, in exceptional and duly justified cases. To date, no request in this sense has come from any Member State, as a confirmation of a spending system which has proved to be fully consistent with the overall political priorities in this domain and to properly respond to the overarching food safety needs at both EU and national level. The absence of any pressure and not even any proposal towards the co-financing of additional measures also confirms the functioning of the complementarity of the CFF Regulation with other related EU programmes, with no extra needs remaining unaddressed by the EU ***intervention***. An example of synergy between programmes covering complementary areas regards the primary ***agriculture***, and more specifically the interaction between the provision of the CFF Regulation and CAP Regulation in the event of an outbreak. While the CFF addresses eligible direct costs incurred to tackle animal diseases and plant pest, such as the compensation to owners, the costs of vaccination, and the slaughtering of animals or the culling of trees, the CAP has provisions to contribute to covering some indirect costs, such as market losses suffered by farmers. 5.5 EU added value In order to assess whether the EU financial support for food and feed measures added specific value compared to what would have resulted from Member States' ***intervention*** only, a comparative analysis was conducted. EQ3. To which extent has the EU financial support for food and feed measures added specific value to what would have resulted from Member State‘s ***intervention*** only? The achievement of a higher animal health status was possible thanks to both the technical and financial support provided by the EU to the Member States. On the one hand, budgets of Members States alone, especially of those struggling with economic crisis or other constraints, have difficulties to secure appropriate financial resources to respond to the combination of present and potential challenges. On the other hand, the variety of measures to put in place to tackle animal diseases requires a centralised management system in order to properly coordinate and organise the implementation of specific actions in the Member States. The EU crisis-management system in the event of an outbreak is an excellent example of the added value provided by the EU co-financing in this area. When a disease is suspected or confirmed, a number of prevention and control actions are immediately put in place under the emergency measures system, including the temporary closing of borders and the regionalisation of the disease. A good example of EU governance and coordination is the recent management at EU level of the African swine fever outbreak, which reached the EU from Russia in 2014. Since the very early stages of the epidemics - for which no vaccine is 24 available - the Commission have proactively promoted a common strategy amongst affected Member States, neighbouring third countries and bordering Member States at risk. In particular, the Commission has given technical and financial support, providing trainings and ad-hoc supporting material in order to enhance their diagnostic capabilities. This coordinated action resulted in the containment of the disease and has limited costs for both the EU and the national budgets. It has also avoided major trade disruption, both within the EU and with non-EU countries. For all programmes, the EU co-funding adds value to the situation in which only national funding would apply. As in the case of animal health, the EU ***intervention*** also supports the management of plant health outbreaks, where the EU provides the financial contribution needed at Member State level to implement emergency measures. Moreover, the Union support facilitates the coordination of phytosanitary surveillance activities, ensuring their uniform implementation in all Member States. The EU added value provided by the EURLs activities and the BTSF programmes is linked to the nature of their activities: the network of laboratories ensures that all EU Member States work within a consistent and uniform regulatory framework and the EU training programme promotes a common approach towards the implementation of EU legislation. This contribution towards the harmonisation of rules at Union level and the sharing of knowledge and expertise in the food safety and related areas is a main example of positive interaction within the EU, which could not be achieved through isolated efforts at national level and without the EU financial support. EQ4. What would be the most likely consequence of stopping or withdrawing the EU co-financing of the measures covered by the CFF? The most likely consequence of withdrawing the CFF financial support would be that many measures would not be implemented any longer, especially in Member States experiencing budgetary restrictions27. Efforts made to ensure food safety, animal and plant health would therefore be reduced, putting at risk the current status as well as the past achievements in these areas. In the case of trans-boundary diseases and pests, even the continuation of the CFF activities in some Member State managing to confirm the financial resources in this area would be compromised. Due to the EU dimension of the activities carried out in the framework of the EURLs and of BTSF and of their objectives, those measures would cease completely should Union funding be stopped.28 On top of that, in the event of a food crisis, or of large-scale outbreaks from either animal diseases or plant pests, the economic impact on the national public budgets and on the economic sector concerned might be severe. Many studies have already addressed the topic of the costs of food crises in the EU, especially as concerns some animal diseases whose 27 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 88-89 28 Mid-term evaluation of Regulation (EU) No. 652/2014 (IBF International Consulting, 2017), page 92-93, 25 outbreaks have largely affected our productions over the last decades. FMD is an illustrative example of disease which might affect severely the agri-food sector and on the European economy as a whole. To give an idea of the scale of the economic impact of such disease, we can refer to a study focused on the outbreak occurred in UK in 2001 (Economic costs of the FMD outbreak in the United Kingdom in 2001 (Thompson, 2002)), according to which the overall costs on ***agricultural*** producers, food industry, consumers and (national) public sector can be estimated at some £ 3,125 billion. For this crisis, the EU allocated about € 571 million to implement emergency measures in UK only. The ***intervention*** in the event of a new large-scale FMD outbreak would require the emergency vaccination of the animal population at risk. A massive vaccination campaign at an average current cost of €2.5 per dose (including vaccination costs) to be inoculated twice per year would need to be conducted; considering an official animal population of some 340 million heads (cattle, pigs, sheep and goat), the potential burden of this ***intervention*** (up to 1.7 billion euro) would severely threaten both the national budgets. In addition, a large number of animals might be slaughtered. Besides these direct costs, the impact on both trade and the internal market is to be taken into consideration. The block of exports and of the internal movements of food and live animals would hit the producers as well as the whole supply chain, endangering the existence of the largest manufacturing sector in Europe, mostly made of SMEs. Just to give some figures, according to the 2015 EUROSTAT data, the value of export of food and live animals touched 82 billion euro. As concerns intra-EU trade, 40 million animals (considering cattle, pigs, sheep and goats only) were traded within the EU in 2015. This possible scenario might cause the fallout of the sector or the definitive collapse of its weakest segments, representing a dramatic loss for the competitiveness of the EU agri-food productions and of the EU economy as a whole. 6. CONCLUSIONS Based on the analysis performed, it can be concluded that the CFF Regulation is functioning well in supporting the food and feed policy. Findings indicated that, to a great extent, the CFF objectives are relevant in addressing the needs within the food chain, ensuring a high status of human, animal and plant health, and therefore supporting the safety of the EU food products. The EU funding in this area supports the legal food and feed framework in protecting more than 500 million of European consumers and facilitating the functioning of agri-food supply chains. The competitive position of this sector is supported by high food safety standards, which contribute to a global perception of high quality European products. The CFF has been proven to be flexible to address new needs for co-financing, especially in the emergence or re-emergence of outbreaks from animal diseases such as Avian influenza, LSD, or emerging risks in plant health like Xylella phastidiosa. The majority of the activities covered by the CFF proved to be effective in achieving the CFF objectives, and showed progress in the technical operational ***indicators*** used to monitor the CFF measures implemented. The consultation showed a large appreciation of the EU financial contribution especially by the CFF direct beneficiaries, who consider both the financial and technical support provided under the CFF to be adequate and to effectively support the implementation of the food chain measures. 26 In relation to efficiency it can be concluded that the procedures in place allow for adequate prioritising of CFF the financial resources and Member States manage the resources well. Still, as previously explained, the absence of cost-effectiveness analysis in the CFF area limits the possibility to demonstrate the extent of the relationship between resources employed and results achieved. As recommended by the Court of Auditors in its previously mentioned ***performance*** audit - the Commission is working to develop a cost-effectiveness methodology to be implemented in this area, in order to make the efficiency analysis more robust. As acknowledged by the Court, this kind of analysis is difficult to determine, due to the current lack of available models and to the absence of specific economic ***indicators*** at international level. The possibility to develop such methodology, including a set of cost-effectiveness ***indicators*** covering all CFF spending areas, is currently being investigated by the Commission in view of the ex-post evaluation of the CFF Regulation, to be conducted by June 2022. EU spending for food and feed measures is considered to be largely coherent with the political priorities in the food safety area, and a positive assessment was also done on its complementarity with other related EU programmes, especially the CAP Regulation. The CFF has been shown to clearly contribute to achieving and supporting EU added value. Member States benefit from the prioritised and targeted implementation of EU co-funded activities, especially for emergency, eradication, control and monitoring measures for animal diseases and plant pest throughout the Union. The financial solidarity that the CFF provides enables Member States to take required actions according to their interests. Otherwise these may have been beyond the financial and operational capacity of an individual Member State. The CFF enables harmonised and robust controls, which satisfy an important need with respect to an effective food safety policy. The findings from the desk study, relevant stakeholders in questionnaires, interviews, and case studies, confirm that the measures co-financed by the CFF strongly contribute to creating EU added value. The added value goes beyond what individual Member States could achieve by implementing national measures without EU support. Overall, all activities receiving EU financial support in this area have proven to serve the CFF Regulation general and specific objectives, namely the improvement of human, animal and plant health, as well as the overall Commission’s priorities, including the functioning of an effective internal market and the support to trade with non-EU countries. In recent years substantial progress has been made on most of the 21 operational ***indicators*** used to monitor the progress and measure the outcome of the CFF implementation. The EU framework on food safety, animal and plant health has been recognised as uniform and consistent in its application and enforcement in all the Member States. This ensures in turn that both citizens and businesses are confident that this framework is fair and effective in promoting high safety standards in a key sector of the EU economy. The EU investment in surveillance, disease and pest control and eradication, provides the infrastructure on which the safety and trade in the entire food chain is based. The activities funded under the CFF Regulation contribute to an EU which is safe and secure, prosperous and sustainable, social, and stronger on the global scene. 27 ANNEX 1 – PROCEDURAL INFORMATION The evaluation was led by Directorate-General for Health and Food safety (DG SANTE). It is included in the Agenda Planning with the reference 2016/SANTE/142. The evaluation was supported by an external and independent evaluator, under a service contract. The service contract has been implemented via a Framework Contract in accordance to the Financial Rules Applicable to the General Budget of the Union29 and its Rules of Application30. The evaluation Roadmap was adopted in July 201631. An Inter-service Steering Group (ISG) including staff from DG SANTE, from the Secretariat-General (SG) and from the Directorates-General for Budget (BUDG), for ***Agriculture*** and ***Rural*** Development (AGRI), and for Maritime Affairs and Fisheries (MARE), was established in April 2016. The ISG met in 5 occasions: to prepare the Roadmap (April 2016), to have a kick-off discussion with the external evaluator in October 2015, to discuss the Inception Report in November 2016, to discuss the interim report in February 2017, to discuss the draft final report in May 2017. Extensive correspondence between the Steering Committee members was held in between the meetings to follow-up on the evaluation. The final report was submitted in June 2017. The evaluation was not submitted to the Regulatory Scrutiny Board. The evidence base used to conduct the mid-term evaluation of the CFF Regulation included: - Technical and financial reports prepared and submitted by the CFF beneficiaries on the implementation of the CFF measures. - The consultation of some 170 stakeholders directly and indirectly involved in the implementation of CFF. - 12 cases studies. - A literature review of studies, reports, evaluations, audits and other documents relevant in the context of the CFF evaluation. Together, the above evidence base provides the evaluation with a valid and rounded set of data covering the main aspects of the CFF evaluation including efficiency, effectiveness, relevance, coherence and added value. 29   [*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02012R0966-20160101&from=EN*](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02012R0966-20160101&from=EN) 30   [*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02012R1268-20160101&from=EN*](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02012R1268-20160101&from=EN) 31   [*http://ec.europa.eu/smart-regulation/roadmaps/docs/2016\_sante\_142\_evaluation\_cff\_en.pdf*](http://ec.europa.eu/smart-regulation/roadmaps/docs/2016_sante_142_evaluation_cff_en.pdf) 28 ANNEX 2 – STAKEHOLDERS' CONSULTATION Three methods of stakeholder consultation have been employed for the evaluation: 1. Open public consultation 2. Targeted stakeholder consultation with specific questionnaires 3. Targeted stakeholder interviews Each of these is described in the following sections. - Open public consultation An open public consultation of all interested parties was conducted using the European Commission ‘Public consultations’ website (replacing the ‘Your Voice in Europe’ website) and the DG SANTE ‘Consultations and feedback’ web page. The consultation took place from 16 December 2016 until 17 March 2017. A consultation questionnaire was prepared in English, discussed and agreed with DG SANTE and published on the Commission website. After the twelve-week consultation, five replies were submitted on this. - Targeted stakeholder consultation Targeted questionnaire surveys have been used to acquire specific information from particular target groups. The stakeholders were identified by the stakeholder mapping exercise. Targeted questionnaires in English have been developed for the following groups: 1. Competent authorities (CAs) in Member States, stakeholders linked to the industry (including farmers organisations, veterinary organisations), EU and national associations, international organisations and NGOs. 2. EURL stakeholders 3. Better Training for Safer Food stakeholders The questionnaires were limited in the number of questions and restricted in allowing open responses. As far as possible, the focus was on closed questions, numbering and ranges. Some open questions were used to provide specific comments that cannot easily be captured by closed questions. Open questions were also aimed at gaining insight (i.e explanations, motivations) on why respondents provided certain answers to specific closed questions. In some cases, respondents were asked to support their answers by providing evidence (there was also a possibility to upload documents as evidence). The questionnaires include an introduction describing the subject and providing information on matters such as transparency and confidentiality (EU Transparency Initiative, including the option to register in the Transparency Register), protection of personal data and links to relevant reference documents. 29 The questionnaire for group 1 had a function that presented selected questions to individual respondents on the basis of their role, involvement and expertise. Respondents were asked to identify their individual characteristics and the questions were filtered accordingly. This enabled the use of a general questionnaire for a range of different respondents. In order to assess the extent to which the CFF has succeeded in achieving its objectives, statements were posed that needed to be answered on a 4-point or 5-point judgement scale. The targeted respondents received a personalised email, including a link to the online questionnaire and an introduction describing the background and the importance of the evaluation. A Letter of Recommendation provided by DG SANTE was attached to the email. Two reminders were sent. The deadline for submission was extended by three weeks beyond the planned schedule. Table 4 shows the number of invited respondents, the number of responses and the response rate. Overall, a high average response of 78 % was realised for the invited stakeholder questionnaires, while there were only five responses to the open consultation. Table 4. Number of respondents approached to complete questionnaires and response rates Respondents Open consultation Targeted online questionnaires CAs and stakeholders EURLs BTSF Number approached Public, open to all 81 45 87 Number of responses 5 58 34 + 6\* 69 Response rate Not applicable 72 % 88 % 79 % \* The six EURLs with responsibilities regarding food and feed safety were approached and all responded - Targeted stakeholder interviews On the basis of the literature review and the on-line survey, topics were selected for interviews with representatives of the European Commission (DG SANTE and DG AGRI), and with selected stakeholders (competent authorities, industry representatives, targeted NGOs) in a number of Member States. In-depth interviews were carried out by team members using an interview guide to facilitate uniformity in the way questions are addressed and are answered (avoiding interviewer bias). The aim of the interviews was to identify achievements, good practices, problems and 30 challenges regarding implementation of the CFF Regulation. The main purpose of the interviews was to fill information gaps that remained after the other stakeholder consultations. Interview notes were sent to the interviewee for conformation. Based on the assessment of the results from the questionnaires, ten stakeholders were identified for interview. Table 5 provides a list of stakeholders who were interviewed, including a short motivation and example of questions expressing the key interest for information from the interviewees. Complete information is available in Appendix D to the external evaluation study supporting the Mid-term evaluation of Regulation (EU) No. 652/2014. Table 5. List of main stakeholders interviewed Stakeholders Reasons Main issues UK (CVO & CPHO) Key Member States have not answered the questionnaire Total questionnaire by phone; Unit costs and ceilings; Administrative burden European Professional Beekeeping Association A negative reaction to CFF in questionnaire What doesn’t function well? Why? How to solve? Greece Competent Authority A positive reaction to CFF in questionnaire Why does it function well? What can we learn? Unit costs and ceilings; Administrative burden DG SANTE CFF Regulation Choice process with respect to priorities; Interaction with Member States (bargaining, steering); Strengths and weaknesses; Cost-effectiveness evaluation; Unit costs and ceilings; Administrative burden; Options for improvement; 31 NPPO, the Netherlands EU added value Why no added value in your opinion? How can this be changed? Copa Cogeca, Important stakeholder Discussion about the letter sent instead of the questionnaire; Functioning of single market; Plant health issues Plant health and small programmes Administrative burden Possible solutions DG AGRI Economic impacts, animal and plant health complementary regulation Proper functioning of the market; Competitiveness (static and dynamic impacts); Coherence with CAP; ***Indicators*** and input/output ratios Coherence (more in-depth); Check if the identified incoherence are correct; Co-operation between DG AGRI & DG SANTE on animal and plant health 32 ANNEX 3 – METHODOLOGY APPLIED The methodology used for the mid-term evaluation of the CFF Regulation follows the Commission’s Better Regulation Guidelines32 and accompanying Toolbox33. To answer the evaluation questions, a comprehensive set of data covering all CFF spending areas was used as evidence base. For data collection, the following methods were used: 1. Desk research 2. Stakeholder consultation to collect information and opinions from different stakeholders (data collected by questionnaires and telephone interviews) 3. Case studies to collect evidence and experience on targeted thematic areas Desk Research was undertaken using reports available at the start and by literature research of scientific publications supplemented with data sources of the Commission, (e.g budget expenditure, operational ***indicators***, trade data, animal data). In addition, the desk research included annual financial and technical reports covering animal and plant health, implementation of emergency measures by Member States, EURLs and BTSF, and websites. Reports/evaluations/studies, working documents, data on operational technical ***indicators*** and financial data were made available to the external contractor. Audit and inspection reports from the DG SANTE Directorate in charge of Health and Food Audits and Analysis, and from the European Food Safety Authority (EFSA) were used, as well as documents on food chain funding, country submissions, the Standing Committee on Plants, Animals, Food and Feed (PAFF), and task force presentations and reports. Gathering and assessing information from stakeholders was an important part of the research. The aim is to identify, select and weigh the results obtained from different stakeholders in a systematic way. For this purpose stakeholder mapping was used. Twelve case studies were undertaken covering the following co-financed measures: - for food safety: veterinary programmes for salmonellosis and bovine brucellosis; - for animal health: veterinary programmes for bovine tuberculosis, bovine brucellosis, ovine and caprine brucellosis, rabies, and BSE; - for animal health: emergency measures for highly pathogenic avian influenza; - for plant health: surveys concerning pests not known to occur in the Union territory and pests considered to be the most dangerous – for citrus tristeza virus and Bursaphelenchus xylophilus; 32   [*http://ec.europa.eu/smart-regulation/guidelines/toc\_guide\_en.htm*](http://ec.europa.eu/smart-regulation/guidelines/toc_guide_en.htm) 33   [*http://ec.europa.eu/smart-regulation/guidelines/toc\_tool\_en.htm*](http://ec.europa.eu/smart-regulation/guidelines/toc_tool_en.htm) 33 - for plant health: emergency measures for Anoplophora glabripennis; - for official controls: EURL activities for salmonella, mycotoxins, GMOs and pesticides; Better Training for Safer Food (BTSF) initiative. The case studies covered the evaluation period (2014-2016) and were evaluated against the operational technical ***indicators*** (see Annex IV to the present SWD) and the identified evaluation criteria (relevance, European added value, effectiveness, efficiency and coherence). Each case study was carried out in two ways: a general description of co-funding and analysis in the EU, and an in-depth description and analysis of the implementation of the case in two Member States. The in-depth analysis included interviews with designated stakeholders. At least two interviews were planned for each case study. For food safety and animal health case studies, technical information has been sourced from the EU plenary task force and the sub-groups that provide tailored technical assistance to Member States. This includes reviews of reports and meeting minutes, and interviews with members of the plenary committee or sub-groups. For plant health and official controls (EURLs and BTSF), the Official Controls Expert Group was consulted as it has a dialogue between Member State competent authorities and the Commission. The criteria applied for selecting the case studies were that they: - cover co-funded activities for the years 2014, 2015 and 2016 (when applicable); - are co-funded in multiple Member States; - include Member States with high financial awards; - have a geographical spread over the EU; - contribute information related to the overall evaluation criteria; - may have experienced recognised implementation issues; - may have strong political or public/industry interest. The analysis of the case studies involved a similar approach as was chosen for the other parts of the study. It involved the following steps: - Desk study - Stakeholder consultation - Analysis 34 35 ANNEX 4 – TECHNICAL OPERATIONAL ***INDICATORS*** AND THEIR TARGET VALUES FOR 2017 AND 2020 Operational technical ***indicator*** Baseline 2013 Last available data\* Intermediate Target 2017 Final Target 2020 Food safety measures 1.1 Reduction in the number of confirmed cases of salmonellosis in humans in Member States where a EU programme is co-funded 82921 human cases 94625 human cases (year 2015) -2 % per year -2 % per year 1.2 Reduction in the number of confirmed cases of brucellosis in humans in Member States where a EU programme is co-funded 425 human cases 437 human cases (year 2015) -2 % per year -2 % per year Animal health measures 2.1 Increase in the number of Member States which are free from bovine tuberculosis in respect of which a financial contribution is granted IT, PT, UK partly free HR, IE, ES not free HR free IT, PT, UK partly free IE, ES not free (year 2016) HR free IT, PT, UK partly free IE, ES not free HR, PT free IT, ES, UK partly free IE not free 2.2 Increase in the number of Member States which are free from bovine brucellosis in respect of which a financial contribution is IT, PT, ES,UK ,HR, not free HR, UK free IT, PT, ES partially free (year 2016) HR, ES, UK free IT, PT partly free HR, IT, PT ES, UK free 36 Operational technical ***indicator*** Baseline 2013 Last available data\* Intermediate Target 2017 Final Target 2020 granted 2.3 Increase in the number of Member States which are free from ovine and caprine brucellosis in respect of which a financial contribution is granted IT, PT, ES partially free HR, EL not free HR free IT, PT, ES partially free , EL not free (year 2016) HR, ES free IT, PT, partly free EL not free HR, ES, IT, free PT partly free EL not free 2.4 Increase in the number of Member States which are free from rabies in respect of which a financial contribution is granted AT, BG, EE, FI, IT, LV, LT free HR, EL, HU, PL, RO, SK, SL not free AT, BG, EE, FI, EL, HR, IT, LV, LT, SK, SL free HU, PL, RO, not free (year 2016) AT, BG, HR, EE, FI, EL, HU, IT, LV, LT,SL, SK free; PL, RO not free AT, BG, HR, EE, FI, EL, HU, IT, LV, LT,SL, SK PL, RO free 2.5 Reduction of disease parameters in bovine tuberculosis in Member States where a Union co-financing is granted: • Reduction of herd incidence • Reduction of herd prevalence Incidence: HR: 0.14; IE 3.88; IT: 0.84; PT: 0.28; ES: 0.91; UK: 9.12 Prevalence: HR: 0.16; IR: 4.07; IT: 0.97; PT: 0.35; ES: 1.39; UK: 14.49 Incidence: HR free; IE 3.27; IT: 0.61; PT: 0.19; ES: 1.59; UK: 9.12 Prevalence: HR free; IE: 3.59; IT: 0.86; PT: 0.28; ES: 2.87; UK: 14.27 (year 2016) Incidence: HR free; IE 2.91; IT 0.54, PT 0.20; ES 0.95; UK 6.90 Prevalence: HR free; IE 3.04; IT 0.65, PT 0.27; ES 1.55; UK 10.64 Incidence: HR, PT free; IE, IT, ES, UK not defined Prevalence: HR, PT free; IE, IT, ES, UK not defined 2.6 Reduction of disease parameters in bovine brucellosis in Incidence: HR: 0; ES: 0.06; UK: Incidence: HR, UK: free; ES: 0.022; IT: Incidence: HR, ES, UK Incidence: HR, IT, PT, 37 Operational technical ***indicator*** Baseline 2013 Last available data\* Intermediate Target 2017 Final Target 2020 Member States where a Union co-financing is granted: • Reduction of herd incidence • Reduction of herd prevalence 0.13; IT: 1.38; PT: 0.22 Prevalence: HR: 0; ES: 0.08; UK: 0.14; IT: 1.62; PT: 0.27 1.336; PT: 0.175 Prevalence: HR, UK: free; ES: 0.025; IT: 1.646; PT: 0.215 (year 2016) free; IT 0.92, PT 0.18; Prevalence: HR, ES, UK free; IT 1.16, PT 0.21 ES, UK free Prevalence: HR, IT, PT, ES, UK free 2.7 Reduction of disease parameters in ovine and caprine brucellosis in Member States where a Union co-financing is granted: • Reduction of herd incidence • Reduction of herd prevalence Incidence: HR: N/A; 0; EL: 0.2; IT: 1.07; PT: 0.8; ES: 0.1 Prevalence: HR: N/A; CY: 0; EL: 1.41; IT: 1.5; PT: 1.1; ES: 0.17 Incidence: HR: free EL: 0.25; IT: 0.842; PT: 0.462; ES: 0.063 Prevalence: EL: 1.72; IT: 1.206; PT: 0.573; ES: 0.085 (year 2016) Incidence: HR, ES free; EL 0.275; IT 0.48; PT 0.41; Prevalence: HR, ES free; EL 0.61; IT 0.61; PT 0.62; Incidence: HR, ES IT, free; EL, ES, PT not defined Prevalence: HR, ES, IT, free; EL, ES, PT not defined 2.8 Reduction in the number of cases of rabies in wildlife in Member States where a Union co-financing is granted 587 cases 18 cases (2016 data) 80 cases 0 cases 2.9 Reduction in the number of classical BSE cases in Member States where a Union co-financing is granted 7 cases 5 cases (2016 data) < 3 cases 0 cases 38 Operational technical ***indicator*** Baseline 2013 Last available data\* Intermediate Target 2017 Final Target 2020 Plant health measures 3.1 Increase in the number of Member States covered by surveys for pests not known to occur in the Union territory (Category A according to the work programme for 2017-2018 for the implementation of survey programmes for pests) N/A 78.57% (year 2016) No intermediate target 80 % 3.2 Increase in the number of Member States covered by surveys for pests considered to be most dangerous for the Union territory (Category B according to the work programme for 2017-2018 for the implementation of survey programmes for pests) N/A 75% (year 2016) No intermediate target 80 % 3.3 Reduction in the number of outbreaks for pests covered by specific EU legislation 27 cases (2014 baseline) 18 cases No intermediate target 22 cases BTSF activities 4.1 Success rate of the tests performed by the participants after the training - from N/A 85% >70 % >70 % 39 Operational technical ***indicator*** Baseline 2013 Last available data\* Intermediate Target 2017 Final Target 2020 2014: e-learning tool; from 2016: all trainings 4.2 Overall satisfaction rate of participants attending the training 90.17 % 90.66% >80 % >80 % EURL activities 5.1 Success rate of proficiency test, including the correct follow-up in cases of underperformance N/A 85.366% No intermediate target >70 % 5.2 Satisfaction rate of participants attending the annual workshop (focus on contents only) N/A 87.442% No intermediate target >80 % \* 2016 data are provisional

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**Body**

Brussels: Public Register European Parliament has issued the following document:

1 EN This action is funded by the European Union ANNEX 4 of the Commission Implementing Decision on the Annual Action Programme 2017 of the DCI Pan-African Programme Action Document for Policy and Regulation Initiative for Digital Africa (PRIDA) 1. Title/basic act/ CRIS number Policy and Regulation Initiative for Digital Africa (PRIDA) CRIS number: DCI/PANAF/038-223 financed under the Development Cooperation Instrument 2. Zone benefiting from the action/ location Pan-African The action shall be carried out at the following location: Africa 3. Programming document Multi-Annual Indicative Programme 2014-2017 for the Pan-African Programme 4. Sector of concentration/ thematic area ***Strategic*** area 4: Sustainable and inclusive development and growth and continental integration Component 4: Infrastructure Component 1: Continental integration DEV.Aid: YES 5. Amounts concerned Total estimated cost: EUR 8 000 000 Total amount of EU budget contribution: EUR 7 500 000 This action is co-financed in joint co-financing by the International Telecommunications Union (ITU) for an indicative amount of EUR 500 000 6. Aid modality and implementa-tion modalities Project Modality a) Indirect management with ITU b) Direct management - procurement of services 7. a) DAC code(s) 22040 - Information and communication technology (ICT) b) Main delivery Channel 10000 – Public Sector Institutions 2 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance ☒ ☐ ☐ Aid to environment ☒ ☐ ☐ Gender equality (including Women In Development) ☒ ☐ ☐ Trade Development ☒ ☐ ☐ Reproductive, Maternal, New born and child health ☒ ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity ☒ ☐ ☐ Combat desertification ☒ ☐ ☐ Climate change mitigation ☒ ☐ ☐ Climate change adaptation ☒ ☐ ☐ 9. Global Public Goods and Challenges (GPGC) thematic flagships N/A 10. Sustainable Development Goals (SDGs) Main SDG Goal: 9 Secondary SDG Goal: 16.8 SUMMARY Information and Communication Technology (ICT) infrastructure in Africa has evolved significantly during recent decades.

Still, in comparison with other continents Africa lags behind, for example in terms of widely available and affordable broadband access. Generally affordable and accessible ICT services have the potential to generate benefits such as more competitive markets, social inclusive growth and more equitable development, in line with the Roadmap adopted at the 4th EU-Africa Summit (see §46 and 50) and the Multiannual Indicative Programme 2014-2017 (see component 4.4 infrastructure). The proposed action aims to foster universally accessible and affordable broadband across the continent (to unlock future benefits of internet based services). The specific objectives are a) to facilitate efficient and harmonised spectrum utilisation, b) to harmonise measurable ICT/Telecommunications policy, legal and regulatory frameworks and c) to strengthen the ability of African decision makers to actively participate in the global internet governance debate. The action contributes to Pillar 3 of the EU's External Investment Plan (EIP) by contributing to better regulation and development of markets in partner countries, improving employment opportunities and supporting the development of the local private sector. 3 1 CONTEXT 1.1 Sector/Country/Regional context/Thematic area On average over 2005-2015, Africa has experienced impressive growth, with an annual real Gross Domestic Product (GDP) increase of 5.6%. This has not only been driven by favourable commodity prices but also extended to countries that do not possess significant natural resources. This dynamism should continue since Africa's GDP is expected to double by 2030. With 30 million km² of land, making Africa the second biggest continent, the subsoil is a tremendous asset. Demography is also dynamic. Today, 16% of the world's population lives in Africa. Around 2030, 1 person out of 4 will be African and at the end of the 21st century, 4 out of 10. The population will not only be increasingly younger but also urbanised: sub-Saharan Africa's urban population is thus projected to double by 2030. Yet, Africa's growth is not generating the jobs that its people need. In 2013, approximately 27.2% of young people in the labour force were without work compared to 26.6% in 2012. Although the proportion of people living in extreme poverty (i.e on less than USD 1.25 a day) in sub-Saharan Africa decreased from 53% in 1981 to a forecasted 35% in 2015, almost one out of every two Africans lives in extreme poverty. If Africa fails to create the jobs its growing population needs, unemployed urban youth could become a source of potential future instability and irregular migration. Typically, out of the 33 fragile states identified in 2015, 18 are African. There is also room for more progress in the areas of inclusion, gender equality and environmental sustainability which are needed to further promote sustainable human development. Full and inclusive access to ICT services has the potential to generate economic growth and wider social benefits such as more competitive economies, social inclusive growth and more equitable development, for example by protecting and enforcing human rights and rights of minority groups. Improving ICT accessibility is especially critical for remote and ***rural*** societies, making up an important share of the African population, who would benefit significantly through for example the ability to access internet based services (e.g health, public services, and weather/crop forecasts). Gender gaps in technology use, and in working in the ICT sector, remain vast; in Africa, women are 50% less likely to use the internet than men. Digital technologies can reduce gender gaps in labour force participation by making work arrangements more flexible, connecting women to work, and generating new opportunities in online work, e-commerce, and the sharing economy. Enhancing African involvement in the global internet policy and governance system also enriches the discussion and takes account of specific needs and challenges. 1.1.1 Public Policy Assessment and EU Policy Framework Promoting cooperation between and within regions and continents is a cornerstone of the Joint Africa EU Strategy. The Roadmap 2014-2017 adopted at the 4th EU-Africa Summit foresees support to specific actions within ICT (see §50): the harmonisation and alignment of е-communications policies and regulatory frameworks between Africa and the EU, including cybersecurity; the transition from analogue to digital broadcasting in Africa and the regulation of the resulting Digital Dividend; the enhancement of ICT capacities for all, particularly in order to improve access to internet and an open and inclusive governance system. The European Commission's Digital Agenda forms one of the 7 pillars of the Europe 2020 Strategy which sets objectives for the growth of the European Union (EU) by 2020. The Digital Agenda's main objective is to develop a digital single market in order to generate smart, sustainable and inclusive growth in Europe. It is made up of 7 pillars, including 4 Enhancing Interoperability and Standards, Strengthening Online Trust and Security and ICT-enabled benefits for society. The Continental ICT Strategy for Africa (CISA) adopted in May 2014, to guide the development of the ICT sector on the continent until 2024, is anchored on 7 ***Strategic*** themes: Post and Telecom Infrastructure, Capacity Development, e-Applications and Services, enabling environment and governance, mobilisation of resources and partnerships, industrialisation, as well as research and development. The African Union Convention on Cybersecurity and Data Protection adopted in June 2014 specifically addresses the topics of Electronic Transactions, Personal Data Protection, Promoting cybersecurity and combating Cybercrime. The Sustainable Development Goals (SDGs) specific goals and targets relevant to the action include Goal 9 (Build resilient infrastructure, promote sustainable industrialization and foster innovation); and Goal 16 (Promote just, peaceful and inclusive societies). 1.1.2 Stakeholder analysis The end beneficiaries will be the citizens of the African States participating in the project who will benefit from universally accessible, affordable and effective ICT services along with the private sector who will benefit from sounder market regulations. The civil society, represented by non-state actors, will benefit from increased opportunities to strengthen their dialogue and voice. The main institutions that will benefit from the action include: The African Union Commission (AUC), through its Department of Infrastructure and Energy (DIE), has the mandate to develop and implement pan-African ICT policy. Within the DIE, the responsibility of coordinating the implementation of the pan-African ICT policy lies with the Information Society Division (ISD). The African Regional Economic Communities (RECs) will be important beneficiaries of the capacity building activities under the project. They are responsible for coordinating and validating regional policy which is translated into national law. African and European regulators shall benefit from exchanging advice on best practice for technical and legal issues including on harmonisation. BEREC has strong experience in bringing together regulators under a common umbrella and recent experience of regional cooperation between Africa and EU which can be transposed to this project. 1.1.3 Priority areas for support/problem analysis The problem analysis identifies the low level of broadband penetration as an important inhibitor for the deployment of internet based services which have the potential to unlock economic development and foster efficient public services. At the same time, the importance of the African Continent is not properly reflected in the global internet governance debate. Substantial progress has been made in recent years as far as infrastructure is concerned, including new international undersea cables circling Africa. The mobile tower business in Africa is expected to grow significantly as pent-up demand for mobile broadband starts to be met. 5 However these investments are not sufficient and more needs to be done. Whereas the rate of mobile subscriptions per 100 population has increased from one-tenth of the population in 2006 to over four-fifths in 2014, Africa's ***performance*** in ICT use remains at 30% of that of OECD economies; going forward, African economies need not only to make the types of investment necessary to build out their ICT infrastructure, but also to create an enabling environment to fully leverage ICT uptake to boost economic and social impacts. Affordable broadband is a vital building block to unlock the ICT benefits. However, the current broadband offering across Africa is seriously hampered, with high fixed broadband prices in the region going hand in hand with very low penetration levels, thus deterring the great majority of citizens (particularly in a number of very low-income economies) from subscribing to the service. Similarly, mobile broadband is still not affordable in most countries of the Africa region, and suggests that current mobile-broadband usage for most of Africa’s population is limited to cheaper plans in the market, with lower data allowances or time-metered offers, which greatly limit the potential impact of the service. The lack of investment is central to this low level of broadband penetration. Competition is central to attract investment as shown with mobile voice services. To encourage and maintain competition in the electronic communication sector, conditions of access to legally safe and non-discriminatory markets are essential factors. The role of balanced and predictable policy and regulatory environment is crucial. Sound policy and regulatory frameworks for broadband need developing at national level. Such work cannot be done in silos. Europe learned from its 'Digital Single Market' strategy that harmonisation at regional or continental level plays a crucial role in laying the foundation for a truly integrated market for ICT services. After a successful series of sub-regional policy, legislative and regulatory harmonisation initiatives, including the EU-funded HIPSSA project, there is, in some cases, a lack of political willingness to entirely implement effectively these initiatives which delays the effective implementation of the agreed regional markets. In addition, there is a need to move one step further by supporting national regulatory authorities to effectively implement these frameworks as well as scale up these initiatives to a continental level. Therefore, to complement the initiatives focusing on the infrastructure component, this action chooses to focus on the creation of an enabling environment including a radio spectrum reform to, firstly, orient private operators towards the best solutions for the system’s long-term cost-effectiveness, quality, and sustainability and, secondly, to prepare an environment supportive of internet based services. Since Africa is not an isolated continent, it is important for Africa to have its views adequately reflected in the ongoing discussions on the governance of the internet. Such pioneering, comprehensive harmonisation effort at pan-African level fills an important gap in complementing the ongoing infrastructure-focused efforts towards increased ICT use across the continent. Such development of broadband and its related services goes hand in hand with cybersecurity; whereas a protective framework is especially important for critical infrastructure such as transport, electricity and water networks, installing confidence in end-users positively impacts the uptake of ICT services as well as the broader digitalisation of government functions. 6 2 RISKS AND ASSUMPTIONS 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES 3.1 Lessons learnt Recent EU-funded initiatives related to ICT include: In sub-Saharan Africa, the Harmonisation of ICT Policies in sub-Saharan Africa programme (HIPSSA) was a EUR 8 million initiative implemented between 2008 and 2013 under EDF funding. The HIPSSA project, which was implemented by the ITU, was born out of a request from the African Regional Economic Communities (RECs) to receive assistance with harmonising ICT policies and legislations in sub-Saharan Africa. According to the Results Oriented Monitoring (ROM) report for HIPSSA, the project managed to create ownership within the African RECs, regulators, government ministries, and the private sector and achieved considerable buy-in in with addressing the ICT regulatory challenges. The ownership by each regional community was achieved through a participatory consultative process. The HIPSSA steering committee comprised representatives of RECs and beneficiary countries and was critical in defining appropriate structures and advancing implementation through a negotiated process. The implementation of regional measures at the national level through in-country technical assistance required the beneficiary countries themselves to Risks Risk level (H/M/L) Mitigating measures Lack of stakeholders' involvement at the pan-African, Regional and Member State level. L Ensuring balanced implementa-tion through a mix of actions at the national, regional and continental level, clearly defined decision making, responsibilities and reporting lines. Level of engagement and quality of output is too reliant on regional focal points. M Careful identification, approval and ***performance*** monitoring of proposed regional focal points. Change in policy direction and thereby reduced commitment due to regularly occurring national elections and change in political leadership. M Encourage promotive role of the AUC and/or RECs with engagement at the highest level of Member States. Lack of human resources in the African Union Commission delays implementation. M Contracting made conditional on at least two full-time staff members put at the disposal of the project. Assumptions The African Union Commission and the International Telecommunication Union will make the necessary resources and expertise available for the programme implementation. Decision makers and focal points within beneficiary governments and regional organisations will remain committed to realising the project objectives. The required technical expertise will be identified and recruited on time. Major national planned ICT connectivity projects are completed on time. 7 request assistance from the project. The use of national consultants at the country level, familiar with the implementation context, was considered successful. One of the main outcomes of HIPSSA was increased knowledge of the regional harmonised legal and regulatory frameworks at the political level. Progress is also evident with regard to creating a harmonised policy for analogue to digital broadcasting migration and agreed upon for use by the AU and regional organisations. Another lesson learnt through HIPSSA is the need for conceptual clarity and relevant stakeholder engagement from the outset as well as strong programme oversight to ensure consistency of the ***intervention*** with the intended objective throughout its implementation. In the Mediterranean region, the ‘Euro-Mediterranean Regulators Group’ (EMERG) is an EU-funded initiative launched in 2008. Its third phase was supported through the EUR 990 000 New Approaches to Telecommunications Policies-3 (NATP-3) project running from 2009 to 2013. The initiative is important as it provides an example of an inter-regional cooperation platform on regulatory issues. Under this umbrella, EU and non-EU regulators from 22 Mediterranean countries meet regularly to discuss best practice and exchange experiences on market liberalisation and harmonised telecoms regulations. The EMERG initiative is complementary to HIPSSA in that in includes North African countries while the geographical scope of HIPSSA was limited to sub-Saharan Africa. Lessons learned from EMERG point to the importance of having carefully defined ***performance*** ***indicators*** for measuring impact and complementary robust progress reporting. EMERG also underlines the importance of having a sustainable exit strategy in place, it being heavily dependent on project funding. Having regard to relevant AU decisions related to the African Internet Exchange System project, the African Union Commission signed an agreement with the Lead Financier (Luxembourg Development Agency) to support implementation of the African Internet Exchange System project funded by the EU-Africa Infrastructure Trust Fund and the Government of Luxembourg. The objectives of this project were to: support the establishment of Internet exchange points (IXP) in Member States of the African Union, Regional Internet Hubs and Regional Internet Carriers; and to establish a real-time and historical traffic data accessible via web-based visualisation system, and to develop a certificate curriculum on Internet Exchange technologies. 3.2 Complementarity, synergy and donor coordination A great number of ICT initiatives of varying scale and scope have been or are currently being implemented in Africa. These include:  The “Broadband mapping in Africa” launched by the World Bank (WB) in 24 sub-Saharan African fragile and conflict states. The objective is to develop a detailed map of broadband penetration for selected countries and to identify the main providers of mobile and fixed services.  The “Broadband Reports” launched by ITU in 2012 focus on cutting edge policy, regulatory and economic aspects of broadband. They provide a meaningful contribution to the work of the Broadband Commission for Digital Development. They are developed in parallel with other initiatives such as the ITU Broadband Atlas.  African consultations on the internet and digital technologies as a trigger for development, organised by the World Bank through the World Development Report (WDR). 8  The annual Forum on Telecom-ICT Regulation and Partnership in Africa (FTRA) focusing on the ICT enabling environment, organised by the ITU.  Regional and national initiatives such as knowledge dissemination on the role of ICT in transparency, supporting national regulatory frameworks and loans to infrastructure projects supported by the African Development Bank (AfDB).  A mapping study conducted on behalf of the US Department of State on the current disposition of national Computer Security Incident Response Teams (CSIRTs) in sub-Saharan Africa.  The Commonwealth Telecommunication Organisation (CTO) has carried out an initiative to develop a Commonwealth Cybergovernance model, followed by developing national cybersecurity strategies. The EU is supporting various ICT-related initiatives through a number of instruments. The Instrument for Stability (IfS), and its successor, the Instrument contributing to Peace and Stability (IcsP), have been supporting actions in the field of cybercrime. Global Action on Cybercrime (GLACY), jointly funded with the EU through the IfS (with EUR 3.35 million for the period 2013 to 2016 and EUR 10 million for the years 2016-2020), aims at supporting countries worldwide apply legislation on cybercrime and electronic evidence that is compliant with the Budapest Convention. In the area of cybersecurity and incidence response capacity building, a new IcSP-funded action of EUR 11 million 'Cyber Resilience for Development' is going to commence in 2017 with a focus on priority countries in Africa and Asia. Though not addressing the cybersecurity dimension as a specific output, the proposed action shall ensure pan-African harmonisation of and coordination with the activities of the EU-funded Cyber Resilience for Development action mentioned above. Through the Infrastructure Trust Fund (ITF), the EU has provided support to several initiatives led by other donors or agencies such as the AXIS project, the satellite-enhanced telemedicine and e-health for sub-Saharan Africa managed by the European Space Agency and the East African Submarine Cable System (EASSy) operated by an African and European Consortium. Complementary support to ICT infrastructure includes the AfricaConnect project to fund improved connectivity for research and education within sub-Saharan Africa with a combined value of some EUR 37 million for phases 1 and 2. The scope of the initiative includes the provision of research networking infrastructure within the region, organising a direct interconnection of the resulting regional network as well as further capacity building of non-participating countries to enable joining the network at a later stage. Through Horizon 2020, the EU’s current major research and innovation programme, ICT research cooperation is being fostered between the EU and Africa in a number of areas including eHealth, Big Data and internet of things. A regional action with ECOWAS on cybercrime and cybersecurity is being formulated as part of the EDF West Africa Regional Indicative Programme, while the Regional Indicative Programme for East and Southern Africa and Indian Ocean has an allocation under the soft infrastructure envelope for 'Enhancement of Governance and Enabling environment in the ICT sector'. Complementarity, synergies and coordination with these initiatives will need to be ensured. 9 3.3 Cross-cutting issues Poverty reduction and gender equality: The United Nations (UN) specifically identifies information and communication technology amongst the targets of Sustainable Development Goal (SDG) No. 5 (Achieve gender equality and empower all women and girls): 'Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women'. Generating sustainable growth, the action contributes to achieving poverty reduction and gender equality in line with the JAES Roadmap 2014-2017 (§38): 'Stimulate economic growth that reduces poverty, create decent jobs and mobilise the entrepreneurial potential of people, in particular the youth and women, in a sustainable manner'. Environmental aspects: the development of an ICT enabling environment shall foster broadband-based services directly contributing to reducing congestion and therefore positively impacting the environment. 4 DESCRIPTION OF THE ACTION 4.1 Objectives/results This programme is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG Goal 9, but also promotes progress towards Goal 16.8 This does not imply a commitment by the countries benefiting from this programme. The overall objective is to foster universally accessible and affordable broadband across the continent to unlock future benefits of internet based services. The specific objective is to create a more harmonised and enabling legal and regulatory framework for the use of ICT for social and economic development, with an emphasis on boosting the spectrum market across Africa. It is based on three pillars: a) efficient and harmonised spectrum utilisation, b) harmonisation of measurable ICT/Telecommunications policy, legal and regulatory frameworks, c) African decision makers' active participation in the global internet governance debate. The following outputs are proposed: Output 1: Predictable spectrum allocation, licensing, management including the treatment of harmful interferences and pricing based on international best practices with a forward looking approach towards the Internet of Things (IoT) is improved Addressing the issue of spectrum at national, regional and pan-African levels is expected to generate significant social and economic benefits for the end beneficiaries (citizens of the African States) and also provide opportunities for the private sector to contribute to the development of services and generate sustainable growth. The aim is to reconsider and harmonise the spectrum licensing, refarming, pricing and coordination at borders with an objective of efficiency, transparency and non-discrimination. Output 1a: Spectrum allocation based on international best practices is improved Harmonising spectrum utilisation in Africa, particularly spectrum utilisation for mobile broadband access, will improve the spectrum management regulatory framework and encourage the development of the information society. The aim is to improve legal framework and institutional establishments of the spectrum management regimes. 10 Output 1b: Terms and conditions for spectrum licensing are improved Improve terms and conditions for spectrum licensing with a technology neutral philosophy and transparency. The objective is to incentivise investments and introduction of new technologies / applications. Output 1c: Coherence between time of assignment with technologies availability and market readiness is improved Encourage time to market assignment of frequency bands to new services. Output 1d: Spectrum pricing predictability and alignment on international best practices is enhanced Encourage the introduction of new spectrum cost methodologies supporting the deployment of broadband services and avoiding frequency band freezing by certain actors. Output 1e: Cooperation related to the treatment of harmful interference is strengthened Investigate harmful interference cases to determine their causes and identify and implement remedial measures. Output 1f: Awareness and acceptance of the concept and economic models of Internet of things (IoT) is increased Sensitise actors in order to prepare them for IoT, taking into account the results of studies undertaken within ITU. Output 1g: The capacities of national frequency agencies are strengthened Train national frequencies agencies on the implementation of the above outputs. Output 2: Continental legal and regulatory Monitoring & Evaluation system is developed and cooperation between telecommunications regulatory authorities with enhanced awareness by public authorities and civil society regarding cross cutting use of ICT is enhanced Harmonising the ICT policy, legal and regulatory frameworks in Africa has the potential to address root causes of market failure and contribute to greater consumer welfare. It will further increase competition, consumer benefits and contribute to the regional integration process. Output 2a: Continental ICT/ Telecommunications Legislative and Regulatory Monitoring & Evaluation methodology is developed Output 2b: Continental cooperation between national telecommunications regulatory authorities (NRAs) is strengthened Output 2c: Awareness of cross cutting use of ICTs (policy) by public authorities and civil society is raised Output 3: Capacity of African stakeholders active in the global internet governance is improved Strengthening the African voice in the global debate will contribute to making African issues a priority which in turn has the potential to make global internet policies and rules more appropriate to the African context and create a more viable and conducive environment for ICT. 11 4.2 Main activities The following main activities are envisaged for each output (indicative list): Output 1: Predictable spectrum allocation, licensing, management including the treatment of harmful interferences and pricing based on international best practices with a forward looking approach towards the Internet of Things (IoT) is improved: 1. Analysis of the current legislative and regulatory framework and analysis of the usage of spectrum as of today as well as in the foreseeable future; 2. Analysis of the fibre deployment for backhaul services; 3. Development of Guidelines and associated case studies on national spectrum allocation, licensing and pricing; 4. Development of associated harmonised roadmaps for the adaptation of the current legislative and regulatory framework; 5. Technical assistance for national spectrum agencies to transpose these roadmaps; 6. Develop harmonised spectrum refarming methods; 7. Support to the implementation of current HCM4A agreement in sub-Saharan Africa and its extension to North Africa; 8. EU HCM Software adaptation to HCM4A (inclusion African Maps and African propagation models- long term; 9. Technical assistance for the resolution of existing critical situation – short term; 10. Policy outreach on concept and business models of IoT; 11. Development of Guidelines and associated case studies regarding Type Approval, EMF and EMF for IoT; 12. Capacity building. Output 2a: Continental ICT/ Telecommunications Legislative and Regulatory Monitoring & Evaluation methodology is developed: 1. Assess the current and past legislative and regulatory monitoring & evaluation initiatives in Africa; 2. Develop methodology adapted to the African reality including a section regarding the impact of regulation on consumer welfare, competition and investment; 3. First monitoring and evaluation round; 4. Prepare jointly with each Member State a series of concrete regulatory corrective measures to reach progressively a pre-agreed continental forward looking objective; 5. Present and adopt the conclusions during AUC Ministerial meetings; 6. Improve the methodology based on the experience acquired; 7. Second monitoring and evaluation round; 8. If time allows, third round; 9. Capacity building. In parallel, train the African Union Commission staff to progressively take ownership of this action. Output 2b: Continental cooperation between national telecommunications regulatory authorities (NRAs) is strengthened: 1. Contact NRAs, in close collaboration with the Regional Associations of Regulators, to identify a series of concrete continental issues pertinent at the start of the project; 2. Based on the Euro-Mediterranean network of regulators (EMREG) experience, set up an expert working group for each issue with the aim to develop common approaches / positions, guidelines or methodologies; 12 3. Offer national technical assistance to NRAs seeking support in implementing the common approaches / positions, guidelines or methodologies; 4. Explore the expansion of the current dialogue between the regional associations of regulators and the AUC in collaboration with the ITU with the aim to i

mprove the consistent application of the ICT/ Telecommunications policy, legislative and regulatory frameworks at regional and continental level; 5. During the last year, if the action proves to be successful, explore the question of a potential organisational structure. Output 2c: Awareness of cross cutting use of ICTs (policy) by public authorities and civil society is raised: 1. Studies to assist the AUC to increase the awareness of its Member States regarding the utilisation of digitalisation for education, gender, health, ***agriculture*** and e-Governance; 2. Initiate a discussion with Ministers in charges of the above topics; 3. Initiate a discussion on the role of data protection and privacy in handling the risk to misuse digital technologies to control citizens and incorporating necessary safeguards; 4. Initiate a discussion, in collaboration with the ITU, among regulators of different sectors (electronic communications, broadcasters, health, education, data protection etc) to improve cooperation. Output 3: Capacity of African stakeholders active in the global internet governance is improved: 1. Assess the situation at the start of the project: identify challenges for African involvement, identify synergies between initiatives, identify potential enablers and inhibiting factors of the multi-stakeholder model, review key forthcoming meetings, etc; 2. Strengthen the African Internet Governance Forum (IGF) as an umbrella of the African multi-stakeholder dialogue and enhance political awareness of IG and the importance of the multi-stakeholder approach across Africa; 3. Explore ways to recreate the success of the East African and the Arab IGF in other regions, through support and active participation of the RECs; 4. Assist the efforts of the West African IGF, especially through empowering existing organisations and individuals already involved with global internet policy and governance processes to follow the example of East Africa; 5. Explore the current model of the Eastern and Southern African IGF regional characteristics and encourage multi-stakeholder cooperation; 6. Assist Central African stakeholders with developing a sustainable and effective model for a regional IGF, based on best practices from other regions; 7. Develop an online (continuous) training platform targeting mid-level officials, using interactive collaborative online learning methodology; 8. Explore establishing a 'Digital policy clinics' framework to offer on-demand assistance to African negotiators by providing: policy advice and coaching, assistance with legal and policy drafting and support during international negotiations; 9. Design a training programme for high-level decision-makers including training workshops, roundtables or 'Internet governance days'; 10. Deliver coaching activities including simulating the negotiation before the main international and regional meetings, debriefings with senior experts and experienced diplomats after the meeting, and programme re-adjustment measures based on feedback; 13 11. Offer training for trainers online programmes: Enabling a group of the most successful and interested participants to acquire skills that will allow them to deliver similar programmes in the future. Cross-cutting activities The design and implementation of all activities shall take stock of the cross-cutting output priorities dealing with cybersecurity frameworks and availability of ICT usage data, as identified under section 4.2 of this document. 4.3 ***Intervention*** logic An important feature of Information and Communications Technologies (ICTs) is their ability to act as cross-sectorial multipliers or enablers of a large range of sectors (education, health, ***agriculture***, energy, e-Government, etc.). To reap the full benefit from the ICT, Africa needs to count on affordable high speed broadband connections and access to the internet. Major infrastructure works on establishing fibre-optic broadband networks is underway in order to link Africa’s region together and with the rest of the internet. However, there remains an important bottleneck for the end users. Despite the mobile communication penetration successes in Africa, broadband penetration remains at low level: the mobile voice services penetration rates reach 95% in some countries while mobile broadband penetration remains below 20% in comparison with penetration rates in Europe and the Americas at around 78%1. Similarly to voice services, broadband services in Africa will become universally accessible and affordable on the continent through mobile devices due to non-existing or dysfunctional fixed line networks. This requires a predictable spectrum market aligned on international best practices which is currently not the case on the Continent. In that context, the action intends to foster a more efficient and harmonised spectrum utilisation. This will be achieved through an ambitious chapter aiming at improving a predictable spectrum allocation, licensing, management including the treatment of harmful interferences and pricing based on international best practices with a forward-looking approach towards the Internet of Things (IoT). The accessibility and affordability of high speed broadband services allowing ICT to act as a cross-sectorial multipliers or enablers depend not only on spectrum reforms but also on a global enabling environment. Therefore, the action proposes a comprehensive approach to harmonise ICT policy and regulation on the pan-African scale aimed at fostering an enabling environment across AU Member States; in doing so it shall leverage on current resources within the AUC itself while decisively reinforcing the existing skills and capabilities in view of long-term sustainability. Since previous development projects have already been successfully implemented in the past, this action focusses on critical complementary elements to foster a continental approach. More precisely, the action supports the African Union Commission (AUC) to develop its own policy and legislative Monitoring & Evaluation system and supports for the first-time national telecommunication regulators to collaborate effectively at continental level. Finally, with a forward-looking perspective, the action will prepare the path towards the cross cutting use of ICT by increasing the awareness of public authorities and civil society. To reap the entire benefits from its connection to the internet through high speed broadband services, Africa needs to become more active in the global multi-stakeholder’s internet 1 ICT Facts and Figures – The World 2015, International Telecommunication Union, Geneva, May 2015. 14 governance fora. Currently, only a few African countries are represented and very few actively involved in the discussions. The action intends to strengthen the African voice in the global debate to make global internet policies and rules more appropriate to the African context. Fully in line with the Joint Africa EU Strategy Roadmap and the EU Pan-African Programme 2014-2020 – Multiannual Indicative Programme 2014-2017, this pioneering action addresses an important gap at continental level as far as the development of ICT services is concerned. It aims at establishing a continent-wide forum to deal with supply-side ***interventions*** the private sector and the public shall largely benefit from: coordinated spectrum allocation and harmonised policy and regulation, including regulators' ability to effectively regulate. Thus, the action offers the strong added-value of a pioneering initiative at continental level, at the same time retaining the flexibility of a modular approach and the scope for replicability and scaling. 5 IMPLEMENTATION 5.1 Financing agreement In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012. 5.2 Indicative implementation period The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding implementation period, is 60 months from the date of adoption by the Commission of this Action Document. Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 Implementation of the budget support component N/A. 5.4 Implementation modalities 5.4.1 Indirect management with a UN specialised agency A part of this action and, in particular, activities related to Output 1 of this action may be implemented in indirect management with International Telecommunications Union (ITU) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails facilitation of efficient and harmonised spectrum utilisation. This implementation is justified because of the role of ITU as the UN’s specialised agency within Information and Communication Technologies. It is seen a frontrunner on ICT technology with a mission to improve access to ICTs in underserved communities around the world. The ITU holds long-standing expertise within allocating global radio spectrum and satellite orbits, developing technical standards for connecting networks and technology. The entrusted entity would carry out the following budget-implementation tasks: procurement procedures, making payment, accepting or rejecting deliverables, enforcing checks and recovering funds unduly paid. 15 5.4.2 Procurement (direct management) Subject Type (works, supplies, services) Indicative number of contracts Indicative trimester of launch of the procedure Technical Assistance (TA) to the AUC Services 1 Q3 2017 5.5 Scope of geographical eligibility for procurement and grants The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult. 5.6 Indicative budget EU contribution (in EUR) Indicative third party contribution (in EUR) 5.4.1 - Indirect Management: Output 1 (ITU) 5 000 000 500 000 5.4.2 - Direct management: Outputs 2a, 2b, 2c and Output 3 (Technical Assistance) 2 500 000 5.9 - Evaluation N/A 5.10 - Audit N/A 5.11 - Communication and visibility N/A Total 7 500 000 500 000 An additional amount of up to EUR 1 000 000 per year is foreseen to be made available to support the AUC in the implementation of Outputs 2a, 2b and 2c via the African Union Support Programme (AUSP). 5.7 Organisational set-up and responsibilities A Global Programme Steering Committee (GSC) with the European Commission and AUC will be set up to ensure the overall direction of the project. The ITU will be invited to join this GSC. The aim is to keep the number of participants limited in order to ensure efficient and smooth supervision. The technical discussions will be handled via the Implementation Committees (see below). However, it may be enlarged to selected beneficiaries of this action such as the RECs, Regional Association of Regulators, the African Telecommunication Union (ATU) and BEREC. It shall supervise the consistency of the activities of the action against the specific objectives of the JAES. It shall meet 2 times a year. In order to save time for the 16 participants and ensure appropriate documented reporting as well as briefing documents and follow up, it may be assisted by external Technical Assistance (TA). In addition, an Implementation (Technical) Committee will supervise the implementation of the activities of the respective three main outputs. These three Implementation Committees shall also facilitate political buy-in and synergies with other initiatives. They will report to the Global Steering Committee and present the progress regarding the outputs implementation progress. They will be chaired by the implementers of the respective outputs (AUC and ITU). They will be composed of the AUC, ITU, the RECs, the regional association of regulators. Other relevant bodies, including, but not limited, to BEREC, Commonwealth Telecommunication Organisation (CTO), European Competitive Telecommunications Association (ECTA), may also be involved. 5.8 ***Performance*** monitoring and reporting The following related ***indicators*** have been proposed as part of the Multi-Annual Indicative Programme 2014-2017 of the Pan-African Programme:  Number of new policies and/or regulations in the e-communications/digital broadcasting/digital dividend areas issued for adoption at AU/REC/individual country level (source: project reports).  Degree of convergence and compatibility of African and European policies and regulations adopted in the e-communications/digital broadcasting/digital dividend areas (convergence assessed by specialised Technical Assistance).  Number of people (from public/private/NGO/civil society) trained on harmonised policies and regulations in the e-communications/digital broadcasting/digital dividend areas with PanAf support per year. Additional ***indicators*** are proposed as per the indicative logframe in annex. A baseline shall be undertaken by the Implementing Partner during inception to further refine these. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.9 Evaluation Having regard to the importance of the action, a final evaluation may be carried out for this action or its components via independent consultants contracted by the Commission. 17 It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it will inform potential further support to the ICT sector at pan-African level. The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. The financing of the evaluation shall be covered by another measure constituting a financing decision. 5.10 Audit Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. The financing of the audit shall be covered by another measure constituting a financing decision. 5.11 Communication and visibility Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and included in the budget for the service contract and the delegation agreement. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. 18 APPENDIX - INDICATIVE LOGFRAME MATRIX The activities, the expected outputs and all the ***indicators***, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome ***indicators*** whenever it is relevant and for monitoring and reporting purposes. Note also that ***indicators*** should be disaggregated by sex whenever relevant. ***Intervention*** logic ***Indicators*** Baselines Targets Sources and means of verification Assumptions (2018) (2020) Overall objective: Impact To foster universally accessible and affordable broadband across the continent (to unlock future benefits of internet based services) OO1: Mobile broadband subscriptions per 100 inhabitants Index at the start of the project An increase of 15% per year i.e 175% @ end of project ITU Statistics 'Measuring the Information Society' Specific objective: outcome Create a more harmonised and enabling legal and regulatory framework for the use of ICT in social and economic, with an emphasis on boosting the spectrum market across Africa SO1: Number of spectrum licenses aligned on international best practices allocated SO2: Number of countries that have initiated significant measures to harmonise their ICT regulatory framework 0 0 To be defined during inception report 30 National Authority reports – Project Report AU, RECs and national decision makers remain committed to improve the ICT enabling environment Output 1 Output 1(a): Spectrum allocation based on international best practices is improved 1a.1: Number of regional guidelines for spectrum regulations and spectrum usage 0 5 Project Report, Regional (RECs) and National authorities reports – do REC reports contain this information? 19 ***Intervention*** logic ***Indicators*** Baselines Targets Sources and means of verification Assumptions (2018) (2020) 1a.2: Number of countries that have transposed Regional guidelines 0 23 Project Report/National Authority Report 1a.3: Adoption of Africa continental Wireless Broadband Deployment Roadmap 0 1 (Continental Meeting organised by AUC and/or ATU) Project report + AUC and/or ATU Report Output 1(b): Terms and conditions for spectrum licensing are improved 1b.1: Number of countries whose spectrum licensing terms and conditions promote technological neutrality 0 30 Project report, AUC and NRA Reports NRA shall make public any changes to the regulations either in its annual report or by public consultation Output 1(c): Coherence between time of assignment with technologies availability and market readiness is improved 1c.1: Number of countries that freed spectrum identified for mobile broadband in accordance with Output 1a 0 40 Project report, AUC and NRA Reports 1c.2: Number of countries that assigned [to mobile broadband] spectrum identified for mobile broadband in accordance with Output 1a 0 25 Output 1(d): Spectrum pricing predictability and alignment on international best practices is enhanced 1d.1: Number of countries that adopted market-oriented spectrum allocation methods 0 30 Project report, Telecommunications Government Ministries and NRA Reports 1d.2: Number of countries for which spectrum fees calculation is aligned with ITU-R SM.2012 0 20 NRA Reports Output 1(e): Cooperation related to the treatment of harmful interference is strengthened 1e.1: Harmonised calculation Method for Africa (HCM4A) Software developed 0 1 Project report, AUC and NRA Reports 1e.2: Number of countries having effectively adopted HCM4A 0 30 AUC + National Authorities reports 1e.3: Number of requests for cross border frequency coordination specific cases resolution 0 5 Project report AUC + NRA Reports 20 ***Intervention*** logic ***Indicators*** Baselines Targets Sources and means of verification Assumptions (2018) (2020) 1e.4: Number of cross border frequency coordination specific cases solved 0 5 Project report AUC + NRA Reports Output 1(f): Awareness and acceptance of the concept and economic models of Internet of things (IoT) is increased 1f.1: Continental Guidelines for an enabling environment for IoT adopted by NRAs 0 1 Project report, AUC, Telecommunications Government Ministries and NRA Reports 1f.2: Number of countries that included IoT concept in the development of telecommunications policy 0 23 Output 1(g): The capacities of national frequencies agencies are strengthened 1g.1: Number of Directors, Radiocommunication Senior Engineers (gender-disaggregated) that have been trained on Modern Spectrum Management 0 30 Project reports 1g.2: Number of countries that have received technical assistance to transpose Regional guidelines 0 30 1g.3: Number of Radiocommunication Engineers (gender-disaggregated) that have been trained on HCM4A 0 30 1g.4: Number of countries whose policy makers, politicians and technicians, (Parliament, Government, Regulatory Authorities) have been sensitised on issues related to IoT 0 30 21 Output 2 Output 2a: Continental ICT/Telecommunications Legislative and Regulatory Monitoring & Evaluation methodology is developed 2a.1Harmonised monitoring methodology established (\*) 0 1 RECs Reports NRA have sufficient skills to ensure meaningful knowledge exchange. AUC Reports Sufficient level of Market liberalisation in MS 2a.2 Harmonised benchmarking methodology on price /investment established (\*) 0 1 NRA Reports 2a.3 Number of Member States contacted to analyse the result of the assessment 0 30 REC & AUC Reports Private sector is involved as required 2a.4 Presentation at regional/ continental Ministerial meeting 0 10 meetings EMREG Reports 2a.5 Number of countries adopting correction measures 0 15 Trained technical experts have achieved sufficient skill levels Output 2b: Continental cooperation between national telecommunications regulatory authorities (NRAs) is strengthened 2b.1: Assessment reports (per topic) 0 5 2b.2: Number of guidelines approved at continental level 0 5 Project reports 2b.3: Number of technical assistance provided to national telecom regulators 0 15 NRAs REC & AUC Reports African NRAs able and committed to allow same persons to work throughout project duration 2b.4: Number of EU NRAs effectively involved in at least 2 meetings a year over a period of 2 years on the same topic 0 5 EU NRAs EMERG & BEREC Reports Output 2c: Awareness of cross cutting use of ICTs (policy) by public authorities and civil society is raised 2c.1: Cross cutting continental studies 0 5 AUC Infrastructure Department sensitises other Departments to include the impact of ICT on the agenda of their Ministerial Meetings 2c.2: Number of Continental African ministerial meetings with non ICT ministers (health, education, ***agriculture***, e-Governance, etc) including prior or subsequent public consultations to seek view of (i) regulators, (ii) civil society and (iii) private 0 5 continental meetings and associated consultations 22 sector 2c.3: Number of Regional ministerial meetings with non-ICT ministers (health, education, ***agriculture***, governance etc) including prior or subsequent public consultation to seek views of (i) regulators, (ii) civil society and (iii) private sector 0 5 regional meetings and associated consultations RECs Infrastructure Departments sensitise other Departments to include the impact of ICT on the agenda of their Ministerial Meetings Output 3 Output 3: Capacity of African stakeholders active in the global internet governance is improved 03.1: African active participation in regional and global Internet Governance Fora (IGF) 0 20 meetings IGF meeting minutes Government officials are made available to participate in training Trained staff remain within their institutions well beyond programme completion 03.2: Number of high-level officials (gender-disaggregated) received coaching/ training/ support for high level meetings (\*) 0 30 Project reports 03.3: Number of mid-level officials trained (gender-disaggregated) through on line course (4 course / 3 years) (\*) 0 180 Project reports 03.4: Number of participants (gender-disaggregated) at training for trainer courses (1 course / 3 years) (\*) 0 15 Project reports (\*): PanAfrican Programme MIP 2014-2017 - Component 4 - ***Indicator*** Nos. 5.1 to 5.3

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[***Council of the European Union: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - The Future of Food and Farming (Markets & Direct payments) - Exchange of views - Preparation of the Council debate ST 5775 2018 INIT***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RP3-61X1-F0YC-N2JD-00000-00&context=1516831)

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**Body**

Brussels: Council of the European Union has issued the following document:

5775/18 GDLC/LP/JU/ah 1 DGB 1B EN Council of the European Union Brussels, 31 January 2018 (OR. en) 5775/18 AGRI 54 NOTE From: Presidency To: Special Committee on ***Agriculture*** Subject: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - The Future of Food and Farming (Markets & Direct payments) - Exchange of views - Preparation of the Council debate I. INTRODUCTION The Commission adopted its Communication on 'The Future of Food and Farming' on 29 November 2017 (doc. 14977/17). On 11 December 2017, the Commission presented the Communication to the Council and Ministers gave their initial reactions. On 29 January 2018, the Council held a first thematic discussion focusing on the CAP's added value, the key objectives at EU level to maintain and further enhance it and the appropriate level of subsidiarity. On that occasion, the Presidency announced that the Council meeting on 19 February would focus on policy elements such as direct payments and measures contributing to environmental protection and climate action, as well as on ***rural*** development.

The Council also took note of the fact that, in preparation for that ministerial debate, the Special Committee on ***Agriculture*** would look into some of the Commission's ideas set out in the Communication in more technical detail in order to prepare the Council debate more effectively. 5775/18 GDLC/LP/JU/ah 2 DGB 1B EN To that end, this note sets out some questions for the SCA's discussion on 5 February 2018 focussing on direct payments and market measures. A separate paper for the SCA meeting on 12 February will focus on measures contributing to environmental protection and climate action, as well as on ***rural*** development. II. DIRECT PAYMENTS Background Direct payments are an essential part of the CAP in line with its EU Treaty obligations. They provide an important income safety net by helping to stabilise farmers' revenues in times of volatile market prices, adverse weather conditions and variable input costs. They also ensure that there is ***agricultural*** activity in all parts of the EU. Furthermore, direct payments play a role in protecting the environment and helping to develop the ***rural*** economy. Currently direct payments are granted to farmers in the form of a basic income support based on the number of hectares farmed. Basic payment are complemented by a series of other support schemes targeting specific objectives or types of farmers such as payments to young farmers, redistributive payments and a small farms scheme, payments for areas with natural constraints as well as voluntary coupled support. The Commission believes that, in spite of providing an important income safety net, direct payments could fulfil their mission more effectively if they were simplified and better targeted. In the Communication, the Commission mentions that the concentration of a large part of payments on a small number of farms raises “accusations of unfairness”. To ensure a fair and better targeted support of farmers' income the Commission suggests to explore in particular the following possibilities: • A compulsory capping of direct payments; • Degressive payments to reduce the support for larger farms; 5775/18 GDLC/LP/JU/ah 3 DGB 1B EN • Enhanced focus on a redistributive payment to the benefit of small and medium sized farms; • Targeting support to 'genuine' farmers to focus on those who are actively farming in order to earn their living. Referring to the principle of equality between Member States the Commission also suggests to reduce the differences between Member States in CAP support. The Commission wants to make the CAP more result-driven by introducing a delivery model based on results that would also cover direct payments. The future CAP ***strategic*** plan would cover ***interventions*** in both pillars to ensure policy coherence and EU set common and specific objectives. In order to advance towards a more result-driven policy mechanism, solid and measurable ***indicators*** and targets as well as a credible ***performance*** monitoring and reporting system would need to be developed. Assurance based on legality and regularity would be replaced by assurance based on ***performance***. Questions for the SCA: i) Result and target orientation: a) What results do we expect from direct payments? b) Should direct payment focus on specific groups/types of farming/ ***agricultural*** sectors? c) What would be the appropriate targeting mechanisms to provide fairer distribution and should these mechanisms be mandatory – e.g capping, redistributive and degressive payments? d) Voluntary coupled support: How could coupled support contribute better to meeting CAP objectives? 5775/18 GDLC/LP/JU/ah 4 DGB 1B EN ii) Basic Payments: a) What are the costs and benefits of a basic payment scheme including payment entitlements? Should this type of direct payment be continued? b) Would a single area payment scheme be preferable? iii) Delivery model: a) Which parameters would need to be set at EU level in order to avoid disrupting the single market/distorting competition? b) Which ***indicators*** could be used to demonstrate the ***performance*** of direct payments in the results-based assurance model? c) On the basis of what analysis included in the CAP ***strategic*** plan should Member States make their choices? In addition to answering those questions, delegations may also highlight other aspects of the current regime where they see scope for simplification. Suggested questions for the Council debate: – How could direct payments be designed and targeted in the future to ensure a fairer and more effective outcome for farmers across the EU? – How could coupled support be better designed to contribute to CAP objectives and EU added value? III. RISK MANAGEMENT The Commission recognises in its Communication the increasing risks of price volatility leading to increased pressure on incomes, the risks stemming from climate change, the associated increased frequency and severity of extreme weather events and more frequent sanitary and phytosanitary crises affecting EU livestock and agronomic assets. 5775/18 GDLC/LP/JU/ah 5 DGB 1B EN The CAP already provides tools to prevent and manage risks; they range from direct payments and market ***intervention*** to current second pillar measures, in particular the Income Stabilisation Tool (IST) and insurance support. The future of risk management post 2020 was discussed during the Informal Council meeting in Tallinn on 5 September 2017 where ministers exchanged views on the engagement of farmers and the further development of the risk management tools in both pillars. In its Communication, the Commission suggests to increase the understanding and the knowledge of the farmers on the different risk management instruments, to create a permanent EU-level platform on risk management and to develop an integrated and coherent approach combining EU-level ***interventions*** with Member States' strategies and private sector instruments. Question for the SCA: How can risk management be improved? IV. MARKET MEASURES AND CRISIS MANAGEMENT Background The EU markets for ***agricultural*** products are regulated by a set of rules constituting the Common Market Organisation (CMO). The CMO establishes the parameters for intervening on ***agricultural*** markets and providing sector-specific support (e.g , fruit and vegetables, wine, apiculture). It includes rules on marketing of ***agricultural*** products and the functioning of producer and interbranch organisations. It also covers issues related to trade and competition rules. Special ***intervention*** and exceptional market support measures are provided for, in order to react efficiently and effectively against a market crisis. The Omnibus Regulation, which entered into force on 1 January 2018, further strengthened the position and the roles of producer organisations to engage in the food supply chain and on the markets. At the Informal meeting in Tallinn held on 5 September 2017 ministers exchanged views on the crisis reserve and the need for more flexibility and modernisation. 5775/18 GDLC/LP/JU/ah 6 DGB 1B EN With regard to the CAP after 2020, the Commission suggests to help farmers make more money from the market. To this end the Commission calls for action to close the investment gap in ***agriculture*** to allow farmers to restructure, modernise, innovate, diversify and take up new technologies and digital-based opportunities such as precision farming. The Commission also argues for additional reflection on the role and effective functioning of ***agricultural*** producer organisations. At the Council meeting on 29 January 2018, Commissioner Hogan stated that the current market measures envisaged in the CMO Regulation function well and thus no significant changes are suggested in the Communication. Commissioner Hogan also indicated that in the Commission's view sectoral plans (e.g for fruit and vegetables, wine etc.) should be included in the CAP ***Strategic*** Plan. Questions for the SCA: i) Having regard to the achievements in the Omnibus Regulation, do you consider that any CMO measures should be further modernised/modified? ii) What additional measures need to be envisaged in order to strengthen farmers’ position in the food chain to achieve overall CAP objectives? iii) How can crisis management be improved? iv) Delivery model: Which market measures and elements could be appropriate for inclusion in a ***strategic*** plan? (Ideas on appropriate objectives, targets, ***indicators*** could also be shared.) No questions on topics III and IV are envisaged for the Council debate. Conclusion The Presidency invites delegations at the SCA meeting on 5 February to provide views on the technical questions set out above. They may also comment on the proposed questions for the Council meeting on 19 February.

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[***Violent governance, identity and the production of legitimacy: autodefensas in Latin America***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:671W-P2V1-F0C0-343M-00000-00&context=1516831)

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**Body**

Introduction

On 24 February, 2013, armed groups took control of the towns of Felipe Carrillo Puerto (known as ‘La Ruana’) and Tepalcatepec in the Tierra Caliente region of the Mexican state of Michoacán. Describing themselves as autodefensas (self-defence groups), they declared that they had risen up against the rule of the local cartel, Los Caballeros Templarios (the Knights Templar). The level of media attention that these groups have subsequently garnered in their struggle against the cartel may indicate that this phenomenon is somehow unique. In fact, neither the occurrence of self-defence groups nor their deployment of the term autodefensa is novel in Latin America. Such groups have emerged periodically in the region’s history, perhaps the most famous recent example being those that emerged in Colombia in the early 1980s. The term autodefensa, and its deployment by such groups, has produced debates around the degree of difference between ideas of self-defence and paramilitarism, often focusing on the degree to which such groups are defensive/offensive in their outlook and capabilities (Romero , pp. 36–37). Whilst such debates are interesting, this article is not concerned with adding to that literature, and simply acknowledges and indeed demonstrates that the term autodefensa is deployed by a wide range of groups whose composition and aims vary. Instead, the focus here is on the relationship between violence, governance, legitimacy and identity in the context of autodefensas in Colombia and Mexico.

More specifically, we ask how violence and governance are employed by the state, autodefensas and other groups to construct (legitimate) identities.

Subsequent to their emergence in February 2013, the autodefensas of Michoacán went on to gain control over much of the territory of the state of Michoacán. They often set up their own citizen councils to take over the government of the towns that they controlled, and disarmed much of the local municipal police who they perceived as having been corrupted by the cartel. Their growing power eventually prompted a Federal response in January 2014, and an agreement was reached for many of the autodefensas to be subsumed into a ***Rural*** Defence Force, armed by and under the aegis of the state. When the time came to demobilise in May 2014, some of the autodefensas refused and many of their members were subsequently jailed, whilst others became part of the ***Rural*** Defence Force, some of which were later institutionalised into the Michoacán State police.

The autodefensas in Colombia emerged in the early to mid-1980s initially in the Magdalena Medio region of central Colombia. They were a direct response to the actions of the guerrillas of FARC (Fuerzas Armadas Revolucionarias de Colombia). Despite the autodefensas being declared illegal in 1989, they continued to grow in line with the expansion of the guerrilla movements, and also spread to other regions of Colombia (Avilés , p. 380). In 1997, disparate groups of autodefensas and paramilitaries came together to form the Autodefensas Unidas de Colombia (AUC) which was an explicitly nationwide umbrella organisation that sought to co-ordinate and further the aims of the groups which formed its membership (Romero , pp. 151–152). The AUC went on to become a major violent actor within Colombia, controlling municipalities, fighting against the guerrillas of FARC and the ELN (Ejército de Liberación Nacional), and conducting social cleansing operations against suspected guerrilla sympathisers within the civilian population. The AUC eventually demobilised, from 2004 to 2006, after the election of Alvaro Uribe as President in 2002 signalled a major military crackdown against the guerrilla forces. Whilst many of the groups that had formed the AUC demobilised, others continued as before and were henceforth described as criminal groups (Inkster and Comolli , p. 65).

We examine the autodefensas in Mexico and Colombia to make sense of the production of legitimacy and identity through violent governance. Our aim is therefore not to compare the two cases or to argue they are the same or arise from similar contexts, as Mexico and Colombia clearly have their own histories and socio-political settings. Rather, we employ these cases to ask broader questions about violence, governance, legitimacy and identity, and the blurring of lines between state and non-state, violence and non-violence, legitimate and illegitimate. In other words, the article explores the ways in which autodefensas employ violence to establish governance networks, interact with other groups and seek to produce legitimate identities. In this context, governance refers to processes of ordering and regulating things, people and relations that can be undertaken by a range of groups (not necessarily related to the state), that might have disordering effects, and that involve processes of both negotiation and contestation.

By shifting focus from the question of where legitimacy lies to how it is produced through violence by different groups, we suggest that autodefensas challenge the often presumed link between the state and legitimacy, as well as the (binary) distinction between legitimacy and violence. We contextualise this question through an engagement with and critique of two notions: state failure and violent pluralism (Arias and Goldstein ). We argue that engaging autodefensas in Mexico and Colombia through the question of violence, governance, identity and legitimacy highlights several aspects that state failure literature mostly fails to address, and the notion of violent pluralism can help to examine. We develop the notion of a field of contestation and negotiation, firstly, to show that state failure is not merely a Western hegemonic claim but also a tool employed by autodefensas in their efforts to legitimatise violent governance. Secondly, the idea of a field of contestation and negotiation serves to enrich the notion of violent pluralism by addressing the intricacy of violence and non-violence in these practices of governance.

Thus, we employ the concept of state failure not only because both Colombia and Mexico have been subject to state failure literature and its critiques but also, and more interestingly, because the leaders of autodefensas themselves have employed the discourse of state failure. We are interested in how state failure operates as part of a field of contestation and negotiation productive of different claims to identity and legitimacy. The autodefensas’ instrumental utilisation of state failure discourse means it becomes a ***strategic*** means of making a claim to, or producing, legitimacy through violence by various groups. This means that the relationship between the state, autodefensas and other groups is one of opposition, tension and co-constitution simultaneously. To make sense of this complex field of relations, we employ the notion of violent pluralism, which offers a conception of politics as violent struggle constitutive of political (dis)ordering and identity in the Latin American context. In addition, we enrich this notion with the idea of a field of contestation and negotiation in order to make sense of non-violent practices and to highlight the inextricability of violence and non-violence. We argue that, in the context of autodefensas in Latin America, the idea of a field of contestation and negotiation helps to understand the complexity of relationships that encompass the production of legitimacy and identity through (non)violent governance, whereby lines between (non)state, (non)violence and (il)legitimacy blur and transform. Yet, we do not simply dismiss (binary) distinctions as these continue to be employed by groups in their discursive and material efforts to produce, justify, challenge, contest and negotiate their own and others’ legitimacy and identity.

State failure: institutions, relations and the production of knowledge

In 2010, then US Secretary of State Hillary Clinton commented that Mexico is ‘looking more and more like Colombia 20 years ago’ (BBC ; see also Morton ). Her comments resonate with a frequently asked question among scholars and commentators: will Mexico ‘become Colombia’ of the 1990s with respect to the proliferation of non-state armed groups and the high incidence of violence, and in doing so exhibit characteristics of a failed state (e.g. Escalante Gonzalbo , pp. 84–96; Pansters , p. 6)? This perceived risk of state failure seems to be supported by Colombia and Mexico’s listing in the ‘elevated warning’ category of the Fragile State Index, ranking 69th and 88th, respectively (out of 188 countries). The Index, a collaboration between Foreign Policy and The Fund for Peace, ranks countries based on a wide range of (sub-)***indicators***—including ‘corruption’, ‘internal conflict’, ‘protests and demonstrations’, ‘youth unemployment’, ‘powerlessness’, ‘internet access’, ‘sanctions’—whereby the link to state ‘failure’ or ‘fragility’ is not necessarily self-evident.

These rankings and concerns reflect, we argue, a particular conception and production of state legitimacy and identity more than objective strength/fragility. This becomes clear by mapping the development of the concept of ‘failed state’. The notion first appeared in a 1992 Foreign Policy article, in which Gerald Helman and Steven Ratner argued: ‘From Haiti in the Western Hemisphere to the remnants of Yugoslavia in Europe, from Somalia, Sudan, and Liberia in Africa to Cambodia in Southeast Asia, a disturbing new phenomenon is emerging: the failed nation-state, utterly incapable of sustaining itself as a member of the international community’ (Helman and Ratner , p. 3). The roots of the problem, they note, lie in the ‘vast proliferation of nation-states’ due to decolonisation in the post-World War II period. At this time, the right to self-determination took precedence over ‘long-term survivability’. The problem of the failed state did not, however, surface during the Cold War as states were propped up through ‘hefty infusions of aid’ (ibid.) from former colonial masters and superpowers due to their ***strategic*** importance.

Of interest in their analysis is, first, the connection of very diverse types of states into a single ‘problem’ (Call , p. 1494). Later state failure scholars are equally guilty of this, e.g. Ira William Zartman’s Collapsed States, which defines ‘collapsed’ as the non-***performance*** of basic state functions, aggregating a diversity of states and phenomena (Zartman , , p. 5). Second, they ascribe a catalysing effect to the end of the Cold War—another interpretation is that it was more a case of a shift in scholarly attention from superpower rivalry towards internal conflicts and crises. Third, and equally significant, is the break established between the colonial and post-colonial periods, thus cutting off the functioning and effects of colonisation from the frame of analysis (cf. Call , pp. 1499–1500; Pureza et al. , p. 1). Hence, it becomes possible to argue that states that gained independence after 1945 attach too much importance to sovereignty, whereas (humanitarian) ***intervention*** would be the best—read: most cost-effective—solution to the problem of failed states (Helman and Ratner ).

The notion of failed states attracted relatively little scholarly interest during much of the 1990s, although it did become a concern for policymakers, as demonstrated by the US ***intervention*** in Somalia, seen by many scholars as the collapsed state par excellence (e.g. Call , p. 1492; Gros , p. 464; Pham , p. 84; Rotberg ). The subsequent development of the notion and its broadening to include a range of situations from ‘fragility’ to ‘collapse’ (e.g. Acemoglu and Robinson , pp. 8–9, 398, 429; Chesterman et al. , p. 8; Etsy et al. ; Grayson , pp. 3–4; Helman and Ratner ) continued to rely on vague definitions and arbitrary aggregations. A shift occurred towards the end of the 1990s, when international financial institutions became increasingly interested in questions of governance and state-building—their Cold War ‘neutrality’ had prevented broaching such issues—thus forging a link between governance and development (Call , p. 1493). Another decisive shift occurred in the aftermath of the September 11 attacks, when failed states became cast as safe havens for terrorists and launchpads for terrorism, which could have dire consequences both regionally and globally (e.g. Crocker ; Fukuyama ; Hamre and Sullivan ; Litwak , p. 43; Rotberg ; Siegle et al. —for critiques, see Hehir ; Manjikian ). The Failed States Index emerges in this context, first published in 2005 and renamed Fragile State Index in 2014.

The perceived risk of Mexico and Colombia being or becoming failed or fragile states is therefore the result of a particular conception of how a modern state should operate and what makes it ‘strong’, ‘developed’, ‘legitimate’, etc. In this context, the ascription of failed state status can be seen as a Western hegemonic claim that enables ***intervention***. Such claims rely on the logic of modernisation and a particular linking of development and governance, whereby both Colombia and Mexico are regarded as cases of under- or regressive development. As Morton (, p. 1634) points out, traditional understandings of Colombia in the failed state literature suggest that the country fails to measure up to an ideal-type conception of the modern state. Failed states are represented in pathological terms of ‘deviance, aberration and breakdown’. Scholars such as Fukuyama, Huntington and Kaplan paint a picture of the post-colonial world reminiscent of The Heart of Darkness, as a place of ‘danger and darkness, anarchy and disorder’ (ibid., p. 1635). Such conceptions became expressed among policymakers, especially in the US, as a fear that a historically weak state such as Colombia, plagued by internal violence, would descend into a failed state (ibid., p. 1634). Moreover, it paved the way for US ***intervention*** in the form of a joint Colombia–US initiative known as Plan Colombia, which began in 2001 and lasted until 2006 (though other aid/assistance packages remain in place).

This ‘pathological’ thinking has also informed US policymaking towards Mexico: for instance, the 2008 US Joint Forces Command paper outlines the dangers of Mexico failing due to the upsurge of violence in the context of the war on drugs. Moreover, fearing that such problems will spread, Mexico, a neighbouring country, is conceived as a security threat to the USA (ibid., p. 1635; US Joint Forces Command , p. 36; see also US Joint Forces Command , p. 47). Whilst the Mexican government rejected the need for a ‘Plan Mexico’, and academics such as Morton (, p. 1635) have described the portrayal of Mexico as a failed state as a caricature and a misunderstanding of the social and economic factors at play, it is clear that the notion of ‘failed’ or ‘failing’ state has had far-reaching discursive and material effects in both Mexico and Colombia.

Morton offers an important critique of the failed state literature as well as the ascription of failed state status to Mexico and Colombia; however, his is certainly not the only criticism levelled at this body of scholarship. Failed state literature has been the subject of sustained critiques over a number of years. These critiques can be roughly divided into ‘soft’ critiques, which point to the socially constructed and therefore changing character of institutions and identities, but which ultimately seek to save the concept by improving it (e.g. Frödin , p. 278; Romero , pp. 53–54), and more profound critiques which question the discourse of ‘failed’, ‘collapsed’, ‘fragile’, etc. states as such. These latter critiques challenge the binary distinctions the softer critiques ultimately rely upon—legitimate vs. illegitimate; civil vs. uncivil; rule of law vs. unrule of law (e.g. see Koonings and Kruijt , , pp. 1–2; Kruijt ).

These scholars argue that not only is there no accepted definition of what a ‘failed’ or ‘weak’ state is, grouping together a wide variety of states, contexts and situations (Call , p. 1942; Hehir , pp. 212–213), the concept of state failure is an effect of particular relations of power, and of the production of knowledge. The question is therefore not whether or not, or to what extent, states are failing but rather how states come to be seen as failing, on what basis and according to which, and whose, criteria (e.g. see Pureza et al. , p. 2). Here, we come back to Morton’s point regarding ‘pathologisation’, whereby the Western production of a particular idea of the liberal state, regarded as universally valid, is set against the ‘Third World State’. The effect is a conception of democratic states as strong and legitimate versus weak or failing states, characterised by sickness, illegitimacy and violence (Bilgin and Morton ; Morton , p. 1634, , p. 377), and in need of ***intervention***. States with ‘objectionable features’ are thus too readily conflated with those that are in crisis as is the case in Colombia, which has been marked as failing despite its record of relatively stable state institutions over several decades (Call , p. 1500).

These critiques usefully illustrate how the ascription of failed state status to Colombia and Mexico involves the production of a particular (Western) conception of state development, identity and legitimacy. Yet, in the context of autodefensas, the idea of state failure functions not only as a Western imposition but also, we argue, as a ***strategic*** tool employed by non-state groups seeking to legitimise their (violent) governance. For instance, Dr Mireles, a key autodefensa leader in Mexico, claimed that ‘the state has offices here but the power of the state doesn’t exist here’ (our translation throughout unless otherwise stated; see also: De Llano ; Martínez , p. 12). In other statements he has taken this rhetoric further by declaring that the state was in league with organised crime: ‘No institution could fulfil its duties because all the authorities—from the municipal, to the State and Federal levels—were part of the cartels, or were being paid off by these cartels’. Another important autodefensa leader, Hipólito Mora, deploring the failure of local government, called directly to the state and the federal government, saying: ‘We have been abandoned by the state as if we didn’t exist….we ask President Peña Nieto for a little attention, not much, just a little’ (Prados ).

Thus, from the start of the mobilisations, the language of state failure was an important instrument for the autodefensas to claim the absence and/or corrupted character of the state, thereby legitimising the formation of armed groups by citizens, who were forced to take responsibility for their security into their own hands. By calling themselves autodefensas, they made clear their non-state identity—i.e. not failing—whilst constructing an identity that was not directly threatening to the state, and defensive in nature. At the same time, however, the claim of state failure was also aimed at provoking a response that would embarrass the state into action on their behalf. As we will go on to discuss, rather than simply an expression of state failure, the autodefensas can be seen as pursuing a politics of labelling by employing the notion of state failure to delegitimise the state and construct their own identity and legitimacy.

Such labelling of the state as failed continued after the Federal state intervened in Michoacán in 2014 and attempted to institutionalise some of the autodefensas into the state security corps. Indeed, the autodefensa group of San Miguel de Aquila saw this very strategy as evidence that Michoacán was a failed state: ‘In the recent declarations of President Enrique Peña Nieto he is recognising that Michoacán is a failed state by proposing the integration of the autodefensas into the security forces of the State, something that we think doesn’t resolve the root causes of the problem’ (Sin Embargo ). And in the aftermath of this strategy such rhetoric continued to be used to counter the idea that it had brought security to the region: ‘It’s a farce to say the Federal Government has brought peace to Michoacán. We continue to live in a failed state, in a state where there isn’t security, where there is no imparting of justice’ (spokesman for ‘Por un Coalcomán Libre de CT SDR’ statement).

These pronouncements, and the very presence of autodefensas, fed into a wider debate around the question of whether Michoacán could be categorised as a failed state, which included the church, politicians, civil society organisations, journalists and academics (e.g. Becerra-Acosta ; Beltrán and Cruz ; Seguridad, Justicia y Paz ; Camacho and Jiménez ; Castellanos ; López-Dóriga ; Rosen and Zepeda , pp. 84–85). Through their utilisation of the term and indeed their very presence, the autodefensas generated an intense debate around the nature and classification of the term ‘failed state’ as a means not only of denouncing the state but also of legitimating alternative forms of (violent) governance, which we will discuss in more detail next.

Legitimising violent governance

The idea that state failure is not merely a violent imposition of Western modernity but also a legitimating claim for (violent) governance on behalf of local non-state groups in a wider field of contestation can be better understood through an engagement with the notion of violent pluralism developed by Arias and Goldstein in their book Violent Democracies in Latin America (). They coin the term to make sense of the persistence, and intricate entwinement, of violence and democracy in Latin America. Violence, rather than being an outlier or representing a failure to live up to the standards of (a dominant Western notion of) democracy, is a key component of how state and society as a whole function in this region. Seeking to understand how violence operates without blaming it on an illiberal state, they argue that violence is not only crucial to the establishment and maintenance of democratic governance but also to popular challenges to the legitimacy of these.

In the context of this article, the significance of the notion of violent pluralism lies, firstly, in drawing attention to the wider context of social and political relations of violence, rather than focusing on state–society relations only. Secondly, it is grounded in a conceptualisation of politics in terms of struggle and conflict productive of political ordering and subjectivity (ibid., pp. 19, 23). This enables a conceptualisation of relations—e.g. state/non-state, legitimacy/illegitimacy, governance/resistance—beyond binary terms, whilst acknowledging the important material and discursive power that such binaries continue to have (cf. Ansems de Vries and Rosenow ). It helps develop the idea of governance as a field of contestation and negotiation produced by and productive of competing claims to legitimacy and identity by a range of state and non-state groups, whereby the delineation between these blurs.

Legitimacy is thus contested both as concept and in practice. Conceptually, the notion of violent pluralism offers a critique of approaches that identify legitimacy with the state, whereby it is understood as the extent to which state rule is accepted by its people without recourse to fear or favour to encourage endorsement (e.g. Gilley ). Bourdieu challenges this Weberian conception of the state’s legitimacy as a matter of a ‘free act of clear conscience’, arguing instead that legitimacy is conditioned by structures that foster a ‘pre-reflexive agreement’ with the established order (Bourdieu et al. ). That is, rule is often not accepted actively but tacitly; structures become normalised. As such, questions of legitimacy only arise during times of crisis; under normal circumstances state legitimacy goes unquestioned. In distinction, the notion of violent pluralism brings to light the ‘normality’ of the contestation of legitimacy and the centrality of violence to the everyday functioning of governance regimes in the Latin American context, and especially with respect to autodefensas. Legitimacy is, accordingly, no longer automatically identified with the state and with legality; it is a continuous process of contestation involving discursive and material practices by a range of groups (cf. Dowling and Pfeffer ). These competing efforts to create and gain recognition for alternative forms of governance are productive of social change insofar as new forms of legitimacy and political subjectivities are created in the process.

In his study of the Knights Templar cartel in Michoacán, Ernst () employs a similar conception of legitimacy, as a process of competition among groups, whereby the state of Michoacán is described in terms of ‘fractured sovereignty’. In its efforts to produce legitimacy, the cartel portrayed itself as a local group protecting the people of Michoacán from ‘foreign cartels’. They cultivated a quasi-religious identity and presented the cartel as an alternative justice system that represented ‘the government’ in the areas that they controlled (Ernst , p. 141; Gil Olmos ). Central to this was the ability to utilise violence to repel competing cartels as was the construction of the federal government as an outside aggressor. This built upon feelings of insecurity in populations such as in the Tierra Caliente region, in which the state was seen as corrupt and as the perpetrator of violence against local populations, whilst these people felt stigmatised as criminals by the Federal government (Ernst , ; Gledhill ).

By setting themselves up as an alternative form of governance, the cartel challenged the state’s identity as the legitimate source of law and order, and through their co-optation of parts of the local state helped to blur the line between state and non-state. This took the form of ensuring politicians amenable to their cause were elected into office, using bribery and threats of violence to ensure impunity for their actions, and using state institutions such as the municipal police as a tool for their interests. Therefore, whilst they would at times openly confront parts of the Federal state, such as the Federal Police, they were integrated into the local governance and law enforcement of other parts of the local and regional state. Allegations of co-operation or at least mutual non-aggression pacts are also alleged to have been made between the cartel and the army—which is part of the Federal state—in the region (Ernst ; Grillo ).

In line with the idea of violent pluralism, Ernst’s study shows that legitimacy is a process or field of contestation and negotiation whereby violence is employed both to create and undermine the acceptance and recognition of different groups. Similarly, the autodefensas can be seen as a response to the cartel’s regime of violent governance. The autodefensas positioned themselves against the violence and extortion of the cartel vis-à-vis the local population—although, importantly they did not present themselves as anti-drugs per se (an important source of revenue for many in the region). The autodefensas’ efforts at seeking legitimacy mirrored the strategies of the cartel insofar as violence was key to the contestation and establishment of a rival regime of governance. The autodefensas’ ability to defend the communities in which they were based was central to their appeal and crucial to the construction of their identity. Being armed and organised enabled them to take over the functions of the municipal police in towns where they were in league with the cartel (Martínez et al. ). The establishment of a regime of violent governance, and the ability to survive the assaults of the cartel, was central to their appeal to, and ability to negotiate with, the regional and federal governments.

The idea that the production of legitimacy is part of a field of contestation and negotiation suggests, in addition, that state/non-state relations are complex and changing rather than a fixed binary distinction, as is illustrated by the autodefensas’ deployment of discourses of state failure. Autodefensas extensively employed these discourses to reflect their perceptions of the way in which the cartel had influenced the local and regional state. In doing so they built upon the existing feelings in the region that the cartel had tapped into, but were far more explicit in their rhetoric, claiming that they had no alternative but to take things into their own hands. However, unlike the cartel, their criticisms did not extend to the Federal state, whom they called on to intervene and re-establish the rule of law in the region (e.g. Prados ). Therefore, despite their rhetoric of state absence and failure, they recognised that the Federal state was still an important actor. Autodefensas thus both appealed to the state as a legitimate actor to resolve their problems, and sought to challenge the state’s legitimacy by exercising control over territory in Michoacán based on their ability to project violence and protect the local citizenry from the Knights Templar cartel.

The autodefensas became de facto governing entities, both challenging and appealing to different parts of the state, whilst the state simultaneously did and did not recognise and legitimise the autodefensas. One the one hand, the state engaged in prolonged negotiations with the autodefensas, the Federal Police and army undertook operations alongside them, and, ultimately, the state sought to institutionalise the autodefensas. Yet, on the other hand, and simultaneously, autodefensas were being portrayed as having connections with organised crime, attempts were made to disarm them, and those groups who refused institutionalisation were arrested and jailed. This complex relationship between autodefensa groups and various state institutions—often blurring the lines between the two—illustrates the play of legitimisation and de-legitimisation in the (co)construction of governance regimes.

Similarly in Colombia, the appeal of discourses of state failure was central to the autodefensa groups’ legitimation of violent governance. This was true during their initial emergence in the Magdalena Medio region in the early 1980s where they justified their mobilisation with reference to the state’s inability or unwillingness to protect the population from the guerrillas (Medina Gallego , p. 178; Romero , pp. 38–39; Mazzei , p. 81). It was subsequently made explicit under Carlos Castaño’s leadership of the nationwide umbrella group for the autodefensa/paramilitary groups, the AUC, when he claimed that the organisation played an ‘important role in keeping this nation from a failed government’ (Wilson ; Aranguen , pp. 261–263). The AUC thus portrayed itself as safe-guarding the state and seeking to ‘re-establish its functions’ (Rodrigo Tovar Pupo aka Jorge 40, quoted in Velásquez Rivera , p. 1410). In doing so, it justified its existence on the basis of anti-subversive principles, by aiding the state to re-establish control of its territory. This included the military, which, according to the leadership of AUC, had ‘not done their institutional duty of guaranteeing Colombians their lives, property, and honor [sic]’; hence, it fell to the AUC to do ‘a patriotic duty that the military did not want or were not able to do’ (Wilson , their translation). The autodefensas were thus closely involved with, and their formation was supported by, the army and local and national politicians, whilst simultaneously claiming that these had failed in their duties (Medina Gallego , pp. 185, 197–198). Although the field of contestation and negotiation is produced differently from the Mexican example, the case of Colombia equally presents a set of relations that is both complex and dynamic, in which the state is not ‘absent’ or ‘failing’ but part of a field in which different claims to legitimacy and identity are played out. On their part, the autodefensas deploy state failure as a politics of labelling to justify their (legitimate) existence, whilst simultaneously working closely with the state and especially the army (Medina Gallego , pp. 170–172, 178–180).

For instance, in Magdalena Medio, an important region in the initial development of the autodefensas, and in particular the town of Puerto Boyacá, the army played a direct role in setting up autodefensas, with support from the ***rural*** elite, who were primarily wealthy landowners and businessmen, as well as drug traffickers. These seemingly disparate groups had a shared opposition to both the national dialogue instigated by President Betancur, and the guerrilla movements, primarily in the form of FARC (Medina Gallego , pp. 146, 170–172, 178–180; Romero , pp. 18–19, 24). The armed forces, operating under a national security doctrine premised on the counter-insurgency of the Cold War, felt betrayed by the dialogue with the guerrillas instituted by Betancur, and so turned to the civilian population for help in their fight against FARC. The regional elites of Magdalena Medio also saw the national dialogue as a betrayal by the central government that directly threatened their interests by raising the possibility of land reform. With the growth of the narcotics trade, drug traffickers had started buying land and by the early 1980s had become major landholders in Magdalena Medio. Both these sections of society came into conflict with the guerrillas who became increasingly aggressive in their implementation of both land taxes—‘vacunas’ (literally ‘vaccinations’), and their tax on the drug trade—‘gramaje’ (literally ‘weight’) (Álvaro Rodríguez , pp. 67–68; Mazzei , p. 79).

The regional elites, including the autodefensas, employed the idea of state failure to mobilise support for their political aims of reversing the policy of national dialogue and guarding against ***rural*** reform. In this effort, they formed alliances with other groups disillusioned with these policies, including state institutions such as the armed forces. This seemingly contradictory position of accepting help from parts of the state whilst portraying other sectors of it as failed or failing illustrates the idea of governance as part of a field of contestation and negotiation, in which the state is multi-faceted and co-constituted with other groups in society, and legitimacy is continuously being produced, contested and negotiated.

Neoliberalism, violence and the transformation of the state

The idea of violent pluralism helps to reconceptualise the notions and relations of violence, governance, identity and legitimacy in the context of autodefensas. In addition, it situates these processes, and the problem of violence, in relation to the development of neoliberalism, which has reconfigured the state in recent decades. Arias and Goldstein () argue that the violence experienced in contemporary Latin America is a logical result of the unfolding of neoliberal democracy. Therefore, when citizens take matters of justice into their own hands, for example in the lynching of criminals in Bolivia, this is not a throwback to previous times, but rather a response to insecurity embodied in neoliberal democracy in which individual responsibility is stressed rather than reliance on the state (ibid.; Goldstein ). The rise of autodefensas could similarly be understood as a response to insecurity resulting from neoliberal democracy.

Arias and Goldstein are not alone in situating the challenges facing Latin American states, of which the emergence of autodefensas are a symptom, in relation to the development of neoliberalism in the region from the 1980s onwards. Part of this development, and one of the hallmarks of neoliberalism in Latin America, has been a shift towards export-led growth in areas such as ***agriculture***. Yet, the growth of the ***agricultural*** export economy has not led to benefits for the wider community and inequality, poverty and feelings of marginalisation remain. In the case of Michoacán, the capital and infrastructure investments required to support the cultivation and exportation of ***agricultural*** products, such as limes and avocados, are a factor in explaining how drug cartels have been able to flourish in the region (Malkin ). For example, the port of Lazaro Cardenas is a major drug transhipment point, both for the import and export of cocaine from Latin America and to the USA, but also for the import of precursor chemicals for the fabrication of methamphetamines. In Colombia, whilst initially protecting land from the guerrillas, the potential for expansion soon became apparent and groups of autodefensa/paramilitaries started to grow and develop in different regions and to accumulate increasing amounts of land. The land, from which local populations were frequently displaced using violence, could subsequently be sold to local and international companies often involved in monoculture ***agricultural*** production geared towards export to foreign markets. Corporations also used paramilitary groups to safeguard their lands from guerrillas and to discipline their workforce, preventing strikes and muting wage and benefit demands. For instance, banana companies in the Urabá region, including major international companies such as Chiquita, paid paramilitaries per box of bananas for their services (Gentile ; El Espectador ; Lobe and Muscara ).

For Arias and Goldstein, as for scholars like Morton and Wacquant, the relationship between neoliberalism and the transformation of the state is of key significance in this context. In his critique of state failure approaches, Morton argues that the issues facing Mexico are due to transformations of the state resulting from neoliberal restructuring rather than the failure of the state to develop properly. This was particularly felt in Mexico following the signing of the North American Free Trade Agreement (NAFTA) which, coupled with a reduction in state subsidies, had a significant impact on the competitiveness of the ***agricultural*** produce of Michoacán (Aguiar , pp. 166–167; Cavanagh et al. , pp. 58–65). The impacts of this transformation of the state, socially and territorially (Maldonado Aranda , p. 46), are key to understanding how and why autodefensas have emerged. Morton (, p. 1641) argues that neoliberal policies have stimulated the growth of both the drugs industry and levels of money laundering in Mexico, whilst the pretext of the war on drugs helped to protect NAFTA.

Loïc Wacquant (, ) stresses that neoliberalism is driven less by the market and more by the construction of a particular type of state. The state is increasingly reliant on its punitive and coercive branches to shore up its legitimacy in the face of a reduction in its provision of social services and welfare to its populations. For instance, Mexican state ***interventions***, beginning under Calderón, were characterised by the mass deployment of the Army, the Federal Police and the Navy. Indeed, the Federal response to the autodefensa groups, when it eventually came, was the deployment of further troops. Whilst this was accompanied by promises of funds to rebuild the social fabric of the region, such programmes were quickly decommissioned whilst the troops often remained. Wacquant () argues that these ***interventions*** are characterised by territorial stigmatisation and labelling of certain areas as violent, lawless and as ‘black holes’, which enables them to be treated differently. For instance, areas such as the Tierra Caliente region have been portrayed as lawless and violent areas, characterised by violent populations and hostile terrains (Maldonado Aranda ).

In Colombia, President Alvaro Uribe’s Democratic Security Policy consisted of a confrontational stance towards the FARC guerrillas, involving the use of the Army to push into areas previously controlled by such groups. The effort to establish state presence in these areas bore out much of the criticisms autodefensa/paramilitary groups had levelled against the state, as it was present primarily through its coercive arms, the Police and the Army. In the case of the ‘Push to the South’, this involved the support of paramilitary forces, which were transported in from other parts of the country by the Army to assist in the offensive. In this case, too, the production of a (legitimate) presence through violent governance involves a blurring of the distinction between state and non-state. As the presence of the state was limited to the Army and the Police, it could co-exist with the violent governance of paramilitary groups and helped spread the neoliberal transformation of the state to other areas (e.g. see Rodríguez González ). These examples illustrate that (violent) governance produces and operates as a field of contestation and negotiation, whereby various groups challenge the legitimacy and identity of other groups whilst simultaneously being implicated in and supporting it in other ways. This has led scholars such as Civico () to claim that far from being a sign of state weakness, and despite their rhetoric of state failure, such groups can in some way be seen to strengthen the state, albeit in a perverse form conditioned by its neoliberal nature and insertion into the world economy.

However, these developments—the entwinement of (non-)state groups; the state’s attempts at delegitimising and stigmatising certain groups and regions; and the perception of the state’s violent ***interventions*** as creating further violence—are not new and have a long history. It is therefore too simplistic to attribute all such developments to the advent of neoliberalism. Rather, as Arias and Goldstein suggest, these underlying issues and conflicts have been aggravated and brought to greater prominence under the influence of neoliberal policies, which have exacerbated pre-existing problems and created feelings of abandonment. Therefore, the rhetorical portrayal of the state as failed by the autodefensas can be better understood as voicing people’s long-held perception of being abandoned by the state and being side-lined by the national project (e.g. Malkin ). The cartel and the autodefensas have utilised such ideas to gain legitimacy for their alternative governance, and indeed their very presence as sources of governance reflects the ways in which the state and state–society relations have changed under neoliberalism. Therefore, despite the very real presence of the state—especially in the form of the coercive branches—and the investments in infrastructure that have been made, because of the purposes for which such ***interventions*** are carried out, and the manner in which they are undertaken, the population does not feel that the state is present in the ways in which they want it to be so.

(Non)violent (dis)ordering

The notion of violent pluralism helps to contextualise the role of neoliberalism in the development of relations among, and transformations of, (non)state groups in Latin America. In addition, and relatedly, it enables a conceptualisation of politics in terms of (violent) struggle and conflict (Arias and Goldstein , p. 15). We have developed these insights into the idea of governance as a field of contestation and negotiation whereby different groups produce, challenge, contest, enable and negotiate legitimacy and identity through violent means. As illustrated by the autodefensas in Mexico and Colombia, violence can bring into question the existing social norms and enable the formation of political order and of new modes of political subjectivity (ibid., pp. 23–24).

We will develop these insights in two directions. Firstly, whilst violence is often associated with disorder, the case of autodefensas shows it is also constitutive of forms of order(ing). We will push this idea further by suggesting that the violence–governance–legitimacy relationship is characterised by the simultaneity and inextricability of ordering and disordering (Ansems de Vries ). Secondly, and following this, conceiving of governance as a field of contestation and negotiation constituted by a play of (dis)ordering also raises the question of the role of non-violence, and the relationship between violence and non-violence. We argue that, in this field, (dis)order and (non)violence are continuously produced and reproduced and become difficult to tell apart.

In other words, whilst we argue that violence is highly significant in the autodefensas’ production of legitimacy and identity, these processes cannot be reduced to violence alone. Arias and Goldstein’s writing underemphasises the idea that non-violence, intricately entangled with violent practices, plays a constitutive role as well. For example, in Colombia groups such as ACDEGAM (Asociación Campesina de Ganaderos y Agricultores del Magdalena Medio) were set up by key supporters of the autodefensas in the Magdalena Medio region, drawn from the land-owning elites who had a vested interest in countering the threat that the guerrilla groups faced. Such groups were utilised to lobby the local and national governments as well as to drum up support among the local populace. Therefore, violence was used to help construct an identity for the autodefensas and define their constituency, but their supporters also tried to build links to civil society and the different levels of the state. Thus, paramilitary and autodefensa groups made widespread use of ‘spectacular’ violence such as massacres and the limpieza social but they also developed other forms of violent and non-violent governance, for instance through the provision of a form of alternative law and order in the communities they controlled. This involved both the killing of thieves and members of gangs and a graduated system of punishments and the arbitration of social behaviour (Civico ). For example, husbands who beat wives or members of gangs would be given warnings to change their behaviour or face more serious consequences (Caraballo Acuña ).

Sanford () notes that towns controlled by such groups experienced close to no crime of the common or garden sort. Whilst this does not mitigate the violence these groups committed, in particular when they first took over towns, it does help to explain how they gained legitimacy as some Colombians saw them as providing a form of order (Civico ). Other non-violent practices that helped to produce legitimacy consisted in the provision of social goods to communities, which is especially significant in the context of the neoliberal reforms discussed above. This included the provision of services, investment in infrastructure and the construction of public buildings, such as the school financed by Fidel Castaño in Magdalena Medio (Dudley ). Violent and non-violent practices of governance are thus closely entwined and whilst the extent of the latter may well have been overstated by paramilitary leaders in their testimonies, the wide range of scholars referring to such non-violent practices (e.g. Lara ; Civico ; Aranguen ; Romero ; Medina Gallego ; Dudley ; Caraballo Acuña ) suggest their significance as part of paramilitary and autodefensa practices of governance. Autodefensas thus challenged the state (and other groups) in some ways, co-operated with them in other ways and took on state-like activities and appearances through both violent and non-violent practices, or indeed through the blurring of these. These practices of (non)violence thus had both ordering and disordering effects.

In Mexico, various groups employed culture and religion in the production, contestation and negotiation of legitimacy and identity. This plays out, for instance, with respect to the contestation between the Knights Templar cartel and the autodefensas over their respective Michoacán identities. The Knights Templar cartel and their predecessor, La Familia Michoacana, had strongly emphasised this identity, claiming to protect the local citizenry against the barbarity of ‘foreign’ cartels from other states, whereby the autodefensas were portrayed as stooges of these ‘foreign’ cartels. The autodefensas contested these claims by presenting themselves as a popular social movement comprising ordinary local people (Le Cour Grandmaison , p. 7; Prados ). The autodefensas employed non-violent—or violent non-violent—methods to reinforce their local identity whilst directly challenging the cartel’s methods of attracting and cementing social support. In particular, they used corridos (traditional ballads from ***rural*** Mexico used to tell stories set to folk music) to recount their struggles and exploits. These mirrored the cartels’ narco-corridos, which are the same kind of ballads, extensively exploited by the cartels to commemorate their actions and attract social support (McGirk ). Here, music operates as a field of contestation: song is employed in a battle for both territory and identity, blurring the lines between violence and non-violence as non-violent means are utilised to support, justify and commemorate violent acts.

This (non)violent employment of identity is also visible with respect to religion. Importantly, La Familia Michoacana had portrayed themselves as a quasi-religious sect which promoted family values and whose members were teetotal. The Knights Templar continued this trend, and also portrayed its leaders such as ‘El Chayo’ (Nazario Moreno González—also a key leader of La Familia Michoacana) as religious figures. In response to this, the autodefensas demonstrated their links to established church figures who spoke in support of the autodefensas such as Father Patricio Madrigal, priest of Nueva Italia, Miguel Patiño Velásquez, the Bishop of Apatzingan, and José Luis Suárez Barragán, priest of La Ruana (Calderón ; Chouza ; Prados ). By emphasising this link to the established church, the autodefensas sought to legitimate themselves in the eyes of the public whilst challenging the Knights Templar’s supposed religious credentials. This was particularly important because the Church was regarded as the only institution in the region that had not been infiltrated and corrupted by the Knights Templar.

The co-operation between members of the church and the autodefensas is also illustrated by their joint announcement of a civil society movement called ‘Yo soy autodefensa’. This group had the objective of calling for the imposition of security and the law across Mexico, and was characterised as an unarmed social movement by its founders (Chouza ). The ‘Yo soy autodefensas’ movement provides an interesting meeting point between the autodefensas’ construction of the state as having failed, and its identity as a violent actor pursuing non-violent means, in league with the local church, to secure its position and negotiate with the Federal state. Here, too, violence and non-violence are intricately linked in the constitution of legitimacy and identity. Moreover, as in previous examples, socio-political (dis)order, legitimacy and political identity are continuously produced, negotiated and contested, rather than a state that can be achieved once and for all.

Governance and legitimacy thus continue to operate in a field of contestation and negotiation—and a process of ordering and disordering simultaneously—despite the state’s attempts at gaining a monopoly of legitimate control. Given the control of some areas by the autodefensas, and the failure of the initial attempts at disarmament, the state’s engagement with autodefensas was marked by co-operation and contestation simultaneously. Collaboration was enabled by the perception of the cartel as a shared enemy (at least to some extent) and the fact that the autodefensas had not positioned themselves directly against the state. Yet, such collaboration also undermined the state’s legitimacy by working with an ‘illegal’ armed group. The state’s perceived need to position itself ‘against’ a particular group in order to reinforce the distinction between the ‘legal’ and ‘illegal’, the ‘legitimate’ and the ‘illegitimate’, and state and non-state shows the continued importance of producing such binaries in societal imaginings even when the situation is acknowledged to be more complex. Thus, whilst the case of autodefensas shows that socio-political order(ing) is produced through complex processes of contestation, disruption, negotiation and collaboration simultaneously, in which the distinctions between (il)legal, (non)state, (il)legitimate and (non)violence blur, we argue that it also shows that such distinctions continue to be important with respect to the production of legitimacy and identity by various groups.

From May 2014, the Mexican state sought to institutionalise the autodefensa groups through their inclusion in the Fuerza ***Rural*** (***Rural*** Defence Force) and criminalise those who refused to either demobilise or join the Fuerza ***Rural***, such as those led by Dr Mireles who had become increasingly critical of state ***intervention***. Here, too, the distinction between the legal and the illegal is reinforced in order to gain control over a situation in which many lines have become blurred. Yet, the fact that these lines remained blurred and shifting in practice is illustrated by the process of institutionalisation, which consisted of simply swapping weapons for state issued rifles and being given official uniforms and vehicles, etc., rather than displacing the regimes of (violent) governance the autodefensas had in place. Whilst an effort to be seen as the only legitimate armed actor, the state’s institutionalisation of another armed group helped to legitimise the control and (violent) governance of the autodefensas more than undermine it.

Conclusion

The autodefensas of Michoacán and Colombia have been officially disbanded and/or institutionalised, yet the issues that provoked their emergence, their actual presence and (the effects of) their practices of violent governance have not gone away. In Michoacán, some autodefensas have continued to operate whilst others periodically threaten to remobilise, stating that the problems of insecurity remain unchanged. Likewise, in Colombia the peace deal between the Colombian government and FARC has brought about a renewed focus on paramilitarism and the ‘bandas criminales’ (ICG ) that still operate and indeed are highly active, targeting social, human rights and land reconstitution leaders with renewed vigour.

Through the employment, critique and enrichment of the notions of state failure and violent pluralism, we have developed four points regarding the relationship between violence, governance, legitimacy and identity in the context of autodefensas in Mexico and Colombia. Firstly, rather than evaluating in which ways the existence of autodefensas can be seen as an expression of state failure, and rather than merely developing a critique of state failure literature, we have shown that state failure is not merely a problematic ‘external’ (Western) imposition leading to various forms of ***intervention***, but also a ***strategic*** means of making claims by ‘internal’ groups. The autodefensas have skilfully appropriated the notion of state failure that functioned to delegitimise the context in which they operated, turning it on its head to legitimise their actions. We have developed the notion of a field of contestation and negotiation to show how different groups make claims and counter-claims to both failure and legitimacy. This field of contestation and negotiation is thus constituted by a range of practices of (non)violent governance and a range of (non)state groups—blurring the distinctions between the two—and productive of political order(ing) and identities. Moreover, it is not merely a matter of material and/or territorial practices but also encompasses discursive relations of power/knowledge, such as the ability to make a claim that provokes a reaction that helps to legitimise it.

Secondly, we have employed the notion of violent pluralism, which enables a conceptualisation of politics as a field of struggle constitutive of political order(ing) and identity, to make sense of the violent legitimisation of practices and identities in a way that challenges the linking of state and legitimacy, and violence and disorder. Rather than a state that can be achieved, legitimacy is understood as a continuous process of production, contestation and negotiation, part of a broader field of contestation and negotiation that includes a wide range of practices of governance. Violence, as a form of governance employed to produce legitimacy, has effects of both ordering and disordering: it might establish control over a territory, challenge the existing governance practices, create trust and/or distrust among the local population, disrupt and/or establish practices of extortion, etc. In addition, the notion of violent pluralism helps to make sense of the role of neoliberal restructuring in the functioning and identity of the state, especially in relation to the violent practices of governance and claims to legitimacy by other groups such as autodefensas, but also with respect to the entanglement of state and non-state groups. As we have shown, neoliberal restructuring is not synonymous with the absence of the state per se; however, the employment of failed state discourse by autodefensas suggests that feelings of abandonment and ambivalence towards state presence have provided a fertile ground for such claims.

Thirdly, we have pointed out that, despite its value for understanding the complexity of relations at play, the concept of violent pluralism underemphasises non-violent practices and fails to address the relationship between violence and non-violence. The idea of a field of contestation and negotiation does enable an examination of these relationships, showing the inextricability of violence and non-violence in the context of autodefensas. Whilst violence is central to practices of governance on behalf of autodefensas, these groups also engage in less violent practices, including the formation of civil society organisations and engagement in cultural and religious traditions and ***performances***, in their efforts to construct, contest and negotiate their legitimacy and identity. Or, indeed, given the simultaneity and co-constitution of these processes, practices of violence and non-violence become blurred and difficult to tell apart. This raises an important and underexplored question. If the threat and deployment of violence seem so pervasive, as is the case in relations between autodefensas and other groups, what kinds of practices and discourse can still be understood as truly non-violent? The present article has begun to address this issue, yet it requires further exploration.

Finally, in addition to challenging the (binary) distinction between violence and non-violence, the article has called into question a number of other binaries. Indeed, our examination of the production and contestation of legitimacy and identity through (violent) governance in the context of autodefensas has shown that political order(ing) is produced through complex processes of contestation, disruption, negotiation and collaboration simultaneously, in which the distinctions between (il)legal, (non)state, (il)legitimate and (non)violence blur and transform. However, this is not a call for dismissal of these binaries as irrelevant; rather, we argue that the binary and complex are co-constitutive. In the context of autodefensas, binary distinctions continue to be employed by a range of groups in their discursive and material efforts to produce, justify, challenge, contest and negotiate their own and others’ legitimacy and identity.

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11287/17 DM/ss DG C 2B EN Council of the European Union Brussels, 13 July 2017 (OR. en) 11287/17 MAMA 147 MED 51 CFSP/PESC 689 EG 6 COVER NOTE From: Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director date of receipt: 13 July 2017 To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union No. Cion doc.: SWD(2017) 271 final Subject: JOINT STAFF WORKING DOCUMENT Report on EU-EGYPT relations in the framework of the revised ENP Delegations will find attached document SWD(2017) 271 final. Encl.: SWD(2017) 271 final EN EN EUROPEAN COMMISSION HIGH REPRESENTATIVE OF THE UNION FOR FOREIGN AFFAIRS AND SECURITY POLICY Brussels, 13.7.2017 SWD(2017) 271 final JOINT STAFF WORKING DOCUMENT Report on EU-EGYPT relations in the framework of the revised ENP 2 Introduction This report covers the period from January 20151 to May 2017. It assesses the achievements and policy developments in Egypt with a specific focus on priority areas of our cooperation. The reporting period was marked by economic, political and security challenges for Egypt. In the economic field this included a worsening of Egypt's balance of payments and current account deficit in 2015 and 2016, which led the country to adopt an economic reform programme in mid-2016, as a basis for the gradual release by the International Monetary Fund (IMF) of a USD 12 billion loan, approved in November 2016. On the political track, the election of a new Parliament at the end of 2015 concluded the formal implementation of the country's transitional roadmap.

Considerable challenges continued as regards the rule of law, the protection of human rights, fundamental freedoms and the space for civil society. Regarding security developments Egypt continued to suffer from a number of terrorist attacks, especially in the North Sinai but also in Cairo and the Western desert. From a regional perspective, Egypt was able to reassert its role as a key player, notably by securing a two-year non-permanent seat in the United Nations Security Council (UNSC) for the period 2016-2018, and a three-year membership in the Peace and Security Council of the African Union (2016-2019). The EU, together with EU Member States, supported Egypt's efforts to address a number of critical areas including economic development, education, health, energy, transport, environment, climate action, information society, research and innovation. People-to people contacts were also at the heart of EU-Egypt cooperation. At the end of the reporting period, total ongoing EU financial assistance commitments to Egypt amounted to over EUR 1.3 billion in grants, with around 45% of the portfolio targeting the wider field of economic and social development including employment creation, 45% devoted to renewable energy, water and sanitation/waste management and environment, and 10% dedicated to support improving governance, human rights, justice and public administration. In 2015 and 2016, EUR 250 million of new bilateral EU funding was committed to Egypt from the bilateral envelope of the European Neighbourhood Instrument (ENI) and the financial envelope of the Neighbourhood Investment Facility (NIF). The combined volume of EU, Member States and European Financial institutions financial assistance to Egypt in its different forms (grants, loans and debt swaps) positions Europe as the first and most important donor in Egypt with a volume of ongoing European financial assistance to Egypt of over EUR 11 billion. The resumption of the bilateral Association Agreement structures in 2015, through the holding of all the subcommittees between 2015 and 2016 and of the Association Committee in May 2016 allowed for increased dialogue and for joint identification of areas of potential cooperation. The joint process of identification and negotiation of the EU-Egypt Partnership priorities (PPs) in the framework of the revised ENP was launched in February 2016 and the priorities were agreed ad referendum in December 2016. They will be adopted at the Association Council in July 2017. They set 1 The last ENP progress report covered the period from 1 January 2014 to 31 December 2014 [*http://europa.eu/rapid/press-release\_MEMO-15-4687\_fr.htm*](http://europa.eu/rapid/press-release_MEMO-15-4687_fr.htm) 3 the basis for the bilateral partnership and cooperation for the coming three years. The identified priorities cover economic reforms, good governance, rule of law and human rights, but also migration and security/counterterrorism, as well as closer dialogue and cooperation on regional issues. They also aim to reinforce cooperation in support of Egypt's 'Sustainable Development Strategy – Vision 2030' that attaches great importance to small and medium enterprises (SMEs) and to 'Mega Projects' such as the Suez Canal Development Project. This Country Report is structured on the basis of the future EU-Egypt PPs, in order to facilitate future reporting on the progress on their implementation. 1. Egypt's Sustainable Modern Economy and Social Development a) Economic modernisation and entrepreneurship In 2015 and 2016 Egypt witnessed a worsening of its balance of payments due to a number of factors, including worsening trade and current account deficits, significant reduction in the export of services due to the reduced inflow of tourists, lower remittances, slightly lower revenues of the Suez Canal due to reduced global trade and low Foreign Direct Investment (FDI) and portfolio investment in Egypt. As a result, Egypt's net International Reserves were also depleted and stood at three months of imports for most of 2016, despite financial support by certain Gulf States. A number of fiscal reform measures were initiated in 2014/15 (cuts in energy subsidies, reform of other subsidies). For the fiscal year 2015/16, the budget deficit was 12.1%, making it the fifth consecutive year of double digit budget deficits. Public debt increased to 98% of GDP and the cost of servicing the debt now consumes over 30% of the State budget. These structural issues, coupled with reduced international growth and the consequences of the security situation, contributed negatively to economic growth. While 2014/2015 saw a pick-up in economic growth to 4,2%2, this was not maintained in 2015/2016 when growth dropped to 3.8%3. Given Egypt's high population growth, this contributed to a stagnant or even decreasing level of GDP per capita.4 Unemployment rates have been decreasing slightly in recent years (from a peak of 13.4% in 2013 to 12% in March 20175). These numbers only relate to official and registered employment. Most labour market surveys in recent years indicate an increase in informal employment levels. In mid-2016, Egypt adopted an ambitious economic reform plan to address macroeconomic vulnerabilities and promote inclusive growth and job creation. This home-grown programme constitutes the basis of a USD 12 billion Support Programme from the IMF approved in November 2016 under the form of an Extended Financing Facility (EFF). The full flotation of the Egyptian pound in November 2016, as part of the IMF loan prior actions, led to an initial depreciation of the currency by 50%. This dried up the parallel market and led to an initial return of some portfolio investments in Egypt. The other prior actions were the increase of prices of electricity and fuel in November 2016 and the adoption of Value Added Tax (VAT) Law, which was approved in August and effective from September 2016. These measures were to contribute to the fiscal consolidation targets, but they also led to a rapid increase in inflation, which reached 25% at the end of 2016. To mitigate the impact of 2 Source IMF Programme Document for EFF, November 2016 3 Id. 4 Source: World Bank Development ***Indicators*** Database:   [*http://data.worldbank.org/data-catalog/world-development-****indicators***](http://data.worldbank.org/data-catalog/world-development-indicators) 5 Source: CAPMAS 4 economic measures on the most vulnerable, the programme also foresees an increase in spending on social programmes, particularly those that provide cash transfers to the poor. In 2015, the EU continued supporting Egypt's efforts to achieve sustainable economic growth notably through committing a EUR 15 million bilateral programme aiming at improving the business environment and capitalising on Egypt's rich cultural heritage. This programme aims at creating positive, self-reinforcing synergies between cultural heritage, SMEs, and tourism. In 2016 the EU has deepened its support to private sector development, with a particular focus on SMEs, through the adoption of a EUR 60 million grant (leveraging EUR 360 million from European Financial Institutions) for the EU Facility for Inclusive Economic Growth and Job Creation. The facility focuses, on the one hand, on improving the enabling environment for business creation by supporting reforms, which will lower the administrative burden on SMEs (taxation and customs), facilitate financial inclusion (support to the Central Bank) and strengthen the protection of intellectual property rights. On the other hand, it focuses on supporting enterprise growth and competitiveness through facilitating SME access to long-term financing and know-how, facilitating business linkages, value chain development and fostering innovation, thanks to two blending programmes through the Neighbourhood Investment Facility (NIF) with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). This builds on previously adopted and ongoing programmes in support of SME development and support to access to finance for ***agricultural*** SMEs. In the economic sphere, the EU also continues to offer technical assistance in a number of areas, including to the Ministry of Finance on Public Financial Management. The 7th EU-Egypt Macroeconomic Dialogue that took place in February 2015 – the first one since 2012 – offered a good opportunity to discuss macroeconomic developments and policy challenges in both the EU and Egypt. b) Trade and Investment The EU is the first commercial partner for Egypt. In 2016, the EU accounted for 30% of the total foreign trade volume of Egypt6. Between 2002 (the year preceding the provisional entry into force of the Association Agreement) and 2016, bilateral trade (in goods) between the EU and Egypt grew by 170% from EUR 10.1 billion to EUR 27.3 billion7. However, a reduction in Egyptian exports from 2011 onwards has resulted in a widening trade imbalance between the EU and Egypt. There are also trade and investment barriers and irritants in Egypt that affect EU businesses. Law 5/2015 regarding national preferences for Egyptian products in government contracts (adopted on 17 January 2015) expanded the scope of application of national preferences to all supply and project agreements, and extended it to public companies and companies in which the state has a ruling share. On 30 December 2015 and on 16 January 2016, respectively, the Egyptian authorities issued Decrees No. 991 and 43 (both in force since 16 March 2016) mandating special import requirements for a list of 25 categories of goods. These products are now subject to costly pre-shipment inspection of all consignments - except for commodities imported for personal and private use, - and registration 6 Source: IMF DoTS 7 Source: Eurostat COMEXT 5 requirements imposed upon manufacturing plants or trademark holders or distribution centres of the 25 categories of regulated products, in a register managed by the General Organization of Export and Import Control (GOEIC), in order to be allowed to export their products to Egypt for trading purposes. The most significant category of products covered by the Decrees in terms of value of EU exports to Egypt is milk and dairy products, amounting to EUR 280 million (1.5% of EU exports to Egypt and 22.6% of EU exports in the covered categories of goods). In 2015-16, structural weaknesses in the balance of payments led to a supply shortage of foreign exchange and to reduced Net International Reserves (NIR), thus giving the Central Bank of Egypt limited resources to defend the value of the Egyptian pound, facing a downward pressure. In the second half of 2015 and the first half of 2016, the Central Bank and the Government of Egypt increasingly relied on administrative measures to defend the local currency (capital controls, foreign exchange rationing, administrative measures to block the parallel market; and a coordinated Government of Egypt-Central Bank of Egypt set of measures to reduce imports through the imposition of new import registration requirements, expansion of costly pre-shipment inspection requirements, higher customs rates and banking requirements). The Egyptian pound, however, continued to lose its value on the black market. On 3 November 2016, the Central Bank decided to float the pound freely. The EU-funded Trade and Domestic Market Enhancement Programme (TDMEP) supported the Ministry of Trade and Industry to develop a Trade and Industrial Development Strategy, which was launched in November 2016. The Strategy acknowledges the importance of improving the quality compliance of Egyptian manufactured products and the potential of increased access to the EU market linked to the adoption of EU technical standards. A review of the Egyptian National Quality Infrastructure (NQI) was conducted in 2016, suggesting that the NQI was lacking market surveillance function and the technical regulations function was not compatible with the EU model. The last meetings of the EU-Egypt subcommittee on Industry, Trade, Services and Investment (in February 2015) as well as the subcommittee on customs cooperation (in March 2015) allowed for constructive and useful discussions on various issues of mutual interest and concern. A technical follow-up meeting also took place in Brussels in February 2017 focusing on the issue of trade irritants on both sides. c) Social development and social justice With over 92 million inhabitants, Egypt's population has almost doubled since 1980. The average annual population growth rate during the period 2010- 2015 was estimated at 2.2%8, the total fertility rate per woman stood at 3.49 This means almost two million additional inhabitants and 700.000 newcomers to the job market per year. In many regards, the pace of population growth represents one of the major challenges to the sustainable development of the country. 8 CAPMAS 9 CAPMAS 6 Egypt is ranked 108 in the Human Development Index (out of 188)10. 28% of the population still lived below the poverty line in 2015, with poverty rates as high as 60% in ***rural*** Upper Egypt (counting for around 40% of the country's overall population).11 At national level, nearly half of the population is either poor or at risk of slipping into poverty12and about 16% of the population have poor access to food – 21.3% in ***rural*** areas and 8.8% in urban areas.13 The main EU programme in the sector of Employment and Social Protection is the 'Emergency Employment Investment Project' (EEIP), which started in 2014 (EU contribution: EUR 69.8 million) and implemented by the Government's Social Fund for Development (SFD). Numerous other bilateral programmes aim to mitigate the negative effects of economic reforms on the poorest (enhancing access to education; school meals; urban and ***rural*** development; inclusive growth; basic services in water/energy etc.) and to improve employability through Technical and Vocational Education and Training (TVET). There are also a number of smaller contracts with Civil Society Organisations active in the employment and service delivery domains. Around 56% of Egypt's people still live in ***rural*** areas14, where life remains characterised by poverty well above the national average and with limited access to basic services. Amid the predominance of the ***agricultural*** sector, important challenges include not only the pronounced fragmentation of landholding but also the scarcity of ***agricultural*** land and irrigation water. Over the past years, the EU has become an increasingly active partner in this sector, with a total contribution reaching over EUR 200 million for past and current EU aid programmes. In addition, Egypt has also been a regular beneficiary of trainings and workshops organised by the European Commission in order to ensure that Egyptian ***agricultural*** products are of appropriate quality, in particular for export (Egypt exports represented 16.5% of its total production in 201415 and, in 2015-16, Egyptian ***agricultural*** exports to the EU amounted to EUR 908 Million16). An estimated 37 million Egyptians live in urban areas17. Millions are living in informal urban areas characterised by poor access to basic services and sanitation, and a poor and highly polluted environment. Specific public initiatives for the resettlement of inhabitants of particularly unsafe or vulnerable slum areas have been developed by the government over the past decade, but do not cover 95% of Egypt's informal urban residents. The EU has three major bilateral ***interventions*** in the field of urban development (total contribution EUR 66 million), and is also involved in two blending operations in partnership with the EIB and the Agence française de développement (AFD) for the two pillars of the 'Integrated Sustainable Housing and Community Development Programme' (total cost 10 UNDP Human Development Report (2015):   [*http://hdr.undp.org/sites/default/files/2015\_human\_development\_report.pdf*](http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf) 11 World Bank country overview (2016):   [*http://www.worldbank.org/en/country/egypt/overview*](http://www.worldbank.org/en/country/egypt/overview) 12 Programming of the European Neighbourhood Instrument (ENI) - 2014-2020 (2014):   [*https://eeas.europa.eu/sites/eeas/files/enp\_wide\_****strategic****\_priorities\_2014\_2020\_and\_multi\_annual\_indicative\_programme\_2014\_20.pdf*](https://eeas.europa.eu/sites/eeas/files/enp_wide_strategic_priorities_2014_2020_and_multi_annual_indicative_programme_2014_20.pdf) 13 World food programme Egypt country report (2017) :   [*http://documents.wfp.org/stellent/groups/public/documents/ep/wfp273365.pdf?\_ga=1.31929662.1696249195.1490625534*](http://documents.wfp.org/stellent/groups/public/documents/ep/wfp273365.pdf?_ga=1.31929662.1696249195.1490625534) 14 FAO statistical yearbook 2014:   [*http://www.fao.org/docrep/019/i3591e/i3591e.pdf*](http://www.fao.org/docrep/019/i3591e/i3591e.pdf) 15 Id. 16 DG Agri EU agri-food trade Monthly newsletter, March 2016 17 FAO statistical yearbook 2014 7 of EUR 63.5 million and EUR 93.8 million respectively, with a total EU contribution of EUR 18.8 million and 15.3 million, respectively). Public healthcare remains a challenge which leads most Egyptians to turn to private health operators. 75% of the country's total health expenditure is estimated to be privately-funded18, mostly from out-of-pocket contributions. The poor and people living in remote communities have almost no access to any basic health services. Against this background and based on the experience gained through the Health Sector Policy Support Programme (HSPSP) budget support, the EU focuses its efforts on primary healthcare (PHC) reform, as it provides most of the basic care to the poor. Egypt has made progress towards achieving Education for All and the Millennium Development Goals (MDGs), particularly in expanding access to basic education, and closing the gap between the enrolment of boys and girls. For the school year 2014/15, the net enrolment rate was 91 per cent in primary education, and 84 per cent in preparatory school19. Despite this overall progress, socio-economic, geographical and gender disparities continue to limit access to primary education and according to a study conducted by UNICEF and the Ministry of Education, 3 per cent or 320,000 children at primary school age never enrolled for school or dropped out. Moreover, the UN estimates that about 2 million children live with disabilities in Egypt and less than 1.8 per cent of them receive the education services they need. The country's literacy rate (adults 15 years+) is at only 74%20. A mismatch between the skills provided by the education sector – including Technical and Vocational Education and Training (TVET) - and the needs of the Egyptian labour market persists. The EU remains a strong supporter of the Egyptian education sector as a whole, with particular emphasis on increasing the access to, and quality of, education for the most vulnerable children. The current EU cooperation portfolio in education includes two complementary primary community schooling programmes (total EUR 90 Million). One of these ***strategic*** programmes was amended at the end of 2016 in light of the expected impact of the economic reforms, to provide meals to up to 500,000 children attending public schools in poor Governorates. In the area of TVET, the EU provides support through the TVET II programme (EUR 50 Million), which aims at improving and enhancing the structure and ***performance*** of the TVET system to better respond to the new socio-economic needs and increase competitiveness. In the field of Higher Education, Egypt participated in the third South Med regional dialogue in Brussels in 2016. Egyptian universities are also actively participating in the Erasmus+ programme. Under the 2015 and 2016 calls for proposals, 18 capacity building projects involving Egyptian universities were selected. In 2015-2016, 128 projects linking European and Egyptian universities have been selected to organise the mobility of around 1460 students and staff (1090 to Europe and 370 to Egypt), and 60 Egyptian students benefited from a full Erasmus Mundus Master level scholarship. During 2015-2016, EU-Egypt relations continued to grow stronger also in the field of science, technology and innovation. Horizon 2020 has supported the participation of Egyptian organisations and researchers in various areas including food security and climate action. In February 2016 Egypt stressed its commitment to join the forthcoming Partnership for Research and Innovation in the Mediterranean Area (PRIMA), a major initiative with a total budget of almost 18 Egypt National Health Accounts 2011-2012 19 UNICEF report school year 2014-2015 20 UNICEF report school year 2014/2015 8 EUR 500 million which aims to foster regional cooperation in research and innovation on food systems and water resources. Egypt continued being involved in the monitoring and formulation of the EU's research priorities with the non-EU Mediterranean countries, through its active participation in the Euro-Mediterranean Group of Senior Officials in Research and Innovation. Regarding the EU's research policy dialogue with Africa, Egypt and the EU co-chaired the third meeting of Senior Officials of the EU-Africa High Level Policy Dialogue on Science, Technology and Innovation in Addis Ababa in April 2016. This meeting adopted the roadmap on an EU-Africa Research & Innovation Partnership on Food and Nutrition Security and Sustainable ***Agriculture***. EU-Egypt relations strengthened further in the area of health research in September 2016, when the Academy of Scientific Research and Technology of Egypt officially joined the Global Research Collaboration for Infectious Disease Preparedness (GloPID-R). The EU and Egypt are partners in Science Diplomacy initiatives such as the Synchrotron-light for Experimental Science and Applications in the Middle East (SESAME) and the Middle East Research and Innovation Dialogue – MERID. People-to-People contacts have been promoted also through enhanced cooperation in the field of culture and cultural heritage, at bilateral level, through smaller scale projects financed under the EU's Global Allocation, as well as via ***strategic*** regional EU programmes. Around 60 million – or two-thirds - of Egyptians are below 29 years of age.21 33% of the population is younger than 15 years.22 Unemployment remains particularly high among the country's youth (33.4%).23 Many EU programmes involve and directly benefit Egypt's youth in different cooperation sectors (employment, TVET, thematic projects etc). Over the 2015-2016 period, the Erasmus+ youth strand supported the mobility of 636 young people, volunteers and youth workers to Europe, while around 167 participants were hosted in Egypt. The Anna Lindh Foundation, which is based in Alexandria and is largely financed by the EU, continues to implement programmes directly targeting Mediterranean (including Egyptian) youth, with the aim of improving the dialogue between cultures and to support Mediterranean civil society. EU-Egypt cooperation in these important areas was also discussed throughout the holding of the various subcommittees between 2015 and 2016, and notably in the 4th meeting of the subcommittee on ***Agriculture*** and Fisheries and the 5th meeting of the subcommittee on information society and audiovisual, research and innovation, education and culture, both of which took place in Cairo in February 2016. d) Energy security, environment and climate action The Egyptian Sustainable Energy Strategy for the period 2016-2035, funded by the EU, was approved and adopted by the Egyptian Supreme Energy Council in October 2016. Also within this framework, 21 UNDP Human Development Report (2015):   [*http://hdr.undp.org/sites/default/files/2015\_human\_development\_report.pdf*](http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf) 22 World Bank Data (2015) :   [*http://data.worldbank.org/****indicator****/SP.POP.0014.TO.ZS?locations=EG*](http://data.worldbank.org/indicator/SP.POP.0014.TO.ZS?locations=EG) 23 World Bank, Data Bank, World Development ***Indicators*** (2016):   [*http://data.worldbank.org/country/egypt-arab-rep?view=chart*](http://data.worldbank.org/country/egypt-arab-rep?view=chart) 9 the EU, the Kreditanstalt für Wiederaufbau Development Bank, EIB and AFD have agreed to fund a new windfarm in the Gulf of Suez, for a total amount of EUR 340 million. In August 2016, the government announced, within the reforms of the Energy sector, substantial increases in electricity tariffs with prices rising around 35-40% on average. Fuel subsidies were also cut in November 2016, as part of the gradual cuts of subsidies to comply with the requirements linked to the approval of the IMF loan. Over the last years, the finding of a number of important gas fields in Egypt, including the giant Zohr field, discovered in August 2015, (presented as the largest natural gas find in the Mediterranean Sea) and the Nooros field in the Nile Delta (found in July 2015) have ramped up oil and natural gas investment in this vastly energy-importing country. These important findings put Egypt on track to be energy independent in the coming years and also boosted its aspiration to become an energy hub in the region. The EU is heavily involved in the field of energy in Egypt where several projects are being or are about to be implemented. The Egyptian Gas Connection Project signed in 2015 (EUR 68 million grant) is progressing. The Southern and Eastern Mediterranean Sustainable Energy Financing Facility (SEMED SEFF), rebranded Green Economy Fund, was officially launched. Lending agreements were signed between EBRD and local banks (Qatar National Bank Al Ahly and Kuwait National Bank). Another signature is expected to take place with a third local bank being identified through which the funds will be also channelled to the local market. The downstream energy market is shaped primarily by tariffs reflecting less than cost. The figure ranged from 26% to 44% for industry and 43% to 51% for commercial users. Egypt’s power sector suffers from familiar challenges seen in other subsidised markets, such as the inefficient use of energy, state utilities that struggle to generate enough revenue to fund their needs for capital and operating expenses, and a distorted impact of the subsidy in which many of the advantages flow to higher income users rather than to the poor who are targeted to benefit most. Revised prices for residential users were introduced by the Ministry of Electricity and Energy (MoEE) in August 2016, with hikes of 35-40% for low-intensity consumers. Already in 2014, Egypt embarked on a reforms plan that includes a number of fiscal measures, including fuel subsidy cuts that increased prices by up to 78 percent, as well as new taxes to ease a growing budget deficit that hit 12.2 percent in the 2014-15 Fiscal Year. Fuel and food subsidies represent a quarter of Egypt’s state budget. Egypt raised fuel prices for the second time in November 2016 since the start of a fiscal reform program in 2014, in an effort to curb a ballooning fiscal deficit hours after floating the exchange rate. A Mediterranean Energy Regulators (MEDREG) meeting took place in Cairo in April at the premises of the Egyptian Gas Holding company in order to exchange information between the regulators in the region, including Turkey, Albania, Greece and Italy and the newly formed Gas regulator in Egypt. Egypt submitted, in November 2015, its Intended Nationally Determined Contribution for the implementation of the Paris Agreement on climate change to the United Nations Framework Convention on Climate Change (UNFCCC) and launched the process for ratification. It also submitted its third National Communication and a greenhouse gas inventory to the UNFCCC. The development of an Action Plan to implement the national climate change adaptation strategy was also launched. This work was partly supported by the EU through technical assistance via regional projects 'Clima 10 South', 'Capacity Building in Climate-related Monitoring Reporting and Verification' (MRV) and the 'Low Emission Capacity Building' programme. Over EUR 700 million of ongoing EU financial assistance to Egypt is climate relevant. This includes EU blending grants that are helping to leverage around EUR 4.65 billion of concessional loans in climate relevant sectors. Prime Minister's Decree 3005/2015 was adopted on 22 November 2015 on the establishment of the Waste Management Regulation Agency with public legal personality and reporting to the Ministry of Environment, creating an independent public agency in charge of solid waste management, the Waste Management Regulatory Agency within the Ministry for Environment. Its role is to modernise the national policy framework and the implementation of the solid waste management programmes. The EU is supporting Egypt with an EUR 20 million project in the field of solid waste management. Industrial pollution has been addressed in 2016 by launching the third Phase of the Egyptian Pollution Abatement Programme (EPAP III), including a EUR 10 million NIF grant contribution complementing loans from the EIB, AFD and a KFW grant to support technologies achieving pollution abatement in the industry. The EU is supporting the ongoing ***strategic*** reform of the Egyptian water and sanitation sector through EU-funded Technical Assistance under the Water Sector Reform programme - WSRP-II. Under this programme, the EU assisted in the preparation of the National Water Resources Plan till 2037 (NWRP 2017-2037), which will support the development and management of water resources in Egypt. The Government of Egypt launched the National ***Rural*** Sanitation Strategy in 2015, also prepared with EU assistance and aiming at providing universal access to sanitation in ***rural*** Egypt. Finally, the Government of Egypt approved a new gradual increased tariff restructuring plan in 2016. In this regard, the current Technical Assistance Programme funded by the EU supports the Development of a Financial Model and a Roadmap to improve the financial stability of the sector. EU-Egypt cooperation in the water sector stretches over a wide portfolio of programmes covering 10 Egyptian Governorates and total direct grant funds of nearly EUR 340 Million in six different programmes, leveraging funds of nearly EUR 1.3 billion in the sector. Egypt participated in EU-funded regional projects including 'Switch MED' on sustainable production and consumption, the Sustainable Water Integrated Management project (SWIM), projects falling under the Horizon 2020 initiative for the de-pollution of the Mediterranean and the shared environmental information system support project led by the European Environment Agency. For the regulatory reforms in the field of transport, Egypt is continuing to benefit from technical support under regional EuroMed projects funded by the EU (European Neighbourhood Instrument) and to cooperate with EU Transport agencies with a view to implement the Regional Transport Action Plan for the Mediterranean Region (RTAP) 2014-2020 as adopted in the framework of the Union for the Mediterranean. Egypt is also very much involved in the development of the regional transport network (the Trans-Mediterranean transport Network). From 2015 on, a number of reforms and projects have been initiated, targeting the entire transport sector from roads to rail to logistics zones. The national plan for developing the road network is also under implementation with three major roads almost completed (the Assiut New Val

ley road and the Minya Bahariya road), while the 30 June Suez Canal Axis is also nearly finished. Egyptian National Railways is currently improving rail services by acquiring modern energy-efficient rolling stock with loans granted by the European Finance Institutions. The support to the Egyptian National Railways (ENR) in its freight 11 sector reform and commercialization is in line with the EU Transport Sector Policy Support Programme and should provide a framework for future private sector involvement in the railway market. 2. Partners in Foreign Policy Stabilising the neighbourhood and beyond During this period, Egypt has been engaging in extensive foreign policy outreach at both bilateral, regional and multilateral level that allowed the country to reassert its role in the wider region and internationally notably by securing a two-year non-permanent seat in the UN Security Council for the period 2016-2018, and a three-year membership in the Peace and Security Council of the African Union (2016-2019). Libya, Syria, Yemen, Iraq, Middle East Peace Process (MEPP) as well as the Horn of Africa and the Red Sea are Egypt's main foreign policy priorities. Saudi Arabia and the United Arab Emirates remained Egypt's main backers in the Gulf since President Sisi was elected as President in 2014. Concurrently, understandings in interests and analysis on a number of regional issues were the basis of improved relations with Russia. Security cooperation has also continued with Israel as well as with the US, from which Egypt continued to receive the bulk of its military aid. The EU and Egypt regularly consult on foreign and security policy matters. High Representative/Vice President Mogherini paid two visits to Cairo and met with the President and other representatives. Commissioners Hahn and Avramopoulos, EU Counter-Terrorism Coordinator de Kerchove, EU Special Representatives Lambrinidis and Rondos, and senior officials from the EU institutions and four delegations from the European Parliament (Foreign Affairs Committee, Mashreq Delegation, European People's Party, European Conservatives and Reformists) visited Egypt for discussions on a wide variety of topics, including the political, economic and social situation in the country, governance and human rights, bilateral assistance and cooperation, trade, migration, counter-terrorism and developments in the region and beyond. Co-operation on international and regional issues was discussed in the 4th meeting of the Subcommittee on Political Matters held in Cairo in November 2015. 3. Enhancing stability a) A modern, democratic state The institutional steps foreseen by the transitional roadmap were completed in late 2015 when legislative elections were held. Of the 596 seats in the new parliament, 120 were assigned to party lists, with the rest allocated to independent candidates, 28 of whom were appointed directly by President Abdel Fattah Al-Sisi. Thanks in large part to quotas, women won 75 seats, and another 14 were appointed by the President. This was the highest number of female parliamentarians in Egypt's history. Substantial challenges continued as regards the rule of law, the protection of human rights, fundamental freedoms and the space for civil society. In January 2014, a new Constitution entered into force which includes robust provisions on human rights and individual freedoms, though many of these provisions remain to be implemented and certain freedoms, such as freedom of association and assembly, are restricted. In December 2016, the Supreme Constitutional Court ruled that Article 12 10 of the 2013 Protest Law, granting authorities the right to ban or postpone a protest, was unconstitutional. It was amended by the Parliament in January 2017 but the rest of the Law remains in force. Concerns have been expressed about actions that seem intended to increase pressure on some journalists and civil society organisations, such as the raid by security forces on the press syndicate's building in May 2016 and the sentencing of its head and two of its board members to prison sentences, in November 2016, as well as the closure of the al-Nadeem Center for Rehabilitation of Victims of Violence, in February 2017. A number of prominent human rights defenders and organisations have had their assets frozen or have been banned from travelling in the framework of the ongoing so-called 'Foreign funding case' (case 173). A new NGO law was ratified by the President and published in the official gazette in May 2017, six months after it was approved by the Parliament in November 2016. The law restricts the scope of registration and operation for non-governmental organisations and activities and contains provisions with relation to the procedure for receiving domestic and foreign funding which could affect European assistance to Egypt that relies on non-governmental organisations as implementing partners and in promoting and strengthening democratic governance. The antiterrorism law of 2015 introduced heavy fines for the dissemination of 'inaccurate' news on terrorist acts, amended the definition of terrorism and provided for sentences ranging from prison to capital punishment for terrorist acts. Use is still made of pre-trial detention with no formal charges (in some cases going beyond the legally mandated two-year limit), of military trials for civilians, and procedural deficiencies in the prosecution of opponents and dissenters, including mass sentences and rulings based on insufficient evidence, have been identified. A considerable number of death sentences are still pronounced, and though many are overturned on appeal, according to Amnesty International at least 22 executions were carried out in 2015. Reports of alleged torture and ill-treatment in detention, including deaths resulting from torture or medical negligence, continued to appear, in some cases leading to the prosecution of police agents. The National Council for Human Rights (NCHR) has been allowed to pay some announced visits to prisons, though they remain closed for inspection by other organisations, including the International Committee of the Red Cross. A report was also issued by the NCHR on enforced disappearances covering the period from April 2015 to March 2016. In line with the August 2013 Foreign Affairs Council Conclusions, support to civil society remained a priority in EU bilateral assistance to Egypt, with a focus on women and young people. The holding of the fourth meeting of the Subcommittee on Political Matters in Cairo, in November 2015, enabled a detailed exchange on human rights policies as well as on specific cases. The visit of EU Special Representative for human rights, Stavros Lambrinidis, to Cairo in February 2017, allowed for active engagement with both the Egyptian authorities, civil society, including human rights organisations and defenders, and youth representatives and provided an opportunity to address all issues of EU concern. EU assistance focuses on the promotion and protection of human rights in Egypt, both under its ongoing bilateral human rights programme with the government (EUR 17 million for 2011-2018) as well as under the European Instrument for Democracy and Human Rights (EIDHR), and Thematic Programmes. In 2016, a Financing Agreement was signed with the Government of Egypt ('Citizens' Rights' project; EUR 10 million – 2016-2019) under which support will be provided to the National Council for Human Rights (EUR 2.5 million). 13 Over the past years, Egyptian women have secured a number of legislative and legal gains, and the 2014 Constitution encompasses clear commitments towards gender equality, citizenship rights, equal access to basic services, and the prohibition of gender-based discrimination. 2017 was also declared 'year of the Egyptian woman' by President Sisi. However, women in Egypt continue to face political, economic, social, and cultural barriers which impede their equal and full participation in public life as well as their equal access to basic services; a number of laws still contradict the Constitution, especially in personal affairs (family law) and in the Penal code. In 2015, Egypt ranked 136 out of 145 in the Gender Gap Index (GGI) of the World Economic Forum.24 Egyptian legislation, policies, national plans and programmes do not refer to gender mainstreaming. Violence against women is widespread, both in the private and public sphere.25 The prevalence rates of Female Genital Mutilation (FGM) nationwide among women aged 15-49 years is currently around 90%.26 In April 2016 the Parliament adopted a law which criminalises FGM and mandates harsher punishments for those convicted of the act. Other important initiatives launched in recent years include the establishment of Equal Opportunity Units within some Ministries, efforts towards introducing gender-based budgeting, establishing a special unit for Violence against Women at the Ministry of Interior, and setting up a women's complaints office. The EU has been supporting women's rights through the 'Promotion and Protection of Human Rights' programme (EUR 17 million – 2011-2018), which among others includes the initiatives 'Securing Rights and Improving Livelihoods of Women' and the 'Abandonment of FGM and Empowerment of Families'. The 'Citizen Rights' project (EUR 10 Million) also aims to increase women's participation in public life and gender mainstreaming of selected public services. A new project 'Advancing Women’s Rights in Egypt' (EUR 10 million) was signed with the Egyptian authorities in early 2017. It will support the Government's efforts towards abandoning FGM and access to justice for women. The ‘Spring Forward - Regional Programme for the Economic and Political Empowerment of Women in the Southern Mediterranean Region’ complements bilateral cooperation in this area from a regional perspective. Thematic programmes, EIDHR and the Civil Society Facility provide significant support to civil society initiatives addressing challenges that women are facing in Egypt (22% of total funds). Egypt also participates in regional EU projects which support women's rights and participation. In 2016, based on the launch of the Gender Action Plan II (GAP II) (2016-2020), the EU Delegation established an internal Gender Working Group for the development, implementation and monitoring of the Gender Action Plan II for Egypt. Public administration reform, efficient governance and transparency have been in the focus of Egypt's public debate for several years, due to the complex structure of the current administrative system that is characterised by a large number of civil servants (around seven million) and high running costs, including one quarter of the state budget allocated for civil servants' salaries alone. In accordance with the 2014 public administration reform strategy, new civil service legislation was introduced in early 2015 by the Ministry of Planning, Monitoring, and Administrative Reform (MoPMAR). The new law was ratified by the President in March 2015, but rejected by the new Parliament in January 2016, following protests against measures to reduce the size of the civil service and its organisational complexity. Subsequently, an amended version of the law, mainly focusing on improved recruitment procedures and criteria for new civil servants, was approved in October 2016. 24 World Economic Forum country profiles (2016): [*http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=EGY*](http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=EGY) 25 UNWOMEN (2016):   [*http://evaw-global-database.unwomen.org/en/countries/africa/egypt#4*](http://evaw-global-database.unwomen.org/en/countries/africa/egypt#4) 26 UNICEF (2016):   [*https://data.unicef.org/wp-content/uploads/country\_profiles/Egypt/FGMC\_EGY.pdf*](https://data.unicef.org/wp-content/uploads/country_profiles/Egypt/FGMC_EGY.pdf) 14 The EU's 'Support to the Administration Reform and Local Development' bilateral project (EUR 4.1 million) aims at strengthening national capacities to improve and measure ***performance*** of administrations delivering public services to citizens, as well as to reinforce national capacities to empower local administration and local development stakeholders to adopt decentralisation. The project beneficiaries are the MoPMAR and the Ministry for Local Development. Moreover, the EU-funded Organisation for Economic Cooperation and Development (OECD)/ Support for Improvement in Governance and Management (SIGMA) programme has supported reforms in several areas of the public governance system in Egypt, including civil service legislation, policy formulation and co-ordination, legislative drafting and regulatory reform, quality of public services, development of administrative procedures and internal audit. In 2015, SIGMA started supporting the Egyptian Regulatory Reform and Development Activity (ERRADA), which is actively engaged in the simplification of administrative procedures linked to business. Moreover, SIGMA provides assistance to the Ministry of Finance to design and draft the public procurement regulations necessary for implementing the legislative changes of the public procurement law in practice. In the field of statistics, the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), is developing a National Strategy for the Statistical System in cooperation with PARIS 21, the World Bank, the African Union and the African Development Bank. CAPMAS implemented a population census in 2016 using modern technology (tablets) for data collection, transmission and validation, Geographical Information System (GIS) maps in both urban and ***rural*** areas, and online forms. Furthermore, CAPMAS launched the first Geospatial Information Portal, which is a new dissemination tool, for better visualisation of official statistics through infographics. In terms of corruption, Egypt was ranked 108 out of 176 countries and territories in Transparency International’s 2016 Corruption Perceptions Index27, reflecting the perceived weakness of official mechanisms for investigating and punishing corrupt behaviour, and the lack of transparency regarding government spending and operations. Through the EU programme ‘Support to Political Development and Good Governance‘ (EUR 3 million) the EU and Egypt are working together to establish an effective mechanism to combat corruption and money laundering in all its forms and dimensions through the implementation of the United Nations Convention against Corruption (UNCAC). In 2014, the Administrative Control Authority was formally designated the main counterpart for the project. b) Security and terrorism Egypt continued to suffer from a number of terrorist attacks, especially in the North Sinai but also in Cairo and the Western desert. This includes attacks against military and police checkpoints, the bombing in December 2016 in Cairo of a church adjacent to St. Mark Coptic cathedral, as well as, the two deadly attacks, on 9 April 2017, on churches in Alexandria and Tanta that killed at least 45 people, which led to the declaration of the state of emergency. In September 2016, an exploratory visit to Cairo by the EEAS Deputy Secretary General for CSDP and crisis response and the EU counter terrorism coordinator provided an opportunity for high level discussions on potential areas of cooperation in the fields of security and counterterrorism. In 27 Transparency International Index (2016):   [*https://www.transparency.org/news/feature/corruption\_perceptions\_index\_2016*](https://www.transparency.org/news/feature/corruption_perceptions_index_2016) 15 addition, EUNAVFOR MED Operation SOPHIA and the European Border and Coast Guard Agency, as well as the EUROMED Police project have conducted exploratory visits to Cairo in order to advance information sharing and engagement in security related cooperation. EU cooperation with Egypt in the area of justice and the rule of law is currently implemented under the 'Support to the Modernisation of the Administration of Justice Project' (EUR 10 million) implemented by Justice Coopération Internationale (FR) jointly with specialised public bodies of Spain, Italy and Northern Ireland. The holding of the 5th meeting of the Subcommittee on Justice and Security, in Cairo, in January 2016, allowed for constructive dialogue on potential areas of cooperation in the field of justice, security and counter-terrorism, against the backdrop of major security challenges faced by both sides. c) Managing migratory flows for mutual benefit Irregular migration and the protection of migrant and refugee populations remain issues of concern in Egypt due to the country being a sending, receiving and transit country. According to UNHCR, at the end of February 2017 the total number of registered refugees stood at 202,209 including 120,154 Syrians (59.5%) and 82,055 Africans and Iraqis (40.5%). Among the latter, 34,671 were Sudanese, 12,829 Ethiopians, 7,872 Eritreans, 7,583 Iraqis and 19,100 of other nationalities. During January - February 2017, UNHCR has registered 9,617 individuals (4,523 Syrians and 5,094 others). This represents an increase of almost 80% if compared with the same period in 2016 (5,398 registered)28. Between January and December 2016, a total of 4,985 asylum seekers/refugees/migrants have been arrested and detained for attempting irregular migration, including 822 children and UASC (Unaccompanied or Separated Children). This represents a net 37% increase over 2015 figures. The percentage of unaccompanied and separate children (UASC) arrested and detained in 2016 (i.e 440) has doubled when compared to 2015 statistics. This number has grown from 26% of all children detained in 2015 to 54% in 201629. Amid recent developments in the region, an increase, though from a low baseline, of irregular movements by mixed flows departing from Egypt towards Europe via the Mediterranean, was observed. Data from the Italian Ministry of Interior report that 12,766 migrants arrived from Egypt to Italy until end of 2016. As a result, the flow of migrants coming from Egypt to Italy in 2016 was about 15% higher in 2016 than 2015. While Egyptian migrants are not among the most represented nationalities arriving in the EU, the percentage of young people and unaccompanied minors is the highest of any nationality (representing 59% of all Egyptians arriving by sea to Italy in the period January-August 2016). In September 2016, a boat carrying an estimated 600 people – mostly of Egyptian nationality - capsized off Egypt's north coast, killing at least 202. The tragic incident prompted the adoption by the Parliament of an anti-smuggling law intended to curb illegal immigration and a crackdown on human 28 UNHCR monthly statistical report 29 UNHCR data 16 smuggling in October 2016. The law provides a shift in legislation through the criminalisation of smugglers (while considering irregular migrants as victims) and including a provision for the creation of a fund to assist smuggled individuals, in line with Egypt’s international obligations. In line with the new law, the National Coordination Committee on Combating and Preventing Illegal Migration (NCCPIM) also presented a National Strategy for Combating and Preventing Illegal Migration 2016-2026. These increased efforts were clearly reflected on the ground as no single arrival in Italy from Egypt was recorded between October and December 2016. In the past, the EU addressed the migration issue through regional programmes implemented by international organisations, through grants provided to Civil Society Organisations as well as to a limited extent under its bilateral programme with the Government of Egypt. Since the establishment of the European Union Emergency Trust Fund for Africa in 2015, work was undertaken to formulate enhanced cooperation actions in the field of migration to be funded under the North Africa window. These actions are part of the EU’s broader migration cooperation with Egypt which will include ***interventions*** funded under multi-country programmes such as the Regional Development and Protection Programme (RDPP) for North Africa as well as regional and global programmes. Several multi-country and/or regional programmes under various EU funding mechanisms continued to provide support to Egypt on migration related issues. Under the 2016 EIDHR 'Country – based support scheme' Call for Proposals, two projects aim at addressing migration challenges as well. In addition, the Commission committed EUR 4 million for Egypt in 2016 and 3.8 in 2017 for the purpose of tackling migration/refugee-related needs including protection and health, as well as education in emergency for refugee children. The holding of the 5th meeting of the EU-Egypt Working Group on Migration, Social and Consular Affairs in Cairo in January 2016 allowed for an in-depth dialogue notably on migration related challenges as well as on potential bilateral cooperation in this framework. In January 2017, an EU Senior Officials Mission on migration visited Egypt to identify avenues for a stronger, more ***strategic*** and comprehensive cooperation on migration based on the future PPs. On that occasion, the EU and Egypt agreed to launch a formal migration dialogue for which terms of reference are being jointly defined. The EU also engaged with Egypt on migration on a regional level, in the framework of the Valletta process. Concluding remarks and perspectives The EU-Egypt Partnership Priorities provide the framework for a further strengthening of the EU-Egypt relationship, in the context of the revised European Neighbourhood Policy. The priorities include support to Egypt's sustainable economic and social development, reinforcement of the partnership in foreign policy and cooperation in the stabilisation process, notably in the fields of governance, security and migration. They include commitments and references to democracy, rule of law, respect for human rights, fundamental freedoms and international obligations and acknowledge the key role of civil society. These priorities are also the key points of reference for setting the priorities for EU assistance and will be reflected in the future bilateral assistance programme under the European Neighbourhood Instrument (Single Support Framework) for the period 2017 to 2020. 17 While a mid-term review of the impact of the EU-Egypt Partnership Priorities is foreseen, the Association Committee and the Association Council will remain the key bodies that will carry out the overall assessment of the implementation of the PPs on an annual basis.

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PV\1140407EN.docx PE615.194v01-00 EN United in diversity EN European Parliament 2014-2019 Committee on Budgetary Control CONT\_PV(2017)1120\_1 MINUTES Meeting of 20 November 2017, 15.00-18.00, and 21 November 2017, 9.00-12.30 and 14.30-18.00 BRUSSELS The meeting opened at 15:04 on Monday, 20 November 2017, with Ingeborg Gräßle (Chair) presiding. 20 November 2017, 15.00 – 18.00 1. Adoption of agenda The agenda was adopted as shown in these minutes. 2. Chair’s announcements The Chair drew the attention of the Members to the announcements in the CONT News. \*\*\* Electronic vote \*\*\* 3. The next MFF: Preparing the Parliament’s position on the MFF post-2020 CONT/8/09705 2017/2052(INI) Rapporteur for the opinion: Petri Sarvamaa (PPE) PA – PE606.021v01-00 AM – PE612.400v01-00 Responsible: BUDG – Jan Olbrycht (PPE) Isabelle Thomas (S&D) Opinions: AFET, DEVE, INTA, CONT, EMPL, ENVI, ITRE, TRAN, REGI, AGRI, PECH, CULT, LIBE, AFCO, FEMM Adoption of draft opinion Speakers: Petri Sarvamaa, Ingeborg Gräßle The draft report was approved as amended by 10 votes in favour, 8 votes against and 0 abstentions. PE615.194v01-00 2/28 PV\1140407EN.docx EN Amendments adopted: 1, 3, 7, 8, 10-12, 15, 18-22, 27, 30, 31, 35, 37-39, 46-48, 50-53, 62, 65-67, 71,78, 79, 80-83, 85, 87 (first part), 92, 99-101, 107 Amendments rejected: 2, 4-6, 9, 13, 14, 16, 23-26, 28, 29, 32-34, 36, 40, 49, 54-59, 61, 63, 64, 68-70, 72-77, 81, 84, 86, 87 (second part), 88-91, 93-98, 102-106, 108, 109 Amendments fallen: none Amendments withdrawn: none The following amendments were covered: 41-45 Linguistic amendments no vote: none Oral amendments adopted: OAM 1 of Amendment 80 Compromise amendments adopted: COMP 1 covering paragraphs 41-45 Compromise amendments rejected: none.

Inadmissible: none Exclusive comp. taken over without vote: none 4. Reform of the European Union’s system of own resources CONT/8/09717 2017/2053(INI) Rapporteur for the opinion: Nedzhmi Ali (ALDE) PA – PE606.164v01-00 AM – PE613.261v02-00 Responsible: BUDG – Janusz Lewandowski (PPE) Gérard Deprez (ALDE) DT – PE607.844v01-00 Opinions: INTA, CONT, ECON, EMPL, ENVI, AGRI, AFCO Adoption of draft opinion Speakers: Ingeborg Gräßle, Tomáš Zdechovský The draft opinion was approved as amended by 17 votes in favour, 1 vote against and 0 abstentions. Amendments adopted: 1, 4, 6, 17, 21, 29, 31, 41, 43 Amendments rejected: 2, 3, 5, 7-10, 22-28, 3236, 38-40, 42 Amendments fallen: 18-20 Amendments withdrawn: none The following amendments were covered: 11-16, 30, 37, 44-52 PV\1140407EN.docx 3/28 PE615.194v01-00 E N Linguistic amendments no vote: none Oral amendments adopted: none Compromise amendments adopted: COMP 1-4 Compromise amendments rejected: none. Inadmissible: none Exclusive comp. taken over without vote: none \*\*\* End of electronic vote \*\*\* 5. 2016 discharge: EU general budget - Commission CONT/8/10601 2017/2136(DEC) COM(2017)0365[01] – C8-0247/2017 Rapporteur: Joachim Zeller (PPE) Responsible: CONT Opinions: AFET, DEVE, INTA, BUDG, ECON, EMPL, ENVI, ITRE, IMCO, TRAN, REGI, AGRI, PECH, CULT, JURI, LIBE, AFCO, FEMM, PETI Exchange of views with Commissioner Corina Crețu, responsible for Regional Policy, in the presence of the Member of the European Court of Auditors responsible, Iliana Ivanova Speakers: Ingeborg Gräßle, Iliana Ivanova (ECA), Corina Crețu (EC), Joachim Zeller, Inés Ayala Sender, Martina Dlabajová, José Ignacio Salafranca Sánchez-Neyra, Tomáš Zdechovský, Derek Vaughan 6. European Court of Auditors (ECA) - Annual work programme 2018 CONT/8/11514 Presentation by Klaus-Heiner Lehne, President of the European Court of Auditors Speakers: Ingeborg Gräßle, Klaus-Heiner Lehne (ECA), Inés Ayala Sender, Martina Dlabajová, José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa At 17.33, Martina Dlabajova (3rd Vice-Chair) took the chair. The meeting adjourned at 18.06 21 November 2017, 9.00 – 11.30 The meeting continued at 09.04 with Ingeborg Gräßle (Chair) presiding. 7. The management of EU funds in third countries - Analysis of the reporting and key ***performance*** ***indicators*** (KPIs) results with regard to 2016 External Assistance Management Reports (EAMR) CONT/8/11515 Exchange of views with representatives of the European Commission (DG DEVCO, DG NEAR) PE615.194v01-00 4/28 PV\1140407EN.docx EN Speakers: Ingeborg Gräßle, Luc Bagur (DG DEVCO), Marc Johnston (DG NEAR), Claudia Schmidt 8. Commission‘s building policy in Luxemburg, notably Jean Monnet Building CONT/8/11520 Rapporteur: Monika Hohlmeier (PPE) Exchange of views with BUDG rapporteur Monika Hohlmeier in the framework of the 2016 discharge exercise Speakers: Ingeborg Gräßle, Monika Hohlmeier, Marc Becquet (OIL), Karin Kadenbach 9. ECA Special Report 10/2017 (2016 Discharge): EU support to young farmers should be better targeted to foster effective generational renewal CONT/8/10340 Rapporteur: Karin Kadenbach (S&D) DT – PE609.312v01-00 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Janusz Wojciechowski, and consideration of working document Speakers: Ingeborg Gräßle, Janusz Wojciechowski (ECA), Karin Kadenbach, Claudia Schmidt, Inés Ayala Sender, José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa, Luke Ming Flanagan, Czesław Siekierski (AGRI), Marie Bourjou (DG AGRI) 21 November 2017, 11.30 – 12.30 In camera 10. Coordinators’ meeting The summary of the coordinators’ recommendations is annexed to these minutes. 21 November 2017, 14.30 – 18.00 The meeting continued at 14.53 with Derek Vaughan (1st Vice-Chair) presiding. Short presentations of the recently published ECA Special Reports: 11. ECA Special Report 13/2017 (Discharge 2016): A single European rail traffic management system: will the political choice ever become reality? CONT/8/11220 Rapporteur: Claudia Schmidt (PPE) Presentation by the ECA Member responsible, Ladislav Balko Speakers: Ingeborg Gräßle, Derek Vaughan, Ladislav Balko (ECA), Claudia Schmidt, Elisabeth Werner (DG MOVE) Ingeborg Gräßle (Chair) took the chair at 15.03 12. ECA Special Report 16/2017 (Discharge 2016): ***Rural*** Development PV\1140407EN.docx 5/28 PE615.194v01-00 E N Programming: less complexity and more focus on results needed CONT/8/11535 Rapporteur: Karin Kadenbach (S&D) Presentation by the ECA Member responsible, Janusz Wojciechowski Speakers: Ingeborg Gräßle, Janusz Wojciechowski (ECA), Karin Kadenbach, Mario Milouchev (DG AGRI) \* \* \* 13. Evaluation report on the European Anti-Fraud Office (OLAF) Regulation 883/2013 CONT/8/11536 Presentation of the evaluation report by Commissioner Günther Oettinger, responsible for Budget and Human Resources, followed by the presentation of the opinion of the OLAF Supervisory Committee Speakers: Ingeborg Gräßle, Günther Oettinger (EC), Jan Mulder (SC OLAF), José Ignacio Salafranca Sánchez-Neyra, Derek Vaughan, Petri Sarvamaa, Derek Javor, Dennis de Jong, Marco Valli, Hannu Takkula, Maria Fazenda (SC OLAF) 14. The OLAF Supervisory Committee Annual Activity Report CONT/8/10198 Exchange of views to follow up on the presentation of the 2016 annual report (21 June 2017) Speakers: Ingeborg Gräßle, Jan Mulder (SC OLAF), Margareta Hofmann (OLAF) 15. ECA Special Report 8/2017 (Discharge 2016): EU fisheries controls: more efforts needed CONT/8/10225 Rapporteur: Joachim Zeller (PPE) DT – PE609.311v01-00 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Janusz Wojciechowski, and consideration of working document Speakers: Ingeborg Gräßle, Janusz Wojciechowski (ECA), Joachim Zeller, Inés Ayala Sender, José Ignacio Salafranca Sánchez-Neyra, Indrek Tarand, Francesca Arena (DG MARE) Indrek Tarand (2nd Vice-Chair) took the chair at 17.45, Ingeborg Gräßle (Chair) continued presiding from 17.53 16. Any other business None 17. Next meetings PE615.194v01-00 6/28 PV\1140407EN.docx EN 27 November 2017, 15.00 – 18.30 (Brussels) 28 November 2017, 9.00 – 12.30 and 14.30 – 18.30 (Brussels) 4 December 2017, 15.00 – 18.30 (Brussels) 7 December 2017, 14.00 – 17.30 (Brussels) The meeting closed at 18:14. PV\1140407EN.docx 7/28 PE615.194v01-00 E N Results of roll-call votes Contents 3.1 Final vote ................................................................................................................. 8 4.1 Final vote ................................................................................................................. 8 Key to symbols: + : in favour - : against 0 : abstention PE615.194v01-00 8/28 PV\1140407EN.docx EN 3. The next MFF: Preparing the Parliament’s position on the MFF post-2020 CONT/8/09705 3.1 Final vote 10 + ALDE Nedzhmi Ali, Martina Dlabajová, Hannu Takkula ECR Monica Macovei PPE Ingeborg Gräßle, Brian Hayes, Julia Pitera, Petri Sarvamaa, Tomáš Zdechovský, Joachim Zeller 8 - EFDD Tiziana Beghin GUE/NGL Luke Ming Flanagan, Younous Omarjee S&D Inés Ayala Sender, Karin Kadenbach, Arndt Kohn, Tiemo Wölken Greens Bart Staes 0 0 Corrections to vote + - 0 4. Reform of the European Union’s system of own resources CONT/8/09717 4.1 Final vote 17 + ALDE Nedzhmi Ali, Martina Dlabajová, Hannu Takkula ECR Monica Macovei GUE/NGL Younous Omarjee PV\1140407EN.docx 9/28 PE615.194v01-00 E N PPE Ingeborg Gräßle, Brian Hayes, Julia Pitera, José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa, Tomáš Zdechovský, Joachim Zeller S&D Inés Ayala Sender, Karin Kadenbach, Arndt Kohn, Tiemo Wölken Greens Bart Staes 1 - EFDD Tiziana Beghin 1 0 GUE/NGL Luke Ming Flanagan Corrections to vote + - 0 PE615.194v01-00 10/28 PV\1140407EN.docx EN ПРИСЪСТВЕН ЛИСТ/LISTA DE ASISTENCIA/PREZENČNÍ LISTINA/DELTAGERLISTE/ ANWESENHEITSLISTE/KOHALOLIJATE NIMEKIRI/ΚΑΤΑΣΤΑΣΗ ΠΑΡΟΝΤΩΝ/RECORD OF ATTENDANCE/ LISTE DE PRÉSENCE/POPIS NAZOČNIH/ELENCO DI PRESENZA/APMEKLĒJUMU REĢISTRS/DALYVIŲ SĄRAŠAS/ JELENLÉTI ÍV/REĠISTRU TA' ATTENDENZA/PRESENTIELIJST/LISTA OBECNOŚCI/LISTA DE PRESENÇAS/ LISTĂ DE PREZENŢĂ/PREZENČNÁ LISTINA/SEZNAM NAVZOČIH/LÄSNÄOLOLISTA/DELTAGARLISTA Бюро/Mesa/Předsednictvo/Formandskabet/Vorstand/Juhatus/Προεδρείο/Bureau/Predsjedništvo/Ufficio di presidenza/Prezidijs/ Biuras/Elnökség/Prezydium/Birou/Predsedníctvo/Predsedstvo/Puheenjohtajisto/Presidiet (\*) Ingeborg Gräßle (Chair), Derek Vaughan (1st Vice-Chair), Indrek Tarand (2nd Vice-Chair) (2), Martina Dlabajová (3rd Vice-Chair) (1) Членове/Diputados/Poslanci/Medlemmer/Mitglieder/Parlamendiliikmed/Μέλη/Members/Députés/Zastupnici/Deputati/Deputāti/Nariai/Képviselõk/Membri/Leden/Posłowie/Deputados/Deputaţi/Jäsenet/Ledamöter Nedzhmi Ali, Inés Ayala Sender, Ryszard Czarnecki (2), Luke Ming Flanagan, Jean-François Jalkh (2), Arndt Kohn (1), Bogusław Liberadzki (2), Monica Macovei (1), José Ignacio Salafranca Sánchez-Neyra, Petri Sarvamaa, Claudia Schmidt (2), Bart Staes, Hannu Takkula, Marco Valli (1), Tomáš Zdechovský, Joachim Zeller, Dennis de Jong (2) Заместници/Suplentes/Náhradníci/Stedfortrædere/Stellvertreter/Asendusliikmed/Αναπληρωτές/Substitutes/Suppléants/Zamjenici/ Supplenti/Aizstājēji/Pavaduojantysnariai/Póttagok/Sostituti/Plaatsvervangers/Zastępcy/Membros suplentes/Supleanţi/Náhradníci/ Namestniki/Varajäsenet/Suppleanter Brian Hayes (1), Monika Hohlmeier (2), Benedek Jávor (2), Karin Kadenbach, Younous Omarjee (1), Julia Pitera, Miroslav Poche (1), Patricija Šulin (1) 200 (2) Tiziana Beghin (1), Tiemo Wölken (1) 206 (3) Esther Herranz García (1), Czesław Adam Siekierski (2), Ruža Tomašić (1) 53 (8) (Точка от дневния ред/Punto del orden del día/Bod pořadu jednání (OJ)/Punkt på dagsordenen/Tagesordnungspunkt/ Päevakorra punkt/Ημερήσια Διάταξη Σημείο/Agenda item/Point OJ/Točka dnevnog reda/Punto all'ordine del giorno/Darba kārtības punkts/Darbotvarkės punktas/Napirendi pont/Punt Aġenda/Agendapunt/Punkt porządku dziennego/Ponto OD/Punct de pe ordinea de zi/Bod programu schôdze/Točka UL/Esityslistan kohta/Föredragningslista punkt) Присъствал на/Presente el/Přítomný dne/Til stede den/Anwesend am/Viibis(id) kohal/Παρών στις/Present on/Présent le/Nazočni dana/Presente il/Piedalījās/ Dalyvauja/Jelen volt/Preżenti fi/Aanwezig op/Obecny dnia/Presente em/Prezent/Prítomný dňa/Navzoči dne/Läsnä/Närvarande den: (1) 20.11.2017 (2) 21.11.2017 PV\1140407EN.docx 11/28 PE615.194v01-00 E N Наблюдатели/Observadores/Pozorovatelé/Observatører/Beobachter/Vaatlejad/Παρατηρητές/Observers/Observateurs/Promatrači/ Osservatori/Novērotāji/Stebėtojai/Megfigyelők/Osservaturi/Waarnemers/Obserwatorzy/Observadores/Observatori/Pozorovatelia/ Opazovalci/Tarkkailijat/Observatörer По покана на председателя/Por invitación del presidente/Na pozvání předsedy/Efter indbydelse fra formanden/Auf Einladung des Vorsitzenden/Esimehe kutsel/Με πρόσκληση του Προέδρου/At the invitation of the Chair(wo)man/Sur l’invitation du président/ Na poziv predsjednika/Su invito del presidente/Pēc priekšsēdētāja uzaicinājuma/Pirmininkui pakvietus/Az elnök meghívására/ Fuq stedina taċ-'Chairman'/Op uitnodiging van de voorzitter/Na zaproszenie Przewodniczącego/A convite do Presidente/La invitaţia preşedintelui/Na pozvanie predsedu/Na povabilo predsednika/Puheenjohtajan kutsusta/På ordförandens inbjudan Съвет/Consejo/Rada/Rådet/Rat/Nõukogu/Συμβούλιο/Council/Conseil/Vijeće/Consiglio/Padome/Taryba/Tanács/Kunsill/Raad/ Conselho/Consiliu/Svet/Neuvosto/Rådet (\*) Комисия/Comisión/Komise/Kommissionen/Kommission/Euroopa Komisjon/Επιτροπή/Commission/Komisija/Commissione/Bizottság/ Kummissjoni/Commissie/Komisja/Comissão/Comisie/Komisia/Komissio/Kommissionen (\*) C. Creţu (CA), M. Lemaitre (DG REGIO), L. Bagur (DG DEVCO), M. Johnston (DG NEAR), M. Becquet (OIL), M. Bourjou (DG AGRI), E. Werner (DG MOVE), M. Milouchev (DG AGRI), G. Oettinger (CA), N. Ilett (OLAF), F. Arena (DG MARE), M. Kraff (IAS), Agueda Ollero Montiel (DG BUDG), Jacques Salmon (DG BUDG), Tina Svendstrup (DG BUDG), M. Hofmann (OLAF), J. Mulder, G. Stronikowska, C. Drinan, H. Fazenda, P. Klement (SC OLAF) Други институции/Otras instituciones/Ostatní orgány a instituce/Andre institutioner/Andere Organe/Muud institutsioonid/ Άλλα θεσμικά όργανα/Other institutions/Autres institutions/Druge institucije/Altre istituzioni/Citas iestādes/Kitos institucijos/ Más intézmények/Istituzzjonijiet oħra/Andere instellIngeborgn/Inne instytucje/Outras Instituições/Alte instituţii/Iné inštitúcie/Muut toimielimet/Andra institutioner/organ ECA K-H Lehne (President), I. Ivanova (Member), J. Wojciechowski (Member), L. Balko (Member), Helena Piron Други участници/Otros participantes/Ostatní účastníci/Endvidere deltog/Andere Teilnehmer/Muud osalejad/Επίσης Παρόντες/Other participants/Autres participants/Drugi sudionici/Altri partecipanti/Citi klātesošie/Kiti dalyviai/Más résztvevők/Parteċipanti ohra/Andere aanwezigen/Inni uczestnicy/Outros participantes/Alţi participanţi/Iní účastníci/Drugi udeleženci/Muut osallistujat/Övriga deltagare PE615.194v01-00 12/28 PV\1140407EN.docx EN Секретариат на политическите групи/Secretaría de los Grupos políticos/Sekretariát politických skupin/Gruppernes sekretariat/ Sekretariat der Fraktionen/Fraktsioonide sekretariaat/Γραμματεία των Πολιτικών Ομάδων/Secretariats of political groups/Secrétariat des groupes politiques/Tajništva klubova zastupnika/Segreteria gruppi politici/Politisko grupu sekretariāts/Frakcijų sekretoriai/ Képviselőcsoportok titkársága/Segretarjat gruppi politiċi/Fractiesecretariaten/Sekretariat Grup Politycznych/Secr. dos grupos políticos/Secretariate grupuri politice/Sekretariát politických skupín/Sekretariat političnih skupin/Poliittisten ryhmien sihteeristöt/ Gruppernas sekretariat PPE S&D ECR ALDE GUE/NGL Verts/ALE EFDD ENF NI B. Szechy, E. Tarczynska, S. Van Der Lande H. Beague, S. Reither, M. Cremascoli K. Wrzesinska, O. Balogh, S. Leinonen E. Reschini, A. Bazantay .B Gatto Кабинет на председателя/Gabinete del Presidente/Kancelář předsedy/Formandens Kabinet/Kabinett des Präsidenten/Presidendi kantselei/Γραφείο Προέδρου/President's Office/Cabinet du Président/Ured predsjednika/Gabinetto del Presidente/Priekšsēdētāja kabinets/Pirmininko kabinetas/Elnöki hivatal/Kabinett tal-President/Kabinet van de Voorzitter/Gabinet Przewodniczącego/Gabinete do Presidente/Cabinet Preşedinte/Kancelária predsedu/Urad predsednika/Puhemiehen kabinetti/Talmannens kansli A. Chomicka Кабинет на генералния секретар/Gabinete del Secretario General/Kancelář generálního tajemníka/Generalsekretærens Kabinet/ Kabinett des Generalsekretärs/Peasekretäri büroo/Γραφείο Γενικού Γραμματέα/Secretary-General's Office/Cabinet du Secrétaire général/Ured glavnog tajnika/Gabinetto del Segretario generale/Ģenerālsekretāra kabinets/Generalinio sekretoriaus kabinetas/ Főtitkári hivatal/Kabinett tas-Segretarju Ġenerali/Kabinet van de secretaris-generaal/Gabinet Sekretarza Generalnego/Gabinete do Secretário-Geral/Cabinet Secretar General/Kancelária generálneho tajomníka/Urad generalnega sekretarja/Pääsihteerin kabinetti/ Generalsekreterarens kansli Генерална дирекция/Dirección General/Generální ředitelství/Generaldirektorat/Generaldirektion/Peadirektoraat/Γενική Διεύθυνση/ Directorate-General/Direction générale/Glavna uprava/Direzione generale/Ģenerāldirektorāts/Generalinis direktoratas/Főigazgatóság/ Direttorat Ġenerali/Directoraten-generaal/Dyrekcja Generalna/Direcção-Geral/Direcţii Generale/Generálne riaditeľstvo/Generalni direktorat/Pääosasto/Generaldirektorat DG PRES DG IPOL DG EXPO DG EPRS DG COMM DG PERS DG INLO DG TRAD DG INTE DG FINS DG ITEC DG SAFE Monika Strasser, Niels Fischer Janis Krastins PV\1140407EN.docx 13/28 PE615.194v01-00 E N Правна служба/Servicio Jurídico/Právní služba/Juridisk Tjeneste/Juristischer Dienst/Õigusteenistus/Νομική Υπηρεσία/Legal Service/ Service juridique/Pravna služba/Servizio giuridico/Juridiskais dienests/Teisės tarnyba/Jogi szolgálat/Servizz legali/Juridische Dienst/ Wydział prawny/Serviço Jurídico/Serviciu Juridic/Právny servis/Oikeudellinen yksikkö/Rättstjänsten Ulrich Rosslein Секретариат на комисията/Secretaría de la comisión/Sekretariát výboru/Udvalgssekretariatet/Ausschusssekretariat/Komisjoni sekretariaat/Γραμματεία επιτροπής/Committee secretariat/Secrétariat de la commission/Tajništvo odbora/Segreteria della commissione/ Komitejas sekretariāts/Komiteto sekretoriatas/A bizottság titkársága/Segretarjat tal-kumitat/Commissiesecretariaat/Sekretariat komisji/ Secretariado da comissão/Secretariat comisie/Sekretariat odbora/Valiokunnan sihteeristö/Utskottssekretariatet Evelyn Waldherr, Cecile Bourgault, Michal Czaplicki, Christian Ehlers, Philippe Godts, Tereza Pinto de Rezende, Olivier Sautière and Hrvoje Svetic Сътрудник/Asistente/Asistent/Assistent/Assistenz/Βοηθός/Assistant/Assistente/Palīgs/Padėjėjas/Asszisztens/Asystent/Pomočnik/ Avustaja/Assistenter Veronika Patyi-Horvath \* (P) = Председател/Presidente/Předseda/Formand/Vorsitzender/Esimees/Πρόεδρος/Chair(wo)man/Président/Predsjednik/Priekšsēdētājs/ Pirmininkas/Elnök/'Chairman'/Voorzitter/Przewodniczący/Preşedinte/Predseda/Predsednik/Puheenjohtaja/Ordförande (VP) = Заместник-председател/Vicepresidente/Místopředseda/Næstformand/Stellvertretender Vorsitzender/Aseesimees/Αντιπρόεδρος/ Vice-Chair(wo)man/Potpredsjednik/Vice-Président/Potpredsjednik/Priekšsēdētāja vietnieks/Pirmininko pavaduotojas/Alelnök/ Viċi 'Chairman'/Ondervoorzitter/Wiceprzewodniczący/Vice-Presidente/Vicepreşedinte/Podpredseda/Podpredsednik/ Varapuheenjohtaja/Vice ordförande (M) = Член/Miembro/Člen/Medlem./Mitglied/Parlamendiliige/Μέλος/Member/Membre/Član/Membro/Deputāts/Narys/Képviselő/ Membru/Lid/Członek/Membro/Membru/Člen/Poslanec/Jäsen/Ledamot (F) = Длъжностно лице/Funcionario/Úředník/Tjenestemand/Beamter/Ametnik/Υπάλληλος/Official/Fonctionnaire/Dužnosnik/ Funzionario/Ierēdnis/Pareigūnas/Tisztviselő/Uffiċjal/Ambtenaar/Urzędnik/Funcionário/Funcţionar/Úradník/Uradnik/Virkamies/ Tjänsteman PE615.194v01-00 14/28 PV\1140407EN.docx EN 1. ADOPTION OF THE AGENDA The draft agenda was emailed to Members on 15 November 2017 and is in the file for the meeting. 2. CHAIR’S ANNOUNCEMENTS The Chair draws attention to the following points: Languages available FR, DE, IT, NL, EN, EL, ES, FI, CS, ET, HU, LT, PL, SL, BG, and RO. FR, DE, IT, NL, EN, EL, ES, FI, CS, ET, HU, LT, PL, BG, RO and pos. PT on Tuesday, 21 November pm. Webstreaming The CONT meeting is webstreamed on the Europarl web-site. Please be aware that each time a speaker activates the microphone to make an ***intervention***, the camera will be automatically directed to the speaker. Voting cards The electronic voting system will be used for the votes and Members are reminded to bring their electronic voting card. ISSUE N° 22 MONDAY, 20 NOVEMBER 2017 15.00 - 18.00 TUESDAY, 21 NOVEMBER 2017 09.00 - 12.30 and 14.30 to 18.00 Room: Altiero Spinelli (3G-3) PV\1140407EN.docx 15/28 PE615.194v01-00 E N \*\*\* ELECTRONIC VOTING \*\*\* 3. THE NEXT MFF: PREPARING THE PARLIAMENT’S POSITION ON THE MFF POST-2020 CONT/8/09705 Adoption of draft opinion Rapporteur: Petri Sarvamaa (EPP) Administrators: Philippe Godts Main Committee: BUDG Shadow Rapporteurs: Boguslaw Liberadzki (S&D), Younous Omarjee (GUE/NGL) The draft opinion had been presented by the rapporteur during the CONT meeting of 11 October 2017. The XM version of the 109 amendments tabled by CONT Members was circulated on 6 November 2017 and a first draft voting list on 9 November2017. The other languages versions are available on CONT website, the final version of the voting list will be available as soon as possible. BUDG will adopt the report on 22 February 2018 and it is planned for the Strasbourg plenary in March 2018. 4. REFORM OF THE EUROPEAN UNION’ SYSTEM OF OWN RESOURCES CONT/8/09717 Adoption of draft opinion Rapporteur: Nedzhmi Ali (ALDE) Administrators: Tereza Pinto De Rezende Main Committee: BUDG Shadow Rapporteurs: Tomáš Zdechovský (EPP), Gerogi Pirinski (S&D), Luke Ming Flanagan (GUE/NGL) The draft opinion had been presented by the rapporteur during the CONT meeting of 13 July 2017. 52 amendments were tabled and the Rapporteur organised a shadows meeting to find compromises mainly on the resources part which was not sufficiently tackled in the draft opinion. Four compromises were agreed on the reform of the own resources, the protection of financial interests of the Union, tax-based own resources, and new sources of own resources. Seventeen amendments are covered by those compromise texts. MONDAY, 20 NOVEMBER 2017 15.00 - 18.00 PUBLIC MEETING PE615.194v01-00 16/28 PV\1140407EN.docx EN BUDG will adopt the report on 22 February 2018 and it is planned for the Strasbourg plenary in March 2018. The Rapporteur’s draft opinion and the proposed amendments are available on the CONT website. \*\*\* END OF ELECTRONIC VOTING \*\*\* 5. 2016 DISCHARGE : EU GENERAL BUDGET - COMMISSION CONT/8/10601 Exchange of views with the EU Commissioner responsible for Regional Policy, Corina Creţu, in the presence of the Member of the European Court of Auditors responsible, Iliana Ivanova Rapporteur: Joachim Zeller (EPP) Administrators: Christian Ehlers and Philippe Godts Shadow Rapporteurs: Inés Ayala Sender (S&D), Martina Dlabajova (ALDE), Luke Ming Flanagan (GUE/NGL), Indrek Tarand (Greens/EFA), Marco Valli (EFDD), Jean-François Jalkh (ENF) Regional policy is part of chapter 6 in the European Court of Auditors' Annual Report entitled 'Economic, social and territorial cohesion'. The main policy instrument is the European Regional Development Fund (ERDF). In 2015 payments reached EUR 29 billion. The Court examined 180 transactions, of which 92 concerned ERDF projects. For all policy areas of chapter 6 together the Court has quantified the estimated level of error at 4,8%. The documents of particular relevance for the exchange of views with Commissioner Creţu are: – The ECA's 2016 Annual Report, Chapters 1, 2, 3 and 6; – The Commission's follow-up report COM (2017)379 final and; – The respective Annual Activity Report of the Director General. These documents are available on the CONT website. In accordance with the timetable for the discharge procedure, the written questions for this meeting were sent to the Commission on 9 November 2017 and emailed to Members on the same day. The answers from the Commission were received on 16 November 2017 and emailed to Members on the same day. It is proposed that the hearing with the Commissioner Creţu shall proceed as follows: Introduction by the Member of the European Court of Auditors, who will present the findings of the respective chapters of the Annual Report 2016; Commissioner Creţu will briefly reply to this introduction; CONT Rapporteur will put questions to the Commissioner and/or the Court; Other Members will question the Commissioner and/or the Court; Closing remarks by the CONT Rapporteur. PV\1140407EN.docx 17/28 PE615.194v01-00 E N CONT Timetable: Event Body Date Consideration of draft report CONT 19 February 2018 Deadline for amendments CONT 1 March 2018 Adoption in CONT CONT 19 March 2018 Adoption in Plenary Plenary April 2018 6. EUROPEAN COURT OF AUDITORS (ECA) - ANNUAL WORK PROGRAMME 2018 CONT/8/11514 Presentation by Klaus-Heiner Lehne, President of the European Court of Auditors The ECA President, Klaus-Heiner Lehne, will present the 2018 Work Programme of the Court to CONT Members. An exchange of views will follow. The document in EN, FR and DE is available on the website of the European Court of Auditors and on CONT website. 7. THE MANAGEMENT OF EU FUNDS IN THIRD COUNTRIES - ANALYSIS OF THE REPORTING AND KEY ***PERFORMANCE*** ***INDICATORS*** (KPIS) RESULTS WITH REGARD TO 2016 EXTERNAL ASSISTANCE MANAGEMENT REPORTS (EAMR) CONT/8/11515 Exchange of views with representatives of the European Commission (DG DEVCO, DG NEAR) Chair: Ingeborg Gräßle (EPP) Administrator: Olivier Sautière According to the requirement of Article 67(3) Financial Regulation, the Heads of Union Delegations, acting as authorising officers by sub-delegation, shall report to their authorising officer by delegation so that the latter can integrate their reports in the annual activity report. TUESDAY, 21 NOVEMBER 2017 09.00 - 11.30 PUBLIC MEETING Coordinators' meeting in camera \*\*\* Voting time \*\*\* PE615.194v01-00 18/28 PV\1140407EN.docx EN For this purpose, the Heads of Union Delegations prepare and sign External Assistance Management Reports (EAMR) including information (key ***performance*** ***indicators***) on the efficiency and effectiveness of internal controls system in place in the Union delegations as well as on the management of operations sub delegated to them. Those reports constitute therefore an important instrument for the declaration of assurance to be issued by the Commission and for the ***performance*** management of funds and operations carried out by Union delegations. DG DEVCO and DG NEAR representatives (Luc Bagur, Director of DG DEVCO - Resources and Mark Johnston, Director of DG NEAR - Resources) will make a presentation of the results achieved in their respective fields of ***intervention*** for 2016, which will be followed by an exchange of views with Members. 8. COMMISSION’S BUILDING POLICY IN LUXEMBOURG, NOTABLY JEAN MONNET BUILDING CONT/8/11520 Exchange of views with BUDG Rapporteur, Monika Hohlmeier, in the framework of the 2016 discharge exercise Rapporteur: Monika Hohlmeier (EPP) Administrator: Christian Ehlers CONT has decided to look into the sound financial management of a building project presented by the European Commission for the rental of workshop and storage space following the departure from the Jean Monnet building in Luxembourg. The historical background of the building situation surrounding the Jean Monnet building can be found in the BUDG opinion on the CONT website. The rental of additional space became necessary due to the delayed delivery of the “Jean Monnet 2” building. The annual rent for the additional space is EUR 8 698 816,86. Refurbishing costs amount to EUR 1 851 499. The “Jean Monnet 2” building is supposed to be delivered in two stages in 2020 and 2024. 9. ECA SPECIAL REPORT 10/2017 (DISCHARGE 2016): EU SUPPORT TO YOUNG FARMERS SHOULD BE BETTER TARGETED TO FOSTER EFFECTIVE GENERATIONAL RENEWAL CONT/8/10340 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Janusz Wojciechowski Rapporteur: Karin Kadenbach (S&D) Administrators: Philippe Godts Shadow Rapporteurs: Claudia Schmidt (EPP), Indrek Takkula (ALDE) Luke Ming Flanagan (GUE/NGL) EU ***agriculture*** is facing a decreasing farming population. As the reduction affected all age groups, the percentage of young farmers in the farming population remained relatively stable, slightly above 20 %. However, significant differences exist between Member States. PV\1140407EN.docx 19/28 PE615.194v01-00 E N The audit aimed to answer the following question: “Is the EU support to young farmers well designed to contribute effectively towards improved generational renewal?” The Court focused on the measures supporting directly young farmers in the 2007-2020 period. The Rapporteur’s working document and the ECA Special report are available on the CONT website. 10. COORDINATORS’ MEETING Meeting held in Camera Short presentation of the recently published ECA Special Report: 11. ECA SPECIAL REPORT 13/2017 (DISCHARGE 2016): A SINGLE EUROPEAN RAIL TRAFFIC MANAGEMENT SYSTEM: WILL THE POLITICAL CHOICE EVER BECOME REALITY? CONT/8/11220 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Ladislav Balko Rapporteur: Claudia Schmidt (EPP) Administrators:

Tereza Pinto De Rezende Shadow Rapporteurs: Inés Ayala Sender (S&D), Martina Dlabajová (ALDE), Luke Ming Flanagan (GUE/NGL) TUESDAY, 21 NOVEMBER 2017 11.30 - 12.30 IN CAMERA Coordinators' meeting in camera \*\*\* Voting time \*\*\* TUESDAY, 21 NOVEMBER 2017 14.30 - 18.00 PUBLIC MEETING Coordinators' meeting in camera \*\*\* Voting time \*\*\* PE615.194v01-00 20/28 PV\1140407EN.docx EN The European Rail Traffic Management System is designed to replace the diverse railway signalling systems around Europe with a single system that enables trains to travel uninterrupted across different countries and facilitates rail competitiveness. To help the Member States deploy the system, approximately €1.2 billion was allocated from the EU budget between 2007 and 2013. The Court launched a ***performance*** audit to assess whether the system had been properly planned, deployed and managed, and whether there was an individual business case. The conclusion was that the deployment of an EU-wide railway signalling system is at a low level so far and represents a patchwork. There is a reluctance by many infrastructure managers and railway undertakings to invest in the necessary equipment due to the expense entailed and the lack of an individual business case for many of them. EU funding, even if better managed and targeted, can only cover a limited amount of the overall cost of deployment. The ECA Special report is available on the CONT website. 12. ECA SPECIAL REPORT 16/2017 (DISCHARGE 2016): ***RURAL*** DEVELOPMENT PROGRAMMING CONT/8/11535 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Janusz Wojciechowski Rapporteur: Karin Kadenbach (S&D) Administrators: Philippe Godts Shadow Rapporteurs: Andrey Novakov (EPP), Hannu Takkula (ALDE), Luke Ming Flanagan (GUE/NGL) The EU's ***rural*** development policy aims to make ***agriculture*** more competitive, ensure the sustainable management of natural resources and achieve balanced territorial development of ***rural*** economies and communities. The EU plans to spend on ***rural*** development policy nearly 100 billion euro for the period 2014-2020 through the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD). The Court has looked at the programming procedure for the 2014-2020 ***rural*** development policy to check whether it was conducted in such a way as to start the implementation of the programmes earlier than in the previous periods and therefore avoid the negative consequences linked with the delayed start. The Court found that despite Commission’s efforts, the execution of planned spending began more slowly than in the previous period. The report makes recommendations aiming to facilitate and improve the next programming process. The ECA Special report is available on the CONT website. PV\1140407EN.docx 21/28 PE615.194v01-00 E N 13. EVALUATION REPORT ON THE EUROPEAN ANTI-FRAUD OFFICE (OLAF) REGULATION 883/2013 CONT/8/11536 Presentation of the evaluation report by Commissioner Günter OettInger, responsible for Budget and Human resources, followed by the opinion of the OLAF Supervisory Committee Administrator: Christian Ehlers On 3 October 2017, the Commission submitted an evaluation report about the application of regulation 883/2013 (OLAF Regulation) pursuant to Article 19 of the latter. The evaluation focused on four key areas: effectiveness, efficiency, coherence, relevance. The EU added value was not covered by the evaluation as OLAF ensures the protection of the EU financial interests, in the framework of Articles 317 and 325 TFEU, by performing specific tasks at EU level which cannot be performed at national level. Aspects related to the future outlook of the Regulation to accomplish its objectives, and in the context of evolving anti-fraud policies and fraud trends, have also been addressed. On this occasion Commissioner OettInger will present the main findings of the evaluation report. Afterwards the Supervisory Committee of the European Anti-Fraud Office (OLAF-SC) will explain its reading of the evaluation report, which was published as OLAF-SC Opinion 2/2017. The presentations will be followed by an exchange of views. The relevant documents can be found on the CONT website. It should be noted that both documents also serve as reference for the Inter-institutional exchange of views on OLAF matters, which will take place on 23 November 2017 in the European Parliament 14. THE OLAF SUPERVISORY COMMITTEE ANNUAL ACTIVITY REPORT CONT/8/10198 Exchange of views to follow-up on the presentation of the 2016 annual activity report (21 June 2017) Administrator: Christian Ehlers In June not all aspects of the 2016 OLAF-SC annual activity report could be discussed. That is why it was agreed to hold a second debate. It should be noted that the 2016 annual report will also be discussed at the Inter-institutional exchange of views on OLAF matters, which will take place on 23 November 2017 in the European Parliament The 2016 annual report can be found here on the CONT website. PE615.194v01-00 22/28 PV\1140407EN.docx EN 15. ECA SPECIAL REPORT 8/2017 (DISCHARGE 2016): EU FISHERIES CONTROLS: MORE EFFORTS NEEDED CONT/8/10225 Presentation of the Special Report by the Member of the European Court of Auditors responsible, Janusz Wojciechowski Rapporteur: Joachim Zeller (EPP) Administrators: Philippe Godts Shadow Rapporteurs: Louis-Joseph Manscour (S&D), Luke Ming Flanagan (GUE/NGL) The Common Fisheries Policy requires an effective control system in place in order to be successful in ensuring that fish stocks and the fishing sector are sustainable in the long term. The EU framework of fisheries controls was last revised in 2009 by Council regulation, to address known weaknesses at the time which were identified by the Court’s Special Report No 7/2007. It provides the principles and rules to control fishing activities, fisheries management measures, data requirements and inspections and sanctions. The objective of the audit was to answer the question “Has the EU an effective fisheries control system in place?” The Court focused on the adequacy of the main requirements of the fisheries control regulation and their implementation by the Member States visited. The Rapporteur’s working document and the ECA Special report are available on the CONT website. 16. ANY OTHER BUSINESS 17. NEXT MEETINGS Disclaimer The items contained herein are drafted by the secretariat of the European Parliament and are provided for general information purposes only. The opinions expressed in this document are the sole responsibility of the author(s) and do not necessarily represent the official position of the European Parliament. This document may contain links to websites that are created and maintained by other organizations. The secretariat does not necessarily endorse the view(s) expressed on these websites. 27 November 2017, 15.00 – 18.30 (Brussels) 28 November 2017, 9.00 – 12.30 and 15.00 – 18.30 (Brussels) 4 December 2017, 15.00 – 18.30 (Brussels) 7 December 2017, 14.00 – 17.30 (Brussels)  WATCH LIVE Watch the CONT committee meeting live on the EP website or on Europarl TV PAPERLESS PROGRAMME (INTERNAL USERS ONLY) Access CONT committee meeting documents on eMeeting or any CONT committee information on eCommittee FOR FURTHER INFORMATION Contact the CONT Secretariat or visit the website of the CONT committee PV\1140407EN.docx 23/28 PE615.194v01-00 E N European Parliament 2014 - 2019 Committee on Budgetary Control - The Secretariat COORDINATORS' MEETING Tuesday, 21 November 2017 11.30-12.30 Brussels, Meeting room Altiero Spinelli (ASP) 3G3 Summary of Recommendations ITEMS FOR DECISION A. ECA partial renewal - Criteria and questionnaires for the hearing - For the partial renewal of the ECA, currently a distinction is made between new candidatures and renewals of mandate: - in case of a first appointment: candidates are asked to answer a standard questionnaire; the hearing is scheduled for 45 minutes - in case of a renewal of mandate: candidates are asked to provide a summary of their experience as a Court Member and their objectives for a future mandate; the hearing is scheduled for 30 minutes. Decision: Coordinators discussed the alignment of the treatment and requirement of first appointments and renewal of mandates. They decided that replying in both cases a full questionnaire and allocate the same timing for the hearing itself would be appropriate. The Secretariat was instructed to draw up a draft questionnaire for renewal of mandates which would be submitted for coordinators’ approval in written procedure. B. Annual meeting between CONT committee and ECA Members PE615.194v01-00 24/28 PV\1140407EN.docx EN During their last meeting, Coordinators have decided to invite the Court of Auditors to the European Parliament’s premises in Brussels to a CONT meeting in order to avoid that the annual visit to the ECA will be deducted from the annual missions quota. It was proposed to hold the annual meeting before the deadline for proposals to be sent for the 2019 ECA work programme which was set by the ECA on 9 February 2018 although it will only be published in September 2018. The President of the Court of Auditors, Mr. Klaus-Heiner Lehne, will be invited to the CCC in January 2018 with the view to receive the input by the parliamentary committees on possible topics for the special reports of the Court in its 2019 Work programme. Decision: The Secretariat received confirmation from ECA shortly after the meeting that the date of Thursday, 1 February 2018 from 11.00 to 13.00 is accepted and confirmed by Mr Lehne, ECA President. Coordinators are invited to send their proposals by 18 December at noon to the CONT Secretariat: a) for the special reports of the ECA for 2019 b) for other items to be discussed with the ECA at the annual meeting C. CONT Hearings and Missions (first half of 2018) C.1 CONT hearings Coordinators were informed that at its meeting on 13 November 2017, the Bureau endorsed CONT hearings for the 1st half of 2018 as follows: 1. Joint LIBE/BUDG/CONT hearing on 'The flow of migration-related EU funding in Heading 3’ Date: to be confirmed - see item D for more detailed information 2. “***Performance*** and visibility of EU funded projects in the EU’s Neighbourhood Policy with a special focus on the cross-border cooperation between Western Balkan countries” Date: to be confirmed Comment: in association with AFET 3. “State aids & EU funding: which kind of compatibility?” Date: to be confirmed C.2 CONT missions PV\1140407EN.docx 25/28 PE615.194v01-00 E N Coordinators were also informed that at its meeting on 8 November 2017, the Conference of Presidents endorsed CONT missions for the 1st half of 2018 as follows: 1. Greece, week 7, 3 working days between 12 - 16 February 2018, 7 members + Chair 2. Lithuania & Latvia, week 14, 3 working days between 3 - 6 April 2018, 7 members + Chair 3. Albania & FYROM, week 19, three working days between 7-11 May 2018, 7 members + Chair The Conference of Presidents recommended to withhold the authorisation for the mission to UK and Northern Ireland on the basis that “for CONT, the annual travel quota is 25 members; noted that by requesting to send seven CONT members on each of the missions proposed during the first half of 2018, the Committee exceeds its annual quota;” The Coordinators were informed that the distribution of the 21 authorised places in the three missions for the first half of 2018 would be allocated based on the rolling d’Hondt list as follows: Rolling d’Hondt list for the distribution of places in CONT missions - first half of 2018 1 EPP 8 S&D 15 EPP 2 S&D 9 EPP 16 S&D 3 EPP 10 S&D 17 ALDE 4 S&D 11 ECR 18 EPP 5 ECR 12 GUE 19 S&D 6 ALDE 13 Greens 20 ECR 7 EPP 14 EFDD 21 EPP The rolling d’Hondt list results in the following distribution of places in the three missions: Political group Number of seats PPE 7 S&D 6 ECR 3 ALDE 2 GUE 1 Greens 1 EFDD 1 ENF 0 Decision: The Coordinators agreed to set a deadline to indicate to the Secretariat by 18 December 2017 at noon on how their group intends to use their respective available seats and indicate precise name of participants for these three missions keeping in mind that the annual travel quota is limited to 25 PE615.194v01-00 26/28 PV\1140407EN.docx EN MEPs and that CONT will reiterate the request for a mission to the UK and Northern Ireland for the 2nd half of 2018. D. Public hearing on the external aspects of EU migration funding In addition to the hearing jointly organised with LIBE and BUDG committees on 'The flow of migration-related EU funding in Heading 3’ with a date in May 2018 (TBC) which already has been approved, it was proposed to hold a further hearing on the external aspects of migration (covering instruments under Heading 4) jointly with BUDG, DEVE and AFET committees. While the aim of this hearing will follow the similar patterns as the one on the internal migration-related policies (tracking and assessing flows of expenditure through the budgetary cycle, from allocation to the evaluation of effectiveness), the hearing will also cover the implementation of the external trust funds involved in the migration funding, with the objective to evaluate to which extent they bring an added value to the EU budget. The hearing is tentatively scheduled for 18-19 June (BUDG committee slot) Decision: The Coordinators approved the organisation of the joint hearing. E. Petition submitted to CONT by PETI committee The following petition was submitted by PETI committee to CONT committee’s attention: “Petition No 0301/2017 by N.L (British) bearing 23127 signatures, on the alleged misuse of European Parliament funds by the ADDE political party” The petitioner refers to the decision of the Bureau of the European Parliament to recover over €500 000 from the Alliance for Direct Democracy in Europe (ADDE) political party, after it was found to have used the European Parliament grants on multiple opinion polls held in the UK ahead of the 2015 general elections and Brexit campaigns, in breach of the rules for European party financing. He urges the President to ensure a swift implementation of the Bureau decision. Decision: The Coordinators decided to refer the issue to DG FINS for further analysis. F. Workshop on 'The relationship and blending between the EU budget and other financial instruments: case study and its implication for ESI funds' PV\1140407EN.docx 27/28 PE615.194v01-00 E N The Coordinators were informed that this workshop will take place on Tuesday 23 January 2018 from 10:30 to 12:30. A shorter and more explicit title was proposed in order to help readability. Decision: Coordinators discussed the change of the title and instructed the Policy Department to propose another option. The proposal of the Policy Department for a new title is as follows: “Investment in the EU: Where are we? European Fund for ***Strategic*** Investment, European Structural Funds & Financial Instruments” The new title and the draft programme are requested to be approved by written procedure. If no objections are raised by Monday, 18 December, the new title and the draft programme will be deemed approved. ITEMS FOR INFORMATION G. ECA hearings – Swedish and Irish candidates CONT received on 15 November 2017 the official request, from the Council, to deliver an opinion on the nomination of two candidates to the ECA as listed below: 1. Ms Eva Lindström (Sweden) 2. Mr Tony Murphy (Ireland) The vote in plenary for these candidates has to be held in January 2018, pursuant to the two months deadline required by Rule 121 of the Rules of Procedure. A full month being necessary to allow the candidates to reply to the questionnaire and to have the draft reports translated in all languages, the only possible date for the hearing of these candidates is the CONT meeting of 11 January 2018. H. Brexit budgetary briefings Coordinators were invited to take note of the annexed recent edition of Brexit budgetary briefings. I. Letter to President Tajani from President of the Community and International Affairs Section of the Italian Corte dei Conti on Resolution no. 16/2017 - Special Report 'Control of Italy-French 'Maritime': general aspects, state of implementation, system of controls, criticality ' PE615.194v01-00 28/28 PV\1140407EN.docx EN Decision: Coordinators requested a translation of the letter and report for further consideration. J. Any other business GUE coordinator, Mr De Jong requested that the recently published ECA Special Report 17/2017 on the Greek financial crisis should be presented in full during an upcoming CONT meeting. The presentation has been scheduled for the 28 November CONT committee meeting. S&D coordinator, Ms Ayala Sender requested that votes should not be held on Monday afternoons. The Chair confirmed that efforts will be made to avoid votes on Monday afternoon but this option cannot be excluded in case of urgent need or in order to respect deadlines especially with regards to the discharge procedure. K. Documents received since the last coordinators’ meeting L. Time and date of next Coordinators' meeting: Monday, Thursday, 7 December, 14.30-15.00

**Load-Date:** January 22, 2018

**End of Document**



[***Register of Commission documents: European Parliament resolution of 15 November 2017 on an Action Plan for nature, people and the economy (2017/2819(RSP)) Document date: 2017-11-15 P8\_TA-PROV(2017)0441 Texts adopted (provisional edition***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R6T-YHX1-JDG9-Y2DJ-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

European Parliament 2014-2019 TEXTS ADOPTED Provisional edition P8\_TA-PROV(2017)0441 Action Plan for nature, people and the economy European Parliament resolution of 15 November 2017 on an Action Plan for nature, people and the economy (2017/2819(RSP)) The European Parliament, – having regard to the Commission communication entitled ‘An Action Plan for nature, people and the economy’ (COM(2017)0198), – having regard to its resolution of 2 February 2016 on the mid-term review of the EU’s Biodiversity Strategy1, – having regard to the Fitness Check of the EU Nature Legislation (Birds and Habitats Directives) (SWD(2016)0472), – having regard to the European Court of Auditors Special Report No 1/2017 entitled ‘More efforts needed to implement the Natura 2000 network to its full potential’, – having regard to the Commission report entitled ‘Reporting under the EU Habitats and Birds Directives 2007-2012: The State of Nature in the EU’, – having regard to the Eurostat biodiversity statistics of November 2016, – having regard to the Council conclusions of 19 June 2017 on the EU Action Plan for nature, people and the economy2, – having regard to the question to the Commission on an Action Plan for nature, people and the economy (O-000067/2017 – B8-0608/2017), – having regard to Rules 128(5) and 123(2) of its Rules of Procedure, A. whereas approximately only half of protected bird species and a smaller number of other protected species and habitats in the Union currently have good conservation 1 Texts adopted, P8\_TA(2016)0034. 2

[*http://www.consilium.europa.eu/en/press/press-releases/2017/06/19/conclusions-eu-action-plan-nature/pdf*](http://www.consilium.europa.eu/en/press/press-releases/2017/06/19/conclusions-eu-action-plan-nature/pdf) status, and whereas only 50 % of all Natura 2000 sites have management plans with conservation objectives and measures; B. whereas the Nature Directives have an important role to play in helping achieve the targets of the Convention on Biological Diversity (CBD) ***Strategic*** Plan for Biodiversity 2011-2020, the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change; C. whereas the European Environment Agency assessment entitled ‘2015 State of Nature in the EU’ states that the main pressures and threats to terrestrial ecosystems reported by Member States are ***agriculture*** and the modification of natural conditions, and are the use of living resources (fishing) and pollution in the case of marine ecosystems; whereas all of these are human activities and have a profound and damaging impact on nature; D. whereas the 2016 Eurostat biodiversity statistics show an overall decline in all 167 of the EU’s common bird species between 1990 and 20141; General remarks 1. Welcomes the Action Plan for nature, people and the economy as a step in the right direction with regard to delivering the objectives of the Nature Directives; 2. Notes, however, with concern that the targets of the EU’s 2020 Biodiversity Strategy and the CBD will not be met without immediate, substantial and additional efforts; underlines that the targets of the EU’s 2010 Biodiversity Strategy were not met; 3. Observes that healthy and resilient ecosystems are better able to mitigate the effects of, and adapt to, climate change and hence limit global warming; notes that they are more resistant to extreme weather events and recover from them more easily, providing a wide range of benefits on which people depend; 4. Observes that in Europe, almost one-quarter of wildlife species are now threatened with extinction and most ecosystems have deteriorated to such an extent that they are no longer able to fulfil their valuable functions; notes that this is resulting in enormous social and economic losses for the EU, since the main causes of biodiversity loss, that is to say the deterioration of habitats, the over-exploitation of natural resources, the introduction and propagation of invasive alien species and climate change, are on the increase, cancelling out the positive effects of initiatives intended to prevent this; 5. Notes that the Action Plan aims to ‘accelerate progress toward the EU 2020 goal of halting and reversing the loss of biodiversity and ecosystem services’; considers it regrettable however that no other reference has been made to the 2020 Biodiversity Strategy or to the conclusions of its mid-term review; 6. Reiterates the need for additional, substantial and continuous efforts to be made in order to achieve the 2020 targets, and calls on the Commission and the Member States to give this greater political priority; 7. Stresses the need to ensure that Union nature legislation is fully and faithfully 1   [*http://ec.europa.eu/eurostat/statistics-explained/index.php/Biodiversity\_statistics*](http://ec.europa.eu/eurostat/statistics-explained/index.php/Biodiversity_statistics) implemented; 8. Stresses that substantial progress in cutting greenhouse gas emissions, air pollution and other pollutants, and in improving energy and material efficiency, must be complemented by further actions by Member States to fully apply agreed policies to better protect biodiversity, natural resources, and public health; 9. Highlights the need to further integrate policies and knowledge in order to achieve the aim of living well, within the limits of our planet, which is the long-term vision of the 7th Environment Action Programme; 10. Regrets the Action Plan’s limited time frame and calls on the Commission to commence work on the next biodiversity strategy without delay for the period post-2020; Involvement of all actors 11. Welcomes the four priority areas identified in the Action Plan and emphasises the need for the active involvement of all relevant actors at national, regional and local level so that the concrete actions to be taken can effectively tackle the shortcomings in the implementation of the Birds and Habitats Directives; 12. Recalls that the European Court of Auditors stated in its Special Report No 1/2017 that coordination between the responsible authorities and other stakeholders in the Member States was not sufficiently developed; 13. Calls on the Commission to provide effective support to national and regional actors in implementing nature legislation and in improving environmental inspections, including through competence and capacity building and better allocation of resources; 14. Welcomes the fact that the Commission intends to update and further develop guidance documents in all EU official languages in order to promote greater understanding of the legislation on the ground and to help public authorities apply it correctly, and calls on the Commission in this regard to involve and consult all stakeholders in this process; 15. Emphasises the role of civil society in ensuring better implementation of Union nature legislation, and the importance of the provisions of the Aarhus Convention in this regard; 16. Calls on the Commission to come forward with a new legislative proposal on minimum standards for access to judicial review, and a revision of the Aarhus Regulation implementing the Convention as regards Union action in order to take account of the recent recommendation from the Aarhus Convention Compliance Committee; 17. Welcomes the fact that, without jeopardising the conservation objectives and requirements laid down in the Nature Directives, flexible approaches to implementation that take into account specific national circumstances help reduce and progressively eliminate unnecessary conflicts and problems which have arisen between nature protection and socioeconomic activities, and also address the practical challenges resulting from the application of the annexes to the directives; 18. Calls on the Commission to clarify the role of the Committee of the Regions with regard to raising awareness and promoting local involvement and exchanges of knowledge; Protected species and habitats 19. Underlines that Member States must ensure that there is no deterioration of Natura 2000 areas and must implement conservation measures in order to maintain or restore the favourable conservation status of protected species and habitats; 20. Calls for the Nature Directives to be fully implemented in order to ensure that conservation actions that are taken are in line with the latest technical and scientific progress; 21. Regrets the fact that the Action Plan does not set out a priority strategy and concrete actions with a view to improving: pollinator protection, particularly with regard to efforts to tackle health risks and parasitic species (especially Varroa), coordination of research work, harmonisation of analysis methods, and sharing of scientific data on pollinators at European level, as requested in an earlier European Parliament resolution; 22. Urges the Commission once again to come forward with an EU strategy to protect and conserve threatened pollinators that comprehensively addresses in a cross-cutting way the fundamental issue of the depressing mortality rates of pollinators in Europe, particularly bees, which provide inestimable environmental and economic services; 23. Proposes that measures against Varroa should be mandatory at EU level, that bee-keeper training in bee protection methods should be supported, and that local and regional authorities, as well as farmers and all other citizens, should be encouraged to promote the development of plant species, especially flowering plants, in ***rural*** and urban areas in order to increase the availability of melliferous plants; 24. Recalls that the illegal killing of birds and particularly of migratory species in the Mediterranean, as well as of birds of prey in some Member States, remains a cause for concern; stresses the need for a plan coordinated at European level, on the basis of scientific data, to manage migratory bird species passing through more than one Member State; 25. Calls for the Invasive Alien Species (IAS) Regulation to be fully and effectively implemented and for the EU budget for this to be adequately financed; stresses that the inclusion of a species on the List of Invasive Alien Species of Union concern must be based on a standardised and harmonised risk assessment; considers that the management of IAS is an urgent priority, especially in Natura 2000 sites; welcomes the online platform, European Alien Species Information Network (EASIN), which facilitates access to data on alien species; 26. Stresses that protecting our shared natural environment in Europe is essential for both our economies and well-being, that the Natura 2000 network is estimated to have an economic value of EUR 200-300 billion annually and can generate income for local communities through tourism and recreation, and that healthy ecosystems provide essential services such as fresh water, carbon storage, pollinating insects, and protection against floods, avalanches and coastal erosion1; points out therefore that investing in the Natura 2000 network makes sound economic sense; 1   [*http://ec.europa.eu/environment/nature/pdf/state\_of\_nature\_en.pdf*](http://ec.europa.eu/environment/nature/pdf/state_of_nature_en.pdf) 27. Recalls that the Natura 2000 network marine sites are significantly less well established than the terrestrial sites; calls on the Member States concerned to address this and on the Commission to facilitate the necessary cooperation with third countries to improve environmental protection in marine areas; 28. Welcomes the action aimed at integrating ecosystem services into decision-making; regrets, however, the absence of a concrete No Net Loss of Biodiversity Initiative in the Action Plan; Links with other policy areas 29. Stresses the urgent need to take action to deal with the main causes of biodiversity loss, namely habitat destruction and degradation arising primarily from excessive consumption of land, pollution, intensive farming, use of synthetic chemical pesticides, the spread of alien species and climate change, and also stresses the need to ensure coherence among the EU’s various policies; 30. Highlights that the ‘Fitness Check’ stresses the need to improve coherence with the common ***agricultural*** policy (CAP), and underlines the worrying decline in species and habitats linked to ***agriculture***; calls on the Commission to carry out an evaluation of the impact of the CAP on biodiversity; 31. Reiterates that one of the six key priorities for ***rural*** development in the EU is the restoration, preservation and enhancement of ecosystems related to ***agriculture*** and forestry, including in Natura 2000 areas; recalls the numerous efforts made by those involved in ***agriculture***, particularly in connection with the implementation of the greening measures introduced when the CAP was revised in 2013; 32. Reaffirms its call on the Commission and on the Member States to ensure that the funds under the CAP are redirected from subsidising activities associated with biodiversity decline to financing environmentally sustainable ***agricultural*** practices and maintaining connected biodiversity; 33. Calls on the Commission and the Member States furthermore, in cooperation with land owners and users, to investigate the possibility of ‘green and blue services’ (landscape, nature and water management) in return for payment based on market rates; 34. Notes that species that are designated as requiring special protection in the Habitats Directive have in some regions of Europe attained good conservation status and could thus endanger other wild species and domestic animals, thereby disturbing the natural balance of the ecosystem; calls on the Commission to develop an assessment procedure to enable the protection status of species in particular regions to be amended as soon as the desired conservation status is reached; 35. Recalls that the coexistence of people and large carnivores, particularly wolves, can have negative impacts in certain regions on the sustainable development of ecosystems and inhabited ***rural*** areas, particularly with regard to traditional ***agriculture*** and sustainable tourism, and on other socio-economic activities; calls on the Commission and the Member States to take concrete measures to address these issues, so as not to endanger the sustainable development of ***rural*** areas, while recognising the available flexibility within the Habitats Directive; 36. Calls on the Commission to support measures such as training for farmers regarding the protection of livestock against large carnivores and sharing best practices on livestock protection across Member States; 37. Regrets that the CAP has not been developed to protect the disappearing traditional ***agricultural*** practice of pastoralism, which is an important historical tool for habitat management and nature conservation; calls for the Action Plan to support a development framework for pastoralism in the Natura 2000 network; 38. Calls on the Commission to consider especially adaptive harvest management as a best practice tool to sustainably manage those waterbird populations that are sufficiently abundant within the EU and to conserve those which are in decline; 39. Underlines that significant biodiversity losses occur in marine areas and believes that the common fisheries policy (CFP) should promote biodiversity and sustainable consumption and production patterns; calls for an evaluation of the impact of the CFP on biodiversity; Funding 40. Welcomes the European Court of Auditors report on the Natura 2000 network and concurs with its assessment that EU funds have not been mobilised sufficiently to support the management of the network; 41. Underlines that the funding of the Natura 2000 areas is mainly the responsibility of the Member States and emphasises the fact that a lack of funding is likely to have contributed the most to the gaps in the implementation of the Nature Directives, as stated in the ‘Fitness Check’; 42. Underlines that the possibility of establishing new financial mechanisms for biodiversity conservation with a view to achieving the 2020 targets is unlikely given the time frame of the current multiannual financial framework (MFF); calls for maximum use to be made of existing means, including L’Instrument Financier pour l’Environnement (LIFE), the CAP and structural funds; 43. Welcomes the upcoming Commission proposal to increase the nature and biodiversity envelope by 10 % under the LIFE programme; 44. States that more preparatory work is needed in view of the next MFF in terms of both reviewing and forecasting, in order to ensure adequate financing for nature conservation, biodiversity, and sustainable ***agriculture*** in Natura 2000 sites; considers that a comprehensive review of past spending, highlighting lessons learnt in terms of the ***performance*** of past measures, would be key in this regard; 45. Calls for new financial mechanisms for biodiversity conservation to be included in the next MFF; calls on the Commission to ensure that future financial instruments for ***agriculture***, ***rural*** and regional development contain dedicated envelopes for biodiversity and management of the Natura 2000 network, which are co-managed by national and regional environmental authorities; 46. Calls on the Commission to tailor funding schemes more effectively to the Natura 2000 objectives and to establish cross-cutting Natura 2000 ***performance*** ***indicators*** for all relevant EU funds; calls on the Commission to also establish a tracking mechanism for Natura 2000 spending in order to improve transparency, accountability and effectiveness, and to integrate these into the next MFF; 47. Reiterates that the Natura 2000 programme is customarily funded through co-financing; calls on the Member States to increase their Natura 2000 funding substantially, in order for co-financing to be set at more attractive rates and to improve uptake of the fund as a result, and for measures to be taken to reduce administrative burdens on applicants and project beneficiaries; 48. Highlights the potential of public-private financing to develop ecosystem services, green infrastructure and other natural capital related areas and welcomes the fact that the Natural Capital Financing Facility (NCFF) will continue to support biodiversity-related projects for the 2017-2019 implementation period; 49. Calls on the Commission to promote and propose means for the funding and the development of transboundary management plans for large carnivore species, and also calls for a detailed examination of the role of large carnivores and the possible introduction of adjustment measures to ensure that biodiversity, the ***agricultural*** landscape and the centuries-old practice of letting stock graze in mountain regions are maintained; Green infrastructure 50. Welcomes the commitment made in the Action Plan to provide guidance to support the development of green infrastructure for better connectivity of Natura 2000 areas, but reiterates its call for a genuine proposal for the development of a Trans-European Network for Green Infrastructure (TEN-G); 51. States that it is important for the competent authorities in the Member States, with the involvement of all relevant stakeholders, to make better use of integrated spatial planning processes, to improve a horizontal understanding of TEN-G with sector-specific knowledge, and to enable the financing of increased connectivity, and green infrastructure in general, through ***rural*** development and regional development funds; notes that these criteria should guide the post-2020 MFF for planning infrastructure works; observes that the concept of green infrastructure also contributes to the establishment of a sustainable economy by maintaining the benefits of ecosystems while mitigating the adverse effects of transport and energy infrastructures; 52. Observes that it is necessary to study the role of green infrastructure in mitigating the effects of natural disasters linked to meteorological and climatic changes, in particular extreme meteorological and climatic conditions that are the cause of some of the most devastating and deadly natural disasters in Europe and the world; o o o 53. Instructs its President to forward this resolution to the Commission.

**Load-Date:** December 19, 2017

**End of Document**



[***Register of Commission documents:Instrument for Pre-accession Assistance (IPA II) Document date: 2017-05-30 EPRS\_BRI(2017)603957 Briefing***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5P52-B041-JDG9-Y38H-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing How the EU budget is spent June 2017 EPRS | European Parliamentary Research Service Author: Martin Svášek Members' Research Service PE 603.957 EN Instrument for Pre-accession Assistance (IPA II) In a nutshell The Instrument for Pre-accession Assistance (IPA) is a programme of the European Union for enlargement countries that was established for the 2007 to 2013 programming period and that replaced several former pre-accession assistance programmes. Under the current 2014 to 2020 multiannual financial framework, the new phase of the programme is called IPA II. The pre-accession funds help current and potential candidate countries to cope with political and economic reforms and to progressively align to the European Union's rules, standards, policies and practices on their path towards EU membership. EU's Multiannual Financial Framework (MFF) heading and policy area Heading 4 (Global Europe) 2014-20 financial envelope (in current prices and as % of total MFF) Commitments: €11 698.67 million (1.08 %) 2016 budget (in current prices and as % of total EU budget) Commitments: €1 662.3 million (1.07 %) Payments: €2 079.2 million (1.45 %) 2017 budget (in current prices and as % of total EU budget) Commitments: €2 114.7 million (1.36 %) Payments: €1 716.2 million (1.20 %) Methods of implementation Direct management (European Commission), indirect management (beneficiary countries) and shared management (Member States and beneficiary countries) In this briefing:  EU role in the policy area: legal basis  IPA II objectives  IPA II financial allocation  Measures funded  Assessment of IPA II and its predecessor  Other EU programmes in the same field EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 2 of 8 EU role in the policy area: legal basis The Treaty on the Functioning of the European Union (TFEU) establishes among the conditions for cooperation with third countries1 that 'the Union shall carry out economic, financial and technical cooperation measures, including assistance, in particular financial assistance, with third countries other than developing countries' (Article 212 TFEU). In this framework, Regulation (EU) No 231/2014 (the IPA II Regulation) establishes an instrument for pre-accession assistance (IPA II) to be the successor to the original IPA (Regulation (EC) No 1085/2006), which applied to the 2007-2013 programming period.2 Regulation (EU) No 236/2014 lays down common rules and procedures for the implementation of the IPA II and five other EU instruments for financing external action.

Commission Regulation (EU) No 447/2014 sets out specific rules for implementing IPA II. IPA II objectives IPA II helps countries that are candidates or potential candidates for EU membership to adapt their legal systems and economies in order to qualify to join the European Union. To accomplish the integration process, candidate countries must fulfil what are referred to as the Copenhagen criteria. IPA II funding supports beneficiaries in 'adopting and implementing the political, institutional, legal, administrative, social and economic reforms required ... in order to comply with the Union's values and to progressively align to the Union's rules, standards, policies and practices, with a view to Union membership'.3 The IPA II Regulation lists the following specific objectives:  support for political reforms;  support for economic, social and territorial development, with a view to smart, sustainable and inclusive growth;  strengthening of the ability of the beneficiaries to fulfil the obligations stemming from Union membership;  strengthening regional integration and territorial cooperation. IPA II addresses the following policy areas:  reforms in preparation for Union membership and related institution and capacity building;  socio-economic and regional development;  employment, social policies, education, promotion of gender equality, and human resources development;  ***agriculture*** and ***rural*** development;  regional and territorial cooperation. Currently, the beneficiaries of IPA II assistance are the Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo,4 Montenegro, Serbia, the former Yugoslav Republic of Macedonia) and Turkey (Regulation (EU) No 231/2014, Annex I). While Iceland is also mentioned among the candidate countries in Annex I, the country put accession negotiations on hold in May 2013 and the IPA was subsequently phased out. Each of the above-mentioned countries is at a different stage in its relations with the EU and each country's integration process advances at a pace defined by its own priorities. EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 3 of 8 IPA II financial allocation Under the current multiannual financial framework (MFF) for the 2014 to 2020 period, the IPA II allocation at current prices is €11 698.67 million, which represents 1.8 % of the total MFF. The sum roughly corresponds to the €11.5 million (at current prices) available under IPA I (2007-2013). Assistance under the IPA II Regulation (Figure 1) is provided on the basis of country and multi-country indicative strategy papers established for the duration of the current MFF.5 The strategy papers define the priorities for action in the relevant policy areas. They include the indicative allocation of EU funds per policy area, broken down by year, and ***indicators*** for assessing progress on reaching the targets set. These papers are the overarching ***strategic*** planning documents from which priorities and objectives of individual programmes derive. Turkey is by far the largest beneficiary of the IPA II funds (€4 453.9 million for 2014- 2020). Its share is bigger than the sum of allocations for all other individual countries.6 Similarly to other country strategy papers, the biggest share of the allocation for Turkey was earmarked for 'Reforms in preparation for Union membership' (€1 581.4 million), covering policy sectors 'Democracy and governance' and 'Rule of law and fundamental rights'. It is followed by 'Socio-economic and Regional development' (€1 525.3 million), with policy sectors such as Environment, Transport and Energy, and by '***Agriculture*** and ***rural*** development' (€912.2 million). In the context of the migration crisis, the Facility for refugees in Turkey (FRT) was set up in 2016 with a budget of €3 billion for 2016-2017 (€1 billion from the EU's general budget and €2 billion from the EU Member States) to coordinate resources from several financing instruments. IPA II is one of them, providing €650 million to be invested in nonhumanitarian aid.7 The EU budget for 2017 reflects it by increasing 'Support for political reforms and related progressive alignment with the Union acquis' in Turkey to €751.2 million in 2017, compared with €340.5 million in 2016. At the same time, recent political developments in the country led to a reduction in the IPA II contribution to Figure 1 – The IPA II (2014-2020) financial allocation per country (€ billion)\* \*Amounts for Bosnia and Herzegovina for the period 2018-2020 had not been decided by the end of 2014. Source: Indicative country strategy papers (2014-2020), European Commission, 2014. 0 1 2 3 4 2018-2020 2017 2016 2015 2014 EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 4 of 8 'Support for political reforms and related progressive alignment with the Union acquis' from €255.3 million in 2016 to €137.2 million in 2017.8 IPA II activities are implemented and managed in different ways, in accordance with the financial regulation.9 Under direct management, the Commission is in charge of implementing the budget. Indirect management means that budget implementation is delegated by the Commission to entrusted entities10 in the beneficiary countries, but the Commission retains overall final responsibility. Under shared management, which in the case of IPA II is an option only for cross-border cooperation programmes with EU countries, implementation activities are delegated to EU Member States. IPA II encourages the beneficiary countries to take primary ownership and responsibility for implementation. The Commission therefore applies the indirect management method, with the help of special 'national IPA coordinators' as its counterpart in the countries to support the overall process of ***strategic*** planning, coordination of programming, monitoring of implementation, evaluation, and reporting on IPA II assistance.11 Measures funded The European Union provides assistance for projects that are agreed on the basis of annual or multiannual action programmes for each participating country. Where there is a clear need for regional cooperation or horizontal action (e.g tackling cross-border problems, reaching efficiency by establishing harmonised approaches or facilitating networks of experts), areas of assistance are addressed through the multi-country action programmes. IPA II also supports cross-border cooperation as a form of territorial cooperation with the aim of promoting good neighbourly relations, fostering EU integration and promoting socio-economic development in border areas between countries by means of joint local and regional initiatives.12 Three types of cross-border cooperation are possible:  between one or more Member States and one or more IPA II beneficiaries;  between two or more IPA II beneficiaries;  between an IPA II beneficiary and countries under the European Neighbourhood Instrument.13 IPA II focuses more on the sectoral approach than its predecessor for 2007 to 2013, which supported more stand-alone measures. In the programming phase, it presupposes an agreement on the policy sectors that have priority. This agreement of both sides (the EU and the country receiving the assistance) is incorporated into the strategy papers and implemented via projects that make up action programmes. Nine sectors are defined for strategy papers (Box 1). On two occasions in the recent past, pre-accession funds have been used in exceptional circumstances. In the summer of 2014, after unprecedented floods in Bosnia and Herzegovina and Serbia, the Commission provided €42 million for Bosnia and Box 1 – The nine sectors defined for strategy papers 1. Democracy and governance 2. Rule of law and fundamental rights 3. Environment 4. Transport 5. Energy 6. Competitiveness and innovation 7. Education, employment and social policies 8. ***Agriculture*** and ***rural*** development 9. Cross-border cooperation (CBC) and regional cooperation Source: Quick guide to IPA II programming, 2014. EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 5 of 8 Herzegovina and €30 million for Serbia from IPA resources to help both countries to recover.14 At the end of the year a special measure on flood recovery and flood risk management was adopted by the Commission to continue with help using the IPA. Similarly, between 2015 and 2016, when the migration crisis moved to the top on the political agenda and the migration flow was affecting Turkey, but also Serbia and the former Yugoslav Republic of Macedonia, the IPA has supported many migration-related activities in Turkey and Western Balkans. In Serbia, for instance, a total of €24.5 million of EU pre-accession funds have been allocated for effective management of the migration flow. The funds are being used for better border management, swifter transportation of people to asylum centres and improved reception conditions. In these cases, the EU also intervened with targeted financial instruments.15 Box 2 – Examples of IPA I support Investments in rule-of-law-related projects have helped countries to establish robust and professional law enforcement and judicial bodies, independent and free from external influence. The project 'Strengthening the Prosecutors' Network', for instance, helps increase cooperation among prosecutors in the Western Balkans and supports joint investigations in international crime cases. Under the heading of sustainable economy, the IPA has supported , for example, a Serbian startup company from Belgrade that has developed the transportable mini solar charger 'Strawberry Tree Mini' which can be used for charging small portable devices such as smart phones, cameras, and mp3 players. In Montenegro, in the framework of investment in people, the Gender Equality Programme has contributed to the political empowerment of women. In Turkey, a project aiming at increasing enrolment rates in particular for girls has led to young women attending secondary and vocational schools, while also providing specific training to improve women's working skills. In the area of ***agriculture*** and ***rural*** development, the EU has funded a comprehensive project in Bosnia and Herzegovina. The project has created a network of collectors, breeders, processors and purchasers of medicinal and aromatic plants, named the Machinery Ring, and provided the network with machines for harvest, distillation, storage, product processing and packaging. Source: European Commission, 2015. Assessment of IPA II and its predecessor The IPA II Regulation provides for the European Commission to assess progress on implementing the strategy papers (established in partnership with beneficiary countries) against the ***indicators*** set, on an annual basis. The strategy papers should be also reviewed at mid-term and revised as appropriate (Article 6). This mid-term exercise is currently taking place and the results are expected this year. The mid-term review report will cover the period from 1 January 2014 to 30 June 2017 and will focus on the achievement of the objectives of IPA II and the efficiency of the programme.16 Western Balkans The European Court of Auditors (ECA) issued a meta-audit focused on the use of the IPA in the Western Balkans. Exploring the data from previous ECA special reports and Commission evaluations, it was seeking replies to two questions: whether the European Commission had managed the IPA in the Western Balkans well and whether the IPA had strengthened administrative capacity in the region. The ECA special report (Box 3) analysed a sample composed of the rule of law and public administration reform projects and regional programmes, corresponding to the EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 6 of 8 contracting amount of €439 million. The sample covered 21 % of total investments in these thematic areas during the 2007-2013 period (IPA I) but it also included the first stages of the 2014-2020 period (IPA II). Five recommendations close the ECA report, stressing the need for well-defined specific objectives and measurable targets, a more selective approach to the indirect management of the IPA, systematic monitoring of programmes against predefined conditions, and a net reduction in future IPA allocations or suspension of payments, where appropriate. The ECA would also like to see a track record of effective investigation, prosecution and final convictions in cases of high-level corruption and organised crime in the countries that are IPA beneficiaries. Finally, ECA calls for regional cooperation and political dialogue to support the delivery of results. In its 2015 detailed thematic evaluation on IPA support for the fight against corruption, the European Commission finds that, overall, IPA support for anti-corruption measures is perceived as positive, and that the EU accession process has been the major driver of anti-corruption efforts in EU enlargement countries. Nevertheless, it also draws attention to the fact that the impact produced has not been sufficient and a lot remains to be done.17 Turkey In 2009, the ECA published a special report dedicated to pre-accession funding in Turkey and the European Commission's management of it. Last year, the European Parliament commissioned an external study, which presents a follow-up to ECA's special report and provides answers to the questions asked in the title of the publication: 'Turkey: How the pre-accession funds have been spent, managed, controlled and the monitoring system?'. The publication concentrates on three study areas: pre-accession funding, European Investment Bank loans to Turkey and EU funding for Syrian and Iraqi refugees located in Turkey. Box 3 – ECA meta-audit on use of the IPA in the Western Balkans The report is critical of the fact that the IPA I objectives were not always specific and measurable through specific targets. The projects examined by the ECA did not consider the countries' actual political will for reform. The situation is different under IPA II because the indicative strategy papers have paid more attention to beneficiaries' capacity to commit to sector reform at political level and manage IPA funding. The ECA observed a relatively low level of absorption caused mainly by the weak administrative capacity of Western Balkan countries. The decentralisation of significant parts of IPA management required a learning period and a more demanding management structure. As a result, between 20 % (Serbia) and 30 % (FYR Macedonia) of IPA I allocations were still to be contracted at the end of 2015. At the same time, between less than 20 % (Kosovo) and more than 40 % (FYR Macedonia) of allocations had been contracted and had still to be paid. The Commission did not systematically apply strict conditions prior to contracting or payment, whether at political, programme or project level. The report highlights the exceptional case of Bosnia and Herzegovina and its lack of political will to enforce a European Court of Human Rights judgment in 2013. The Commission then applied conditionality by reducing the 2013 IPA I allocation by €45 million and imposing further reductions of allocations. Under IPA II, from 2014 until 2017, €165 million were allocated to that country, as compared with €331 million from 2007 to 2010. As regards the strengthening of the administrative capacity in the Western Balkans, the Commission effectively delivered the intended outputs, according to the ECA. The IPA for the rule of law and public administration reform was partly sustainable, while the impact of IPA I on the fight against corruption and organised crime was limited. Source: Special report No 21/2016, European Court of Auditors, 2016. EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 7 of 8 The study criticises the IPA II's sectoral approach as being the 'repackaging of previous approaches, but with less transparency'. It also points out that there has been a limited amount of publicly available monitoring information since the ECA issued its special report. It questions the volume of pre-accession funding (as the effectiveness of previous assistance is 'largely unknown') and notes that historically, utilisation rates in Turkey have been lower than in other candidate countries. The study also found it difficult to assess whether Turkey was moving towards EU standards (and EU membership) or was rather moving in the opposite direction. There are some similarities between the recommendations in the study about Turkey and those included in the ECA special report on the Western Balkan countries, namely concerning the evaluation criteria. The authors of the study commissioned by the European Parliament call for clear ***intervention*** objectives and ***indicators*** for preaccession and for the completion of the sector monitoring framework by the Commission. They would like to find information about pre-accession assistance more easily on the Commission's website. They also encourage the Commission to develop more coherent evaluation guidelines. Other EU programmes in the same field The IPA unified many of the instruments for pre-accession assistance that applied in previous enlargement rounds (Phare, SAPARD, ISPA, CARDS). When it comes to the other EU foreign policy instruments indicated below, candidate countries may benefit only from the European Instrument for Democracy and Human Rights. The Development Cooperation Instrument (DCI) has the primary objective of eradicating poverty. It applies to all developing countries, except those eligible for pre‐accession assistance. The European Neighbourhood Instrument (ENI) funds EU efforts to cooperate with and promote development in 16 countries and territories on its eastern and southern frontiers, as part of the European neighbourhood policy. It works as a substitute for preaccession investment in countries with little or no prospect of accession. The Instrument contributing to Stability and Peace (IcSP) supports security initiatives and peace-building activities in partner countries all over the world. The European Instrument for Democracy and Human Rights (EIDHR) supports projects in the area of human rights and fundamental freedoms and strengthens the rule of law and democratic reform in countries outside the EU, including enlargement countries. The Partnership Instrument's (PI) overall objective is to advance and promote EU interest by supporting the external dimension of EU internal policies and by addressing major global challenges, such as energy security, climate change and the environment. Macro-financial assistance (MFA) is an instrument designed to help EU candidate, potential candidate and neighbourhood countries in an acute balance-of-payments crisis by means of a loan or a grant from the EU. A MFA operation is exceptional and temporary, is based on economic and political conditions and is linked to an International Monetary Fund adjustment programme. EPRS Instrument for Pre-accession Assistance (IPA II) Members' Research Service Page 8 of 8 Endnotes 1 Title III on cooperation with third countries and humanitarian aid. 2 In 2017, implementation of IPA (2007-2013) is still underway. 3 Regulation (EU) No 231/2014, Article 2. 4 It is stated in the text of Regulation 231/2014 that 'This designation [Kosovo] is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence'. 5 See the dedicated website of DG NEAR. 6 Cross-country cooperation and multi-country assistance are not included. 7 Communication from the Commission to the European Parliament and the Council – First Annual Report on the Facility for Refugees in Turkey, COM/2017/0130 final of 2 March 2017. 8 See the 2017 EU general budget article 22 02 03 Support to Turkey. 9 See Regulation (EU, EURATOM) No 966/2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002. 10 They can be the IPA II beneficiary country or an entity designated by it, an agency of a Member State, an international organisation, or an EU specialised (but not executive) agency. 11 See Regulation (EU) No 447/2014, Article 4. 12 For details, see Title VI of the Commission Implementing Regulation (EU) No 447/2014. 13 M. Parry, European Neighbourhood Instrument, EPRS, European Parliament, October 2016. 14 Commission implementing decision adopting a special measure on flood recovery and flood risk management in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, the Republic of Serbia and Turkey, C(2014) 9797 final of 17 December 2014. NB: Footnote 4 addresses the name of Kosovo. 15 EU Floods Recovery Programme for Bosnia and Herzegovina. The EU Regional Trust Fund, known as the Madad Fund, is pooling resources including from the IPA allocation to Turkey. For more details about EU trust funds, see A. D'Alfonso, B. Immenkamp, EU Trust Funds for external action. First uses of a new tool, EPRS, European Parliament, November 2015; for details about the migration crisis in the Western Balkans, see V. Lilyanova, The Western Balkans: Frontline of the migrant crisis, EPRS, European Parliament, January 2016. 16 Regulation (EU) No 236/2014, Article 17. 17 Thematic evaluation on IPA support to the fight against corruption. Final report, European Union, 2016, p. 9. Disclaimer and Copyright The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2017. Photo credits: © M.Dörr & M.Frommherz / Fotolia. 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[***-IMF Executive Board Concludes 2018 Article IV Consultation and the Third Review under the Stand-By Arrangement with Jamaica***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S4C-MD71-JD3Y-Y1R6-00000-00&context=1516831)

ENP Newswire

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**Body**

Program implementation remains strong 5 years into the authorities' economic reforms, with public debt firmly on a downward trajectory.

Resolving the complex central government wage and employment structure is necessary to sustainably reduce the wage bill and redirect resources to growth-enhancing spending.

Building resilience of ***agriculture*** to weather events, and investing in school attendance and youth training programs will improve growth and social outcomes.

On April 10, 2018, the Executive Board of the International Monetary Fund (IMF) completed the 2018 Article IV Consultation and the third review of Jamaica's ***performance*** under the program supported by the Stand-By Arrangement (SBA), on a lapse of time basis. [1] The 36- month SBA with a total access of SDR 1,195.3 million (about US$ US$ 1.7 billion), equivalent of 312 percent of Jamaica's quota in the IMF, was approved by the IMF's Executive Board on November 11, 2016 (see Press Release No.16/503). The Jamaican authorities continue to view the SBA as precautionary, and to use it as an insurance policy against unforeseen external economic shocks that could lead to a balance of payments need.

Strong program implementation continues to anchor macroeconomic stability. All quantitative ***performance*** criteria and structural benchmarks for end-December 2017 were met. Fiscal consolidation is ongoing: primary surplus is expected to be at least 7 percent of GDP in FY17/18 and a similar target is set in the FY18/19 budget; public debt is projected to be under 100 percent of GDP by end-March 2019. The unemployment rate is at a 10-year low, inflation and the current account are modest, international reserves are at a comfortable level, and external borrowing costs are at historical lows.

Nonetheless, GDP growth is estimated to have been a disappointing 0.5 percent in 2017. Weakness in ***agriculture***, slow recovery in mining, and a deceleration in manufacturing offset growth in tourism and construction. The growth forecast is being revised down to 0.9 percent in FY17/18 and about 21/4 percent in the medium term; expected growth dividends from 5 years of reforms are somewhat offset by remaining structural issues, crime, and implementation capacity constraints.

Inflation remains well-anchored. Higher food prices resulting from flooding have begun to unwind, and CPI inflation in February was 4.4 percent (y/y). Core inflation has remained low (2.7 percent in February 2018), in part due to weak domestic demand. Both headline and core inflation are expected to steadily approach the midpoint of the BOJ target band (4-6 percent) over the medium-term. The current account deficit remains relatively low (at 2.8 percent of GDP in FY17/18) and it is expected to shrink over the medium-term, as oil prices remain contained and tourism earnings improve.

Financial system vulnerabilities are being progressively addressed. Non-performing loans were at about 2 percent of assets at end-2017, and banks' capital are at about 14 percent of risk-weighted assets, well above the 10 percent regulatory minimum. Liquidity risks appear manageable, a steady fall in real interest rates has supported credit creation, and banks' FX assets and liabilities appear to be broadly matched.

Executive Board Assessment

In concluding the 2018 Article IV Consultation and the Third Review under the Stand-By Arrangement with Jamaica, Executive Directors endorsed staff's appraisal as follows:

The economic reform program, that began in May 2013, has been a turning point for Jamaica. With broad-based social and political support for reforms, the Jamaican government-over two administrations-has embarked on a path of fiscal discipline, monetary and financial sector reforms, and wide-ranging structural improvements to break a decades-long cycle of high debt and low growth.

Considerable progress has been achieved on macroeconomic policies and outcomes. Fiscal discipline-anchored by the Fiscal Responsibility Law-has been essential to reduce public debt and secure macroeconomic stability. Employment is at historic highs, inflation and the current account deficit are modest, international reserves are at a comfortable level, and external borrowing costs are at historical lows.

Growth and social outcomes, however, have been discouraging. Economic growth continues to disappoint, averaging only 0.9 percent since the reforms began. Entrenched structural obstacles, including crime, bureaucratic processes, insufficient labor force skills, and poor access to finance, continue to hinder productivity and growth. Moreover, the ***agricultural*** sector's vulnerability to weather shocks exacerbated ***rural*** poverty in 2015. Not addressing these bottlenecks could pose risks for continued public support for the government's policy program.

Structurally reducing the wage bill is critical for the government to reprioritize spending toward growth-enhancing projects. More expenditure is needed for infrastructure, citizen security, building ***agricultural*** resilience, health, education, and the social safety net. Creating the space for such spending will require going beyond temporary remedies like wage freezes and adjustments to non-wage benefits. It will require high-quality measures to (i) overhaul the compensation structure to retain skills and reward ***performance***, (ii) streamline the vast and inequitable allowances structure, (iii) prioritize key government functions and shed those activities that it can no longer afford to undertake, and (iv) change the capital-labor mix through technology upgrades, including a better monitoring of (and accountability for) government spending. Inevitably, these reforms will also require a reduction in the size of the public workforce. Such a holistic approach will support a durable reduction in the wage bill, without frequent discordant wage negotiations, and enhance public service delivery with fewer but better paid public employees.

Improving social outcomes and fostering inclusive growth will require addressing structural bottlenecks and creating an enabling environment for private sector. Countering both weak social outcomes and escalating crime will take time but will be essential for sustained growth. In this regard, the evidence suggests that early childhood education, ***interventions*** to improve school attendance, and skills training for the youth would foster a virtuous cycle of lower crime, higher wages, stronger growth, and increased economic opportunity, particularly for the young. Policies to support productive private investments, including improving lending to smaller businesses and reducing lending-deposit interest spreads, will help fuel such an upswing. However, the government must resist the pressure to use scarce public resources to 'pick winners' (including through providing tax incentives). Instead, the goal should be a uniform, broad-based, and low rate tax system, a level playing field for business, and harmonized rules for all.

Formalizing the current inflation targeting regime will help entrench macroeconomic stability and promote growth. With inflation likely to remain in the lower part of the central bank's target range, a looser monetary stance remains appropriate. Meanwhile, upcoming revisions to the BOJ Act-including a clear mandate for price stability, a reformed governance structure, and a strong central bank balance sheet-will help institutionalize the inflation targeting framework. Also, continued development of the FX market, liquidity management and forecasting toolkit, along with upgrading the BOJ's communication practices, will improve policy signaling and enhance credibility. Successful inflation targeting will require a clear commitment to a flexible and market-determined exchange rate with limited involvement of the central bank in the currency market. This implies that FX sales should be confined to disorderly market conditions, especially given the reductions in the surrender requirements, and buy auctions should aim to build reserves in a non-disruptive way.

Financial sector stability is a prerequisite for strong and sustained growth. Ongoing prudential and supervisory improvements will enhance systemic stability. While changes to investment limits for non-banks should be considered, they must be backed by a thorough assessment - including of appropriate regulations, risk management guidelines, and supervisory arrangements - to ensure that greater flexibility in non-banks' asset-liability management practices does not jeopardize financial stability. Introduction of a Special Resolution Regime for financial institutions will strengthen the system's safety net while putting clear requirements in place for the use of public resources.

Continued reform implementation will not only safeguard hard-won gains but also deliver stronger growth and job creation. After 5 years of reforms and tenacious fiscal consolidation, risks from reform fatigue and loss of social support are high, especially as growth remains feeble and crime escalates. Addressing some of the entrenched structural problems that hamper growth is not an overnight task; these difficult reforms require continued broad-based support and policymakers' commitment to persevere with the implementation.

Table 1. Jamaica: Selected Economic ***Indicators*** 1/

Population (2013): 2.8 million

Quota (current; millions SDRs/% of total): 382.9/0.08%

Main products: Alumina, tourism, chemicals, mineral fuels, bauxite, coffee, sugar

Per capita GDP (2014): US$ 4955

Literacy rate (2015)/Poverty rate (2015): 87%/21.2%

Unemployment rate (Oct. 2017): 10.4%

Prog.

Est.

Projections

2014/15

2015/16

2016/17

2017/18

2017/18

2018/19

2019/20

2020/21

2021/22

2022/23

(Annual percent change, unless otherwise indicated)

GDP and prices

Real GDP

0.2

1.0

1.3

1.6

0.9

1.7

1.9

2.1

2.2

2.3

Nominal GDP

7.3

7.6

5.7

6.0

5.8

6.8

6.9

7.2

7.3

7.4

Consumer price index (end of period)

4.0

3.0

4.1

4.5

5.0

5.0

5.0

5.0

5.0

5.0

Consumer price index (average)

7.2

3.4

2.4

4.3

4.7

5.0

5.0

5.0

5.0

5.0

Exchange rate (end of period, J$/US$)

115.0

122.0

128.7

...

...

...

...

...

...

...

Exchange rate (average, J$/US$)

113.1

118.8

127.3

...

...

...

...

...

...

...

Nominal depreciation (+), end-of-period

5.0

6.1

5.4

...

...

...

...

...

...

...

End-of-period REER (appreciation +) (new methodology) 2/

0.2

2.2

2.6

...

...

...

...

...

...

...

Treasury bill rate (end-of-period, percent)

7.0

5.8

6.3

...

...

...

...

...

...

...

Treasury bill rate (average, percent)

7.8

6.3

6.1

...

...

...

...

...

...

...

Unemployment rate (percent) 3/

14.2

13.3

12.7

...

...

...

...

...

...

...

(In percent of GDP)

Government operations

Budgetary revenue

26.3

27.0

28.0

28.8

29.3

29.3

29.2

28.9

28.8

28.6

Of which: Tax revenue 4/

23.7

24.5

25.8

25.6

26.0

25.7

25.7

25.6

25.6

25.6

Budgetary expenditure

26.8

27.3

28.4

29.1

29.2

29.5

28.8

28.8

28.3

27.8

Primary expenditure

18.8

19.9

20.4

21.8

22.2

22.3

22.2

22.4

22.3

22.1

Of which: Wages and salaries

9.7

9.6

9.4

9.6

9.6

9.2

9.1

9.0

8.8

8.8

Interest payments

8.0

7.4

8.0

7.3

7.0

7.1

6.6

6.3

6.0

5.7

Budget balance

0.5

0.3

0.3

0.3

0.1

0.2

0.4

0.2

0.5

0.8

Of which: Central government primary balance

7.5

7.2

7.6

7.0

7.0

7.0

7.0

6.5

6.5

6.5

Public entities balance 8/

0.9

1.8

2.0

0.7

0.6

0.0

0.0

0.0

0.0

0.0

Public sector balance

0.4

1.6

1.7

0.4

0.7

0.2

0.4

0.2

0.5

0.8

Public debt (FRL definition) 4/ 6/

...

...

113.9

107.1

104.1

98.3

93.7

87.9

83.2

78.0

Public debt (EFF definition) 5/ 7/

139.7

121.3

122.1

113.9

111.9

104.8

98.6

92.3

86.6

80.5

External sector

Current account balance

7.0

2.0

3.0

2.5

2.8

3.0

2.9

2.8

2.7

2.6

Of which: Exports of goods, f.o.b.

10.2

8.3

8.8

8.8

9.3

10.4

10.3

10.1

9.9

9.9

Exports of services

15.5

14.8

15.8

14.8

14.6

14.5

14.2

14.1

14.0

13.8

Of which: Imports of goods, f.o.b.

36.4

30.1

31.7

31.9

32.6

33.2

32.9

32.6

32.2

32.0

Imports of services

19.8

19.5

21.4

21.5

21.2

21.1

21.3

21.3

21.3

21.2

Net international reserves (US$ millions)

2,294

2,416

2,762

3,282

3,066

3,219

3,833

4,238

4,614

5,273

of which: non-borrowed

1,335

1,470

1,936

2,470

2,253

2,428

3,062

3,469

3,867

4,526

(Changes in percent of beginning of period broad money)

Money and credit

Net foreign assets

27.9

10.1

7.1

15.0

6.5

4.7

12.9

9.1

8.6

13.3

Net domestic assets

22.3

8.6

15.4

9.0

0.7

2.1

5.9

2.0

1.3

5.9

Of which: Credit to the private sector

3.1

8.2

22.4

7.1

6.7

9.5

10.1

10.8

11.5

12.3

Of which: Credit to the central government

15.2

5.5

0.4

1.3

1.8

5.2

0.5

0.3

1.7

0.0

Broad money

5.7

18.7

22.5

6.0

5.8

6.8

6.9

7.2

7.3

7.4

Memorandum item:

Nominal GDP (J$ billions)

1,568

1,687

1,784

1,889

1,887

2,016

2,156

2,310

2,478

2,660

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ The new methodology uses trade weights for Jamaica that also incorporate trade in services especially tourism.

3/ As of January 31.

4/ Consolidated central government and public bodies' debt, consistent with the Fiscal Responsibility Law. The most significant deviation from the EFF definition is the exclusion of debt to the IMF held by the BoJ.

5/ Central government direct debt, guaranteed debt, and debt holdings by PCDF, consistent with the definition used under the EFF approved in 2013

6/ Consistent with the Fiscal Responsibility Law (FRL), implementation of the FRL-consistent debt definition began in FY16/17. A backward series is not available since consistent data on public bodies' debt holdings is not available prior to FY16/17.

7/ The decrease in debt in FY15/16 partly reflects the PetroCaribe buyback operation that generated an immediate 10 percentage point reduction in debt. The increase in debt in FY16/17 partly reflects prefinancing for FY17/18 maturities.

8/ Projections for 18/19 reflect the special distribution from PCDF to Central Government, ahead of its reintegration by end 18/19.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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**End of Document**



[***Register of Commission documents: Research for REGI Committee - Implementation of Cohesion Policy in the 2014-2020 Programming Period - January 2018 UPDATE Document date: 2018-01-18 IPOL\_BRI(2016)563425 Briefing***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RJ1-4S11-JDG9-Y1TJ-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing DG IPOL Policy Department for Structural and Cohesion Policies Author: Diána Haase, Research Administrator European Parliament PE 563.425 January 2018 Research for REGI Committee: Implementation of Cohesion Policy in the 2014-2020 Programming Period January 2018 UPDATE The implementation timetable for cohesion policy is defined largely by its legislative framework, which explicitly provides for European Parliament involvement in a number of cases. In order to be able to plan parliamentary work and exercise systematic scrutiny of policy implementation and of the Commission’s work, it is essential to have an overview of the expected timing of different steps in policy implementation in the coming years. The briefing was first published in 2014, and has been updated since then. The briefing includes a detailed (but non-exhaustive) timetable of policy actions connected with the implementation of the European Structural and Investment Funds in the second half of 2017, together with an overview of major actions for the remainder of the programming period, from 2019. Annual Overview 2018 Policy actions Sources January Commission to notify delegated act on list of ***indicators*** for EGTC under Article 17 –January 2017 (tbc). EC planning February Meeting of the Priority Area Coordinators of Danube Strategy - 1 and 22 February 2018. Meeting of the Directors-General responsible for Cohesion Policy - 14 February 2018. ESF High Level Conference - 15 February 2018. Meeting of the National Territorial Cohesion Contact Points - 28 February 2018. BG PRES planning BG PRES planning BG PRES planning BG PRES planning March Meeting of the Urban Development Group - 1 March 2018. End date of public consultation on “”Evaluation of the EU's Strategy on Adaptation to Climate Change” - 1 March 2018. End date of public consultation on “EU funds in the area of cohesion” - 8 March 2018. Conference on the future Multiannual Financial Framework - 9 March 2018. Commission’s Annual Progress Report to spring European Council to include a section on ESI Funds – every 2 years from 2018. BG PRES planning EC planning EC planning BG PRES planning CPR Art.

53(4) 2 2018 Policy actions Sources Commission to adopt CPR technical amendment linked to 2018 annual budget. EC planning April General Affairs Council on Cohesion - 12 April 2018. Directors General Meeting on Territorial Cohesion – 19 April 2018. Directors General Meeting on Urban Policy - 20 April 2018. BG PRES planning BG PRES planning BG PRES planning May International Forum on Tourism and Energy within the framework of the EU Strategy for the Danube Region- 23 May 2018. Joint Meeting of the EUSDR National Coordinators and Priority Area Coordinators - 25 May 2018. Deadline for Commission to present proposal for new MFF – (before) 1 January 2018 expected in May 2018. BG PRES planning BG PRES planning MFF Art. 25 EC planning June High-level conference “EU Cohesion Policy: post 2020 perspectives for convergence and sustainable regions” - 7-8 June 2018. BG PRES planning August Deadline for Commission to submit report on the application of EGTC to EP, Council, CoR – 1 August 2018 (expected in July). EGTC Art. 1(16) amending Art. 17 of 1082/2006, EC planning October The European Week of Regions and Cities (OPEN DAYS) - 8-11 October 2018. Meeting of Ministers from the Danube Region together with the Annual Forum of the EUSDR - 18 October 2018. CoR BG PRES planning December Deadline for completing evaluation of ESF-YEI joint support – 31 December 2018. Deadline for review of FR – by end of 2018 at latest (entering into force of “Omnibus” is likely due in 2018). Commission to provide summary of progress on financial instruments and send it to Parliament and Council – 30 November/31 December (each year from 2016, within 6 months of the deadline for submission of annual implementation reports). Commission to report on the implementation of EU macro-regional strategies - December 2018. End of power conferred on Commission to adopt delegated acts – 21 December 2018. ESF Art. 19(6) FR Art. 211 CPR Article 46(4) EC planning EGTC Art. 1(17), amending Art. 17a of 1082/2006 Unspecified/ Commission to adopt the proposals on the regulatory framework of the European EC planning 3 2018 Policy actions Sources annual Structural and Investment Funds (ESIF) post-2020 - Shortly after post-2020 MFF package / before the summer break. Mid-term verification of additionality. Ex post evaluation of major projects supported by ERDF and Cohesion Fund between 2000 and 2013 - transport - 4th quarter of 2018. Ex post evaluation of the European Union Solidarity Fund 2002 -2016 - 4th quarter of 2018. Commission to submit to COESIF annual summary on ERDF contribution to IPA II and ENI - annually. Commission to report to Parliament and Council on consultation of organisations representing partners at Union level – at least once a year. Commission to transmit summary report based on annual implementation reports and available evaluations to Parliament, Council, EESC, CoR – annually (expected in December). Annual review meeting between Member States and Commission - annually (from 2016). EIB to submit annual report to EP and Council on EIB financing and investment operations under EFSI Regulation (including where EFSI is combined with ESIF) - annually. Potential upwards revision of YEI resources in the framework of the budgetary procedure - annually (from 2016 to 2020). CPR Art. 95(5) EC planning EC planning ETC Article 4(9) CPR Article 5(6) CPR Article 53(1) EC planning CPR Article 51(1) EFSI Article 16(2) CPR Annex VIII.IV (see also MFF Art. 14 and ESF Art. 16) 4 Multiannual Overview 2019-2025 2019 2020 March CPR Art. 53(4) Commission’s Annual Progress Report to spring European Council to include a section on ESI Funds – every 2 years from 2018 May EC planning Mid-term evaluation of the JASPERS initiative in 2014-2020 - May 2019 August CPR Art. 52(1) Deadline for Member States to submit progress report to Commission 31 August 2019 December CPR Art. 53(2) Deadline for Commission to submit ***strategic*** report to EP, Council, EESC, CoR – 31 December 2019 Art. 57(3) Deadline for Commission to complete ex post evaluations of dedicated programmes (‘SME initiative’) – 31 December 2019 CPR Art. 149(2), ERDF Art. 14(2), ETC Art. 29(2), CF Art. 7(2), ESF Art. 24(2) End of power conferred on Commission to adopt delegated acts – 31 December 2020 CPR Art. 76 Cut-off date for budgetary commitments – 31 December 2020 CPR Art. 151, ERDF Art. 6, ETC Art. 31, CF Art. 9, ESF Art. 28 Deadline for review of regulations – 31 December 2020 Unspecified CPR Art. 21 ***Performance*** review of programmes in each Member State, undertaken by Commission in cooperation with Member States Art. 22(2) Commission to adopt decisions linked to achievement of milestones CPR Art. 113 8th Cohesion report Annual CPR Art. 5(6) Commission to report to EP and Council on consultation of organisations representing partners at Union level – at least once a year Art. 46(4) Commission to provide summary of progress on financial instruments and send it to Parliament and Council – 30 November / 31 December (each year from 2016, within 6 months of deadline for submission of annual implementation reports) Art. 53(1) Commission to transmit summary report based on annual implementation reports and available evaluations to Parliament, Council, EESC, CoR each year from 2016 Annex VIII.IV (see also Art. 14 of MFF and Art. 16 of ESF) Potential upwards revision of YEI resources in the framework of the budgetary procedure 2021-25 CPR Art. 95(5) Ex-post verification of additionality - 2022 Art. 114(2) Managing authorities to submit report summarising the findings of evaluations - 31 December 2022 Art 134(2) Final annual pre-financing amount to be paid (from 2016 onwards)- 1 July 2023 Art. 50(1) and 111(1) and ETC Art. 17 Last submission by Member States of annual implementation reports - 2023\* Art. 51(1) Last annual review meeting between Member States and Commission - 2023 Art 65(2) Cut-off date for eligibility of expenditure - 31 December 2023 Art. 136(2) Decommitment deadline - 31 December 2023 Art. 2(29) Final accounting year to end - 30 June 2024 Art. 127(4) Last update of audit strategy - 2024 Art. 57(2) Deadline to complete ex post evaluations - 31 December 2024 Art. 138 and FR 59(5) Final year for Member States to submit documents on accounts, management declaration, annual summary, audit opinion and control report - 15 February 2025 Art. 57(4) Deadline for Commission to prepare a synthesis report on the basis of ex-post evaluations - 31 December 2025 \* See also provision related to the final implementation report for the final accounting year from 1 July 2023 to 30 June 2024 - CPR Article 141 on Submission of closure documents and payment of the final balance. 5 List of abbreviations BG PRES planning Information available on the website of The Bulgarian Presidency of the Council of the European Union CF Cohesion Fund (Regulation (EU) No 1300/2013) COESIF Coordination Committee for the European Structural and Investment Funds CoR Committee of the Regions CPR Common Provisions Regulation CPR AM for Greece Regulation (EU) 2015/1839 of 14 October 2015 amending the CPR (specific measures for Greece) EC planning Information available on the European Commission at Work, Better Regulation, Regional policy - Inforegio, Employment, Social Affairs and Inclusion webpages or through (formal or informal) contacts with Commission services EESC European Economic and Social Committee EFSI European Fund for ***Strategic*** Investments (Regulation (EU) No 2015/1017) EGTC European Grouping of Territorial Cooperation (Regulation (EU) No 1302/2013 amending Regulation (EC) No 1082/2006) ENI European Neighbourhood Instrument (Regulation (EU) No 232/2014) EP European Parliament ERDF European Regional Development Fund (Regulation (EU) No 1301/2013) ESF European Social Fund (Regulation (EU) No 1304/2013) ESF AM for YEI Regulation (EU) 2015/779 of 20 May 2015 amending the ESF (additional initial pre-financing, YEI) ESI Funds European Structural and Investment Funds ETC European Territorial Cooperation (Regulation (EU) No 1299/2013) FR Financial Regulation IPA II Instrument for Pre-accession Assistance (Regulation (EU) No 231/2014) MFF Multiannual Financial Framework (Regulation (EU, Euratom) No 1311/2013) YEI Youth Employment Initiative Disclaimer This document is provided to Members of the European Parliament and their staff in support of their parliamentary duties and does not necessarily represent the views of the European Parliament. It should not be considered as being exhaustive. Author Diána Haase, Research Administrator, Policy Department for Structural and Cohesion Policies. Feedback If you wish to give us your feedback please e-mail to Poldep-Cohesion Secretariat: [*poldep-cohesion@ep.europa.eu*](mailto:poldep-cohesion@ep.europa.eu) Policy Department B Within the European Parliament’s Directorate-General for Internal Policies, Policy Department B is the research unit which supplies technical expertise to the following five parliamentary Committees: ***Agriculture*** and ***Rural*** Development; Culture and Education; Fisheries; Regional Development; Transport and Tourism. Expertise is produced either in-house or externally. All REGI publications: [*http://www.europarl.europa.eu/supporting-analyses*](http://www.europarl.europa.eu/supporting-analyses)

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**End of Document**



[***Register of Commission documents: staff working document Accompanying the document COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESMENT BANK A stronger and renewed strategic partnership with the EU's outermost regions Document date: 2017-10-25 COM\_SWD(2017)0349 SEC documents***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5R65-4NS1-F0YC-N1DW-00000-00&context=1516831)

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**Body**

Brussels: Public Register European Parliament has issued the following document:

EN EN EUROPEAN COMMISSION Strasbourg, 24.10.2017 SWD(2017) 349 final PART 1/2 COMMISSION STAFF WORKING DOCUMENT Accompanying the document COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESMENT BANK A stronger and renewed ***strategic*** partnership with the EU's outermost regions {COM(2017) 623 final} 2 CONTENTS 1. Introduction ......................................................................................................................................... 3 2. European Union and the outermost regions: a long lasting partnership .............................................. 3 3. Socioeconomic trends in the outermost regions .................................................................................. 6 4. Assessment of the European strategy for the outermost regions ....................................................... 10 4.1 Accessibility to the single market ............................................................................................. 10 4.2 Increasing competitiveness through modernisation and diversification of economies ............. 16 4.3 Strengthening the regional integration ...................................................................................... 36 4.4 Fostering employment, education and social Inclusion ............................................................ 39 4.5 Mainstreaming climate change and protecting the environment ............................................... 44 4.6 Taxation and State aid ................................................................................................................ 48 5. Conclusion ......................................................................................................................................... 50 List of acronyms and abbreviations ....................................................................................................... 51 Annex I — Geographical location of the outermost regions: lands of Europe in the World ................ 52 Annex II — European Union funding in the outermost regions ........................................................... 53 3 1. Introduction The outermost regions are an integral part of the European Union. Under Article 355 of the Treaty on the Functioning of the European Union (TFEU), these regions are governed by the Treaties. However, the outermost regions are remote from continental Europe and located in a different geographic, climatic, socioeconomic and political environment1. Article 349 TFEU recognises their particular situation and gives the outermost regions a unique status which distinguishes them from any other region in the EU and from the overseas countries and territories (OCT) that are associated to the EU.

In the Commission’s Communication2 of 2012, the EU set out a strategy for the outermost regions, in line with the Europe 2020 strategy3. It proposed a range of measures to help the outermost regions to build on their assets in order to create a stronger and self-reliant economy, promote social development and create sustainable jobs. The 2012 Communication also invited the outermost regions to draw individual action plans to promote a smart, sustainable and inclusive growth in their territory. These action plans have largely inspired the 2014 - 2020 European Regional and Development Fund (ERDF) programmes. This document reviews the implementation of the measures proposed in 2012. It also provides information on policy developments relevant to these regions since then and analyses their socioeconomic situation. 2. The European Union and the outermost regions: a long lasting partnership For more than 30 years the EU has been building a solid partnership with its outermost regions. The Treaty of Rome provides that the institutions of the Community should ensure the economic and social development of the French overseas departments. A declaration annexed to the Maastricht Treaty went a step further, recognising, for the first time, the notion of ‘outermost region’ (Article 227(2)). The Treaty of Amsterdam (Article 299(2)) asserted for the first time the status of the outermost regions in the body of the European Treaties and formally recognised their geographical and economic specificity. It acknowledged that the outermost regions are affected by a specific set of constraints4 the permanence and combination of which severely restrains their development. Article 299(2) further states that the Council, on a proposal from the Commission and after consulting the European Parliament, shall adopt specific measures, 1 See Annex I for the geographical location of the outermost regions. 2 COM(2012) 287 final, 20.6 2012. 3 See footnote 2. 4 The outermost regions are affected by remoteness, insularity, small size, difficult topography and climate, and economic dependence on a small number of products. 4 aimed, in particular, at laying down the conditions of application of the Treaties to those regions, including common policies, to take into account their structural social and economic situation. Following the entry into force of the Treaty of Lisbon in 2009, this status has been consolidated under a dedicated Article 349 TFEU. In its judgment of 15 December 20155, the Court of Justice of the European Union clarifies the scope of application of Article 349 TFEU on the basis of which the Council is entitled to adopt specific measures for the outermost regions derogating from the Treaty or from a secondary law. The EU has approved over the years specific or derogating legislative and non-legislative measures applicable to the outermost regions. They cover areas such as taxation, customs, ***agriculture***, fisheries and State aid, with the objective of mitigating as much as possible the negative effects of their specific constraints and promoting their development. In 20046, the Commission presented for the first time a strategy for the outermost regions, aiming to strengthen the partnership between the EU institutions and those regions. The strategy was renewed in 20087, to make the most of the outermost regions’ assets and in 20128, to align the strategy with Europe 2020 goals, emphasising the need for sustainable growth and jobs’ creation. A series of measures were proposed in different EU policies, across five main axes for action: improve accessibility to the single market, increase competitiveness, strengthen regional integration within the respective geographic zone, reinforce the social dimension of the development, including through measures for job creation, and mainstreaming climate action into all relevant policies. To better address their needs, the Commission has put the spotlight on the outermost regions’ specific assets and the constraints faced by them through a number of significant events. Since 2010, the Commission has been promoting discussion fora dedicated to the outermost regions, with the participation of all interested parties, in collaboration with the regions, the Member States concerned and the European institutions. The 4th Forum held in March 2017 debated the following ***strategic*** themes: circular, green and blue economy; energy; integration of outermost regions in regional and international markets; and digital and physical accessibility. It also examined the support available from the EU funds. In addition, a seminar on employment in the outermost regions, organised in March 2016 together with the European Economic and Social Committee, provided some important ideas for future actions to improve mobility and promote job creation, in particular in emerging sectors such as the blue and green economy. The outermost regions have also taken actions to strengthen their partnership with the European institutions. Since 1995, the annual event of the Conference of Presidents of the 5 [*http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62014CJ0132*](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62014CJ0132) 6 COM(2004) 543 final, 6.8.2004 7 COM(2008) 642 final, 17.10.2008 8 See footnote 2. 5 outermost regions is hosted by the region holding the rotating presidency and attended by representatives of EU institutions and Member States. At every conference, a declaration is issued outlining the outermost regions common position. At the last one, in 2016 in Madeira, the Presidents called on the Commission and the Member States for a new dynamic towards the outermost regions and committed to presenting a joint Memorandum. The Memorandum9 was handed to the President of the European Commission during the 4th Forum. It presented several proposals calling for reinforcing the differentiated approach of the European policies for the outermost regions. The Member States concerned (France, Portugal and Spain) have also submitted individual contributions. Furthermore, joint contributions were submitted to the Commission on the future strategy for the outermost regions10. The European Parliament has also been very active in promoting the interests of the outermost regions. It adopted in 2014 a resolution on creating synergies between the European Structural and Investment Funds (ESI Funds) and other European Union programmes to optimise the potential of the outermost regions11. In 2017, it adopted two additional resolutions on the management of fishing fleets in the outermost regions12 and the implementation of Article 349 TFEU13. These political proposals complement the work undertaken by the Commission on the EU strategy towards the outermost regions. In early 2014, the Commission set up a working group with representatives from the outermost regions, the three Member States concerned and the Commission to follow up concrete aspects of the 2012 Communication. Since then, the group has met regularly to analyse and discuss developments in the European policies affecting these regions, strengthening the communication between institutions and interested parties. Other Commission initiatives are important to evaluate the impact of European policies on the outermost regions and identify potential avenues for future action. In December 2016, the Commission adopted a report on the implementation of the POSEI scheme, expressing a positive assessment of its implementation and relevance14. In the same year, the Commission launched a study on the blue growth potential in the outermost regions. The results of the study were recently published15. Furthermore, the Commission has set up four expert groups to reflect on key areas for future growth in the outermost regions, such as digital accessibility, transport, energy, green and circular economy. Each group included experts from the outermost regions, the Member States and the Commission, aiming to define future actions at EU, national and regional levels in order to boost progress in these ***strategic*** areas16. 9   [*http://ec.europa.eu/regional\_policy/sources/policy/themes/outermost-regions/pdf/memorandum\_rup2017\_fr.pdf*](http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/memorandum_rup2017_fr.pdf) 10   [*http://ec.europa.eu/regional\_policy/index.cfm/en/policy/themes/outermost-regions/#5*](http://ec.europa.eu/regional_policy/index.cfm/en/policy/themes/outermost-regions/#5) 11 European Parliament resolution of 26 February 2014, Procedure reference (2013/2178(INI)), Rapporteur:Younous Omarjee. 12 European Parliament resolution of 27 April 2017 (2016/2016(INI), Rapporteur: Ulrike Rodust. 13 European Parliament resolution of 6 July 2017 (2013/2178(INI), Rapporteur: Younous Omarjee. 14 POSEI (Programme of options specific to the remote and insular nature of the outermost regions); COM(2016) 797 final, 15.12.2016 15   [*https://publications.europa.eu/en/publication-detail/-/publication/029afe70-a725-11e7-837e-01aa75ed71a1/language-en*](https://publications.europa.eu/en/publication-detail/-/publication/029afe70-a725-11e7-837e-01aa75ed71a1/language-en) 16   [*http://ec.europa.eu/regional\_policy/en/policy/themes/outermost-regions/#5*](http://ec.europa.eu/regional_policy/en/policy/themes/outermost-regions/#5) 6 3. Socioeconomic trends in the outermost regions17 On GDP per capita in purchasing power standard (pps)18, all outermost regions are still far away from the respective national and EU-28 average (data of 2015). The average GDP per capita of all the outermost regions is at 64.6 %, with Mayotte and French Guiana only at 32 % and 53 % respectively, while the national French average is at 106 %. The highest GDP per capita among all the outermost regions is observed in Martinique with 78 %, followed by the Canary Islands with 74 % (Figure 1). However, there is no clear common trend for the 2011-2015 programming period. The Portuguese outermost regions, the Canary Islands and Guadeloupe have seen their GDP per capita decreasing in 2011 - 2015; while Martinique, Reunion Island and Mayotte have seen their GDP per capita increasing in the same period. In French Guiana, there was no clear pattern in 2011 – 2015. There was an increase in 2011 - 2012 and then, a decrease in 2012 - 2015. Figure 1 — Gross domestic product at current prices in 2015 (PPS) in the outermost regions, Spain, France Portugal and EU-28 average. There is a fluctuation in terms of growth rates in 2010 - 201519, with no common pattern for all outermost regions. For the Spanish and Portuguese outermost regions (two Member States significantly hit by the economic crisis), the growth rates were positive in 2014 for the first time since 2010. In 2015, the growth rates were positive in almost all outermost regions. The average growth rate stands at 2.1 %. 17 More detailed information for each region is presented in Annex III. 18 EUROSTAT: Gross domestic product (GDP) at current market prices by NUTS 2 regions [nama\_10r\_2gdp]; unit: Purchasing power standard (PPS) per inhabitant in percentage of the EU average; updated on 30.3.2017; extracted on 12.6.2017 19 EUROSTAT data: Real growth rate of regional gross value added (GVA) at basic prices by NUTS 2 regions — percentage change on previous year [nama\_10r\_2gvagr]; updated on 16.6.2017 and extracted on 12.7.2017 0 20 40 60 80 100 120 Gross Domestic Product at current prices in 2015 (PPS) 7 On demographic changes, in 2012 - 201620, the population increased in the Canary Islands, French Guiana, Mayotte and Reunion Island while it decreased in the other outermost regions. It is worth highlighting that the outermost regions have a relatively young population compared to the national situation. In most outermost regions, the percentage of young people (up to 25 years-old) is significantly higher than the national average. In some cases it is the double (Mayotte) or almost the double (French Guiana). Life expectancy in 2015 was lower than the national average in all outermost regions, with the exception of Martinique, where it is slightly higher than the national average (82.7 years-old against 82.4 years-old)21. The gap observed between the national average and the outermost regions’ average is marginal. The lowest life expectancy can be observed in Mayotte (76.5 years-old). On the labour market situation, in most outermost regions, the employment rates of those aged 20-64 have increased in 2012 - 201622, with the exception of Guadeloupe and French Guiana, where slight drops in the employment rates have been observed in the same period. The average employment rate (20-64) for all the outermost regions is at 56.91 % (in 2016); which is significantly below the average target of the Europe 2020 strategy (75 %) and of the respective national targets (74 % for Spain, 75 % for France and 75 % for Portugal23). The French outermost regions present the most important gap between the regional employment rates and the respective national averages. The unemployment rates of those aged 15-74, have decreased in most outermost regions in 2012 - 2016, after observing a peak in 2013. The exceptions are Guadeloupe, French Guiana and Mayotte; with the latter having observed a trend towards increased unemployment rates in 2014 - 2016. The most recent data available, from 2016, show that the unemployment rates are much higher in all the outermost regions than the respective national averages, with the exception of the Azores (equal to the national rate of 11.2 %). The average unemployment rate in all outermost regions stands at 20.6 %, which is much higher than the EU-28 rate of 8.6 %. The highest rates are observed in Mayotte with 27.1 % and the Canary Islands with 26.1 %. The rates of the French outermost regions in 2016 (except from Martinique) are more than double the national rate of 10.1 % (Table 1). 20 EUROSTAT: Population on 1 January by age, sex and NUTS 2 region [demo\_r\_d2jan]; updated on 30.5.2017; extracted on 9.6.2017 21 EUROSTAT: Life expectancy by age, sex and NUTS 2 region [demo\_r\_mlifexp]; updated on 31.5.2017; extracted on 6.6.2017 22 EUROSTAT: Employment rates by sex, age and NUTS 2 regions (%) [lfst\_r\_lfe2emprt]; updated on 27.4.2017; extracted on 12.6.2017 23   [*http://ec.europa.eu/eurostat/web/europe-2020-****indicators****/europe-2020-strategy/headline-****indicators****-scoreboard*](http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy/headline-indicators-scoreboard) 8 Table 1 — Unemployment rates in the outermost regions, Spain, France, Portugal and EU-28 average in 2016. 2016 Unemployment rate 15-74 (%) Long-term unemployment (% of active pop) Female unemployment 15-74 (%) Unemployment rate 15-24 (%) NEET Canary Islands 26.1 14.2 28.0 51.3 16.0 Spain 19.6 9.5 21.4 44.4 14.6 French Guiana 23.2 16.2 25.2 43.9 32.3 Guadeloupe 23.9 17.1 25.4 46.7 19.4 Martinique 17.6 11.5 17.6 44.3 19.7 Mayotte 27.1 21.9 32.6 54.5 - Reunion Island 22.4 14.2 22.5 44.0 22.5 France 10.1 4.6 9.9 24.7 11.9 Azores 11.2 6.5 9.8 41.51 19.2 Madeira 13.0 7.8 11.9 50.51 16.1 Portugal 11.2 6.1 11.3 28.0 10.6 EU-28 8.6 4.0 8.8 18.7 11.5 1 2014 The long-term unemployment rates (as percentage of the active population) in 2012 - 201624 show a downward trend in most outermost regions (Canary Islands, Martinique, Reunion Island, Madeira and the Azores). In 2016, most of the outermost regions observed unemployment rates which are much higher than the national rates and the EU-28 average. The average long-term unemployment rate in all outermost regions is 13.7 %, compared to 4 % in EU-28, 9.5 % in Spain, 4.6 % in France and 6.1 % in Portugal. The Portuguese outermost regions have long-term unemployment rates that are higher but not very far away from the national ones (6.5 % in the Azores, 7.8 % in Madeira compared to 6.1 % in Portugal). The biggest gap can be observed in the French outermost regions where the rates vary from 21.9 % and 17.1 % in Mayotte and Guadeloupe respectively to 11.5 % in Martinique; while the French national rate is at 4.6 %. In addition, it is worth comparing with the long-term unemployed as percentage of the unemployed; a comparison which shows that in all outermost regions more than half of the unemployed are long-term unemployed. Mayotte and Guadeloupe have the highest share of long-term unemployed among their unemployed, with 80.9 % and 71.6 %. The female unemployment rates of those aged 15-74, show a downward trend in the outermost regions in 2012 - 201625, after reaching their peak in 2013 and 2014. The exception to that is Mayotte (data for 2014 - 2016), where female unemployment tended to increase. The average rate for all outermost regions is 21.6 % (in 2016), which is more than two times 24 EUROSTAT: Long-term unemployment (12 months and more) by NUTS 2 regions [lfst\_r\_lfu2ltu]; unit: percentage of active population; updated on 27.4.2017; extracted on 31.5.2017 25 EUROSTAT: Unemployment rates by sex, age and NUTS 2 regions (%) [lfst\_r\_lfu3rt]; updated on 9.8.2017; extracted on 11.9.2017 9 higher the EU-28 rate (8.8 %) and higher than the national rates (21.4 % for Spain, 9.9 % for France and 11.3 % for Portugal). The highest female unemployment rate is observed in Mayotte and the Canary Islands with 32.6 % and 28 % respectively. The lowest is observed in the Azores (9.8 %) which is also the only outermost region scoring lower in female unemployment than the national average (11.3 % for Portugal). On the youth unemployment rates of those aged 15-24, it is worth noting that in all the outermost regions the rates have decreased from 2012 to 201626 27, in some cases by more than 10 percentage points (Canary Islands, Martinique, Reunion Island). However, 2016 rates in the outermost regions remain much higher than the national and the EU-28 rates. The average rate for all the outermost regions (except for the Portuguese ones) stand at 47.5 %, while the Spanish and French national rates are at 44.4 % and 24.7 % respectively and the EU-28 rate at 18.7 %. The Canary Islands and Mayotte have the highest rates with 51.3 % and 54.5 % respectively. On young people not in employment, education or training (‘NEET’ ***indicator***), there is a reduction of the rate in all outermost regions in 2012 - 201628 (and in 2012 - 2014 for the French outermost regions). A significant decrease is observed in the Canary Islands and Madeira, with a drop of more than five percentage points, in the same period. The 2016 rate is significantly higher in all outermost regions than the national average and the EU-28 rate. The average rate for all outermost regions stands at 20.7 %, which is much higher than the Spanish (14.6 %), the French (11.9 %), the Portuguese (10.6 %) and the EU-28 (11.5 %). The highest values are observed in French Guiana with 32.3 %, followed by Reunion Island with 22.5 %29. On early school leavers, there was a significant reduction observed in the Canary Islands, the Azores, Madeira and Reunion Island in 2012 - 201630. During this period, there was an increase in early school leavers for Guadeloupe, Martinique and French Guiana. The rates observed in 2016 in the outermost regions are significantly higher than the respective national averages, with the exception of the Canary Islands where the rate is slightly lower than the national average (18.9 % compared to 19 % for Spain). French Guiana31 has the worst ***performance*** with 36.7 % of early school leavers, far from the national average of 8.8 % in France. The Portuguese outermost regions have also a much higher rate than the national average, with the Azores and Madeira at 26.9 % and 23.2 % respectively and Portugal at 14 %. The combined average rate for all outermost regions is 22.5 %, which is significantly higher than the ‘less than 10 %’ target of the Europe 2020 strategy and the national targets set at 15 %, 9.5 % and 10 % for Spain, France and Portugal respectively. 26 EUROSTAT: Unemployment rates by sex, age and NUTS 2 regions (%) [lfst\_r\_lfu3rt]; updated on 27.4.2017; extracted on 9.6.2017 27 No data are available for the Portuguese outermost regions for 2015 and 2016. 28 EUROSTAT: Young people neither in employment nor in education and training by sex and NUTS 2 regions (NEET rates) [edat\_lfse\_22]; updated on 27/04/17; extracted on 6.6.2017 29 Mayotte is not reported on this dataset. 30 EUROSTAT: Early leavers from education and training by sex and NUTS 2 regions [edat\_lfse\_16]; updated on 27.4.2017; extracted on 6.6.2017 31 Mayotte is not reported in the data. 10 On higher education attainment32, in 2012 - 2016, there is a slight increase observed in almost all outermost regions, with the exception of French Guiana (slight decrease in 2014 - 201633). In 2016, all outermost regions have lower rates than the national and EU-28 rates. The average rate for all outermost regions is approximately 21 %; while the EU-28 rate is at 30.7 % and the Spanish, French and Portuguese ones at 35.7 %, 34.6 % and 23.9 % respectively. The rates of the outermost regions are also significantly lower than the EU-2020 target set of 40 % and the national targets set at 44 %, 50 % and 40 % for Spain, France and Portugal respectively. The lowest higher education attainment is observed in the Azores and French Guiana with 14.8 % and 17.7 % respectively. The highest tertiary education attainment is observed in the Canary Islands with 29.4 %. 4. Assessment of the European strategy for the outermost regions 4.1 Accessibility to the single market Accessibility is the cornerstone of the outermost regions integration in the single market as stressed in the report by Pedro Solbes of 12 October 201134 which inspired, and continues to inspire, specific measures for the outermost regions. One of the main axes of the 2012 Communication was improving access to the single market; physical access (transport) but also digital access through broadband networks and digital services. Transport The cohesion policy remains the main instrument to support physical accessibility infrastructures in the outermost regions, in particular for air and maritime transport investments. In 2007 - 2013, the ERDF allocation for transport was about EUR 1 billion; more than one fifth (22 %), in average, of the total support for this period for all outermost regions. A wide range of projects have been financed, including port and airport infrastructures, maritime connections and inland waterways. The port and airport infrastructures represented 24 % and 25 % respectively of the total ERDF allocation on transport in the outermost regions; while the European average was 4 % and 2 % of the respective transport allocation. For 2014 - 2020, support to the transport sector in the outermost regions remains significant (14 % of the ERDF allocation), with about EUR 660 million made available via regional programmes, with an emphasis on a ***strategic*** approach and sustainable transport. Investments 32 EUROSTAT: Population aged 25-64 by educational attainment level, sex and NUTS 2 regions (%) [edat\_lfse\_04]; tertiary education (levels 5-8); updated on 27.4.2017; extracted on 9.6.2017 33 There are no data available for Mayotte. 34 ‘Europe’s outermost regions and the single market: The EU’s influence in the world.’   [*http://ec.europa.eu/internal\_market/outermost\_regions/docs/report2011\_en.pdf*](http://ec.europa.eu/internal_market/outermost_regions/docs/report2011_en.pdf) 11 for ports and airports continue to represent a big share of transport investments in these regions (33 % and 11 % respectively), while this share decreases significantly at the EU level (0.6 % for ports and 2.9 % for airports). Cohesion policy is therefore responding to the particular needs of the outermost regions, where air travel and maritime transport are of particular importance for socioeconomic development. The specific additional allocation of the outermost regions in the ERDF has also been used to compensate additional transport costs, including operating costs. Such examples of cohesion policy improving accessibility in 2007 - 2013 are:  the new Pôle Caraïbes airport in Guadeloupe (ERDF EUR 4.4 million35);  the requalification of the port of Praia de Vitoria, on the Terceira Island, in the Azores (ERDF EUR 27 million); and  the construction of Camopi airport, in French Guiana. On sustainable mobility and access within the local territory, the outermost regions have made major efforts and many examples can be listed, such as:  a hybrid bus project in Fort-de-France in Martinique (EUR 66 million budget supported by ERDF); and  plans to develop demand responsive transport services for the remoter areas using a mix of vehicles integrated to ferry operations (Guadeloupe) or alternative water transport lines (French Guiana)36. The main ports and airports of the outermost regions are included in the comprehensive Trans-European (TEN-T) networks37. This implies eligibility for EU funding under the Connecting Europe Facility (CEF) and applies mostly to maritime ports located in the outermost regions that can be backed financially by the Motorways of the Sea (MoS) programme. However, the bulk of CEF funding is currently on the core network infrastructures where only two ports and airports (Las Palmas and Tenerife in the Canary Islands) are included (Atlantic corridor). Three outermost regions’ projects related to ports were financed by the CEF (with a maximum total EU contribution of EUR 28.3 million) including: a) a project to retrofit a dual-fuel high-speed craft ro-pax vessel, fuelled by a mix of 75 % liquefied natural gas (LNG) and 25 % diesel to make — among others — the link between the Canary Islands38. b) the GAINN4 mOS, a twinned action between a number of Member States which contributes to the implementation of the LNG bunkering project in the Atlantic and the Mediterranean, including the port of the Azores39; and 35 Total investment of 12.5 million. 36 Source: Report of the expert group on transport accessibility for the outermost regions   [*http://ec.europa.eu/regional\_policy/sources/policy/themes/outermost-regions/pdf/transport\_report\_en.pdf*](http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/transport_report_en.pdf) 37 With the exception of Saint Martin. 38   [*https://ec.europa.eu/inea/sites/inea/files/fiche\_2014-es-tm-0593-s\_final.pdf*](https://ec.europa.eu/inea/sites/inea/files/fiche_2014-es-tm-0593-s_final.pdf) 39   [*https://ec.europa.eu/inea/sites/inea/files/fiche\_2014-eu-tm-0698-s\_final.pdf*](https://ec.europa.eu/inea/sites/inea/files/fiche_2014-eu-tm-0698-s_final.pdf) 12 c) the use of Onshore Power Supply system’s technology in Spanish ports, including the Canary Islands40. The latter is part of a global project aiming to spread the use of electricity for ships calling at Spanish ports along Core Network Corridors and beyond. Santa Cruz and Las Palmas of the Canary Islands will benefit from the pilot deployment. Under TEN-T, two studies were financed that included the outermost regions: one with the objective to describe existing solutions on the access to natural gas and the possibility to introduce LNG and Compressed Natural Gas41 in Spain, including the Canary islands; and the other under the name COSTA Action42, to develop framework conditions for the use of LNG for ships in the Mediterranean, the Atlantic Ocean and the Black Sea, including the Deep Sea cruising in the North Atlantic Ocean, towards the Azores and Madeira. In addition to funding, regulatory provisions are also very important for supporting transport in the outermost regions. The guidelines on State aid to airports and airlines, adopted by the Commission in 2014, take into account the challenges faced by the outermost regions. These guidelines set out the conditions under which investment aid and operating aid can be granted to airports. More flexible conditions apply to airports situated in the outermost regions (such as higher permissible investment aid, as a share of eligible costs). These guidelines also contain flexible provisions on start-up aid to airlines for opening new routes from outermost regions’ airports regardless of their size and even when those routes connect airports with countries outside the EU. Outermost regions can also benefit from aid of a social character for air transport services. In the context of the 2017 review of the General Block Exemption Regulation (GBER), the Commission further simplified the procedures. On transport, the revised GBER allows investment aid to be granted to ports and airports of a certain size43, without notifying the Commission, if specific conditions are met. The revised GBER also provides for more flexible rules on granting operating aid for small airports with fewer than 200 000 passengers per year. Furthermore, Member States can also provide State aid to outermost regions on the basis of existing EU rules on services of general economic interest. In case of genuine transport needs, Member States may impose a public service obligation on certain routes, with or without exclusivity and/or compensation. Similarly, the operation of some airport activities may be designated as a service of general economic interest, with the ensuing compensation. As for the maritime guidelines, the outermost regions had expressed the need for start-up aid for new maritime routes towards non-EU countries. However, following the previous public consultation results, it was considered that the overall rationale was still valid and therefore the 2004 Maritime guidelines were maintained. 40   [*https://ec.europa.eu/inea/sites/inea/files/fiche\_2015-eu-tm-0417-s\_final.pdf*](https://ec.europa.eu/inea/sites/inea/files/fiche_2015-eu-tm-0417-s_final.pdf) 41   [*https://ec.europa.eu/inea/sites/inea/files/download/project\_fiches/spain/fichenew\_2013es92006s\_final\_1.pdf*](https://ec.europa.eu/inea/sites/inea/files/download/project_fiches/spain/fichenew_2013es92006s_final_1.pdf) 42   [*https://ec.europa.eu/inea/en/ten-t/ten-t-projects/projects-by-country/multi-country/2011-eu-21007-s*](https://ec.europa.eu/inea/en/ten-t/ten-t-projects/projects-by-country/multi-country/2011-eu-21007-s) 43   [*http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1084&from=EN*](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1084&from=EN) 13 Moreover, introducing provisions on aid for investments in ports in the GBER and the extension of the regional operating aid provisions to the transport sector has simplified State aid rules in the maritime sector. The Member States can grant aid for relevant investments without having to notify them to the Commission. Considering the importance of air transport for these regions, the Commission, in its proposal amending the Directive 2003/87/EC for a new regulation on the Emission Trading System in aviation of Febru

ary 2017, maintained the exemption of the flights to and from airports in the outermost regions from 2017, subject to a new review in the light of the international developments to implement a global scheme on international aviation emissions. Digital connectivity One of the main obstacles to the integration of the outermost regions in the single market is their remote location, but could be partly compensated by a good level of digital connectivity. The outermost regions are in contrasting situations for the 2020 and 2025 broadband objectives44. In terms of coverage45 by next generation access networks46 all outermost regions are below the EU average (76 %) with the exception of Azores (99.8 %) and Madeira (86.3 %); Gran Canaria (86.8 %) and Tenerife (79 %) in the Canary Islands. With a few exceptions, most outermost regions are also below their national average and in some cases they present a very substantial gap: El Hierro (Canary Islands) has a coverage of 6 %, French Guiana 9 %, Las Palmas (Canary Islands) 10.4 %, La Gomera (Canary Islands) 17.2 %, Fuerteventura (Canary Islands) 18.6 %, Reunion Island 22.9 % and Martinique 42.8 %. The proportion of subscribers to the high-speed network is generally close to or above the national average, which demonstrates the interest and need for connectivity among the populations of these regions; Mayotte being the notable exception. The high number of broadband subscribers could be because the internet plays an even more important role for the communication needs of the populations of these outermost regions than on the mainland47. However, this penetration is unevenly distributed within these regions and is lower for example in the southern islands of Guadeloupe, the less densely populated islands of the Canary Islands and many areas in French Guiana and Mayotte. To improve the outermost regions' access to the digital market, the EU supports investments in network and services through a flexible regulatory framework and financial support where there are market failures. 44 The Union has set as objectives by 2020 the availability of 30 megabits per second (Mbps) connectivity for all citizens and the subscription by at least 50 % of households to a service offering at least 100 Mbps. The objectives for 2025 include that all European households will have access to internet connections of at least 100 Mbps, upgradable to Gigabit speeds. 45 Sources: European Commission Services 2017 — European Digital Progress Report 2017 [*https://ec.europa.eu/digital-single-market/en/news/europes-digital-progress-report-2017*](https://ec.europa.eu/digital-single-market/en/news/europes-digital-progress-report-2017) and ‘Broadband Coverage in Europe 2016. Mapping progress towards the coverage objectives of the Digital Agenda’. 46 Next Generation Access (NGA) coverage includes fixed-line broadband access technologies capable of achieving download speeds meeting the Digital Agenda objective of at least 30 Mbps coverage. These figures are the result of combining VDSL, DOCSIS 3.0, and FTTP coverages taking into account the possibility of overlapping coverage. 47 Report of the expert group on digital accessibility and ICT (coverage and use) in the outermost regions:   [*http://ec.europa.eu/regional\_policy/sources/policy/themes/outermost-regions/pdf/ict\_report\_en.pdf*](http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/ict_report_en.pdf) 14 The EU rules for electronic communications encourage competition, lower prices and more choice for businesses and consumers; while guaranteeing basic user rights. The legislation does not contain specific rules for outermost regions but allows national authorities to identify specific competition conditions in the territory of an outermost region, to take them into account in their market analysis and to adapt their regulatory ***intervention*** if necessary (as has been the case for wholesale access tariffs to some submarine cables). In addition, the proposed new European electronic communications code includes measures to encourage competitive investments, notably by providing incentives to co-investment in very high-capacity networks. This is expected to enable the participation of smaller players in investment projects, thanks to the pooling of costs and reduction of scale barriers and to make the investment case more predictable for ‘first movers,’ who take the risk to invest in those networks in less profitable areas, such as less densely populated and remote areas. The outermost regions also benefit from the ban on retail roaming surcharges, as from 15 June 2017, subject to fair use policy, and if mobile operators operating in these regions are not exempted from the ban by the national regulator48. State aid rules enable public funding for the deployment of networks offering substantial improvements over existing networks as recalled in the Broadband State aid guidelines adopted in 201349. The Commission will take into account the projected evolution of the long-term demand for such networks50. It will do this by assessing notified measures supporting such improvement and will consider favourably efficient blended financing that contributes to lower the aid intensity and to reduce the risks of distorting competition, as part of its assessment of State aid ***interventions***. In 2014 - 2020, ESI Funds are supporting investment in digital public services and in the roll out of broadband networks, in those areas where market investment has not materialised and public funding proved necessary. The upgrade and roll out of new high-speed broadband infrastructures are supported in the French outermost regions and to a lesser extent in the Canary Islands. Furthermore, all outermost regions have mobilised ESI Funds to support the development and use of Information and Communication Technology (ICT) services. The aim is to allow the population and SMEs to access advanced and affordable electronic communications and digital services and to attract new activities creating employment. This effort is accompanied with a support to the digitalisation of SMEs, the acquisition of digital skills and the development of public digital services for people and businesses (in particular eGovernment, eHealth, eLearning and eTourism). Around EUR 287 million are allocated in 2014 - 2020 ERDF regional programmes for digital connectivity in the outermost regions, representing a global increase of around 80 %, 48 Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users’ rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union (OJ L 310, 26.11.2015, p. 1). 49 Communication from the Commission 'EU guidelines for the application of State aid in relation to the rapid deployment of broadband networks' (OJ C 25, 26.1.2013, p. 1). 50 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions ‘Connectivity for a Competitive Digital Single Market — Towards a European Gigabit Society’ - COM(2016) 587 final, 14.9.2016 15 compared to the previous programming period. This allocation represents 6 % of the total EU funding for those programmes. In addition to ERDF, the European ***Agriculture*** Fund for ***Rural*** Development (EAFRD) has also supported digital connectivity with EUR 5.7 million in 2014 - 2020. In the previous programming period (2007 - 2013), supported by the ERDF regional programmes, the Azores and Canary Islands directed their efforts mainly towards services and applications for people, Martinique in ICT services for SMEs, while the other outermost regions favoured investments in telecommunication infrastructures. In addition to the ESI Funds support, the Connecting Europe Broadband Fund (CEBF), announced in December 2016 by the Commission and the European Investment Bank (EIB), is expected to trigger additional investments in broadband deployment. The CEBF will complement the lending activity of the European Fund for ***Strategic*** Investments (EFSI) and EIB by enabling smaller and riskier projects to attract market investments. It could thus fit better the financial investment needs of specific projects in the outermost regions. Better information on the single market The 2012 Communication proposed that ‘single market’ contact points are set up in each outermost region and that the Internal Market Information (IMI)51 and SOLVIT52 platforms are better used by the outermost regions. The IMI system allows public authorities across the European economic area to exchange information in the form of requests, notifications, alerts and centralised repositories, in line with the provisions in 11 single market areas. With the exception of Mayotte, IMI competent authorities have been appointed in all the outermost regions. The authorities in the Canary Islands’ have extensively used the system, due to the training and awareness-raising activities carried out by Spain. On SOLVIT, a number of cases were dealt with by the Canary Islands, Madeira and Azores. The authorities of the outermost regions are invited to continue cooperating with the national SOLVIT centres placed in the central administration53. SOLVIT can offer assistance in case a public authority has caused problems between two Member States in the single market. In addition, the ‘Your Europe’ portal54 offers user-friendly information and access to advice about EU rights which all Europeans and business enjoy in the single market. The portal is available in the official EU languages spoken in the outermost regions. The uptake of these tools in the outermost regions has been overall limited compared to the rest of the EU and their use should be further encouraged. 51   [*http://ec.europa.eu/internal\_market/scoreboard/\_archives/2013/07/****performance****\_by\_governance\_tool/internal\_market\_information\_system/index\_en.htm*](http://ec.europa.eu/internal_market/scoreboard/_archives/2013/07/performance_by_governance_tool/internal_market_information_system/index_en.htm) 52   [*http://ec.europa.eu/solvit/index\_en.htm*](http://ec.europa.eu/solvit/index_en.htm) 53 Increasing the use of SOLVIT by citizens and businesses is a general objective of the reinforcement of the network as expressed in the SOLVIT action plan - COM(2017) 255 final, 2.5.2017 54   [*http://europa.eu/youreurope/index.htm*](http://europa.eu/youreurope/index.htm) 16 4.2 Increasing competitiveness through modernisation and diversification of economies Cohesion policy Cohesion policy is the main EU instrument to deliver growth and jobs. The 2012 Communication highlighted the need to support funding for research and innovation, promote new opportunities for employment and enterprises as well as to renewable energy and energy efficiency, and improve access to finance for SMEs. Moreover, the Communication underlined the role of the smart specialisation strategies to this aim. On the Cohesion Fund (CF), the Azores and Madeira are the only two outermost regions belonging to a Member State eligible for Cohesion Fund support. The actions supported under this fund in the 2007 - 2013 programming period were financed under the national programme ‘Valorização do território’. EUR 235 million were earmarked to Madeira to prevent and manage risks and to improve transport infrastructures and EUR 105 million to the Azores, to enhance the maritime transport conditions in the archipelago as well as the environmental protection and sustainable development. In 2014 - 2020, those regions are eligible to apply for support under the national programmes financed by this fund. The total ERDF allocated budget to the outermost regions in the regional programmes in 2007 - 2013 amounted at EUR 4.6 billion. It includes an additional specific allocation of EUR 850 million. According to preliminary data submitted for the closure of the 2007 - 2013 operational programmes in March 201755, the 2012 strategy is well reflected in the priorities supported from the cohesion policy. The most commonly supported sectors (based on the thematic objectives57) in the outermost regions were: transport and energy networks with 21.6 % of the total budget, environment and resource efficiency with 19.4 % and SME competitiveness with 13.4 %. Research and innovation was supported with 5.8 % and information and communication technologies with 4 %. It is worth observing that by aggregating the contribution under research and innovation, ICTs and support to SMEs, a total investment of 23 % is attained (Figure 3). The outermost regions used the specific allocation in 2007 - 2013 in different manners. For example, in Martinique, Reunion Island, Mayotte and Madeira, the specific allocation supported investments aimed at promoting the competitiveness of enterprises. In Reunion Island and the Azores, the allocation was used for transport. In the Canary Islands, the specific allocation was used for infrastructure (upgrade works in airports, ports and roads) and for running costs (providing grants for transport between islands and covering medical costs). 55 The data may be subject to change following the exchange of information between the Member State authorities and the Commission in the framework of the 2007 - 2013 closure exercise. 17 Figure 3 –Financial allocations of ERDF regional programmes in the 2007 - 2013 programming period by thematic objective 56 In the 2012 Communication, Financial Engineering Instruments and microfinance were mentioned among the possibilities to be explored by the outermost regions. In 2007 - 2013, this opportunity was used in Martinique (ERDF, EUR 12.85 million), with financial engineering instruments allowing 600 businesses to benefit from financial support. In French Guiana EUR 5.7 million was used from ERDF on financial engineering instruments, including instruments for risk-sharing, microcredit, bank guarantees and funds to support projects with high potential. In total, 306 persons have benefited from microfinance and 530 businesses (SMEs and bigger firms) received support. Based on the same preliminary data, the ERDF contribution helped to achieve the following results in 2007 - 2013: 6 956 jobs were created; among which 204 jobs in the research sector and 1 227 in tourism. 66 331 students benefitted from projects in the field of education. 662 start-ups were supported and 326 413 additional people are covered by broadband access. In terms of physical accessibility, 65.8 km of new roads were constructed and 621.2 km reconstructed. 65 468 additional people are served by waste water projects and 143 311 additional people are served by water projects. 229 renewable energy projects were supported. In 2014 - 2020, the ERDF allocates EUR 4.7 billion in the regional programmes to support investments in smart, sustainable and inclusive growth. This amount includes the additional specific allocation for the outermost regions (EUR 1 billion)57. An increase of 4.6 % can be observed in the total budget for all outermost regions between the two programming periods. 56 The term thematic objective is used as a reference to the 2014-20 Regulations for comparability reasons. 57 The funding contribution from the national programmes, namely for the Canary Islands, is not included. 18 The most commonly supported sectors (based on the thematic objectives) are SME Competitiveness; Environment Protection and Resource Efficiency; and Network Infrastructures in Transport and Energy (Figure 4). Figure 4 –Financial allocations of ERDF regional programmes in the 2014 - 2020 programming period by thematic objective. The additional specific allocation, will be used in 2014 - 2020 to support businesses (Madeira, Guadeloupe, French Guiana, Reunion Island, Mayotte), transport (the Azores, Canary Islands, Guadeloupe, Martinique, French Guiana, Reunion Island, Mayotte), medical transport (Canary Islands), civil protection against natural disasters (Guadeloupe, Saint Martin, Martinique, Reunion Island), protection of the environment and biodiversity (Canary Islands) and ICTs (Saint Martin, Martinique). The 2012 Communication highlighted the need to assess if the individual needs and assets of the outermost regions were taken into account in the design of the Partnership Agreement of the 2014 - 2020 programming period. As a result, a specific Chapter is devoted to the outermost regions in the national Partnership Agreements. In 2014 - 2020, different financial instruments are envisaged to support different priorities in each outermost region, in particular risk capital, capital investment, microcredits, guarantee funds and pre-financing. These instruments aim to support SMEs and projects in energy and environment (Guadeloupe); and entrepreneurship (Saint Martin). Reunion Island envisages also financial instruments to support entrepreneurship with EUR 22.4 million from ERDF, EUR 20 million from EIB and EUR 7 million from the Region58. French Guiana envisages also the set up of financial instruments with a budget of EUR 10 million for research and innovation and support to entrepreneurship. 58 This is an EFSI project. More details are presented under the ‘European Investment Bank (EIB) Group and the EFSIʼ section of the present Staff Working Document. 19 The ERDF contribution in 2014 - 2020 is expected to achieve the following results: 8 772 businesses in all outermost regions and increase employment in the supported enterprises by 5 328 full-time equivalent. On research and innovation, 758 researchers are expected to work in improved research infrastructure facilities, 456 businesses will cooperate with research institutions, 229 enterprises are expected to introduce new to the market products and 466 enterprises will be supported to introduce new to the firm products. Additional 480 000 households are expected to have broadband access of at least 30 Mbps, the additional capacity of renewable energy production is expected to be 153.29 MW and the estimated reduction in greenhouse gas emissions is 432 117 tonnes of CO2. As outlined in the 2012 Communication, the European Social Fund (ESF) invested EUR 1.3 billion in the outermost regions during the 2007 - 2013 programming period. The objectives were to boost education, employment, skills and lifelong learning. Furthermore, in 2013, an additional allocation of EUR 180 million59 was made available through the Youth Employment Initiative (YEI) to implement the Youth Guarantee scheme. As regards the observed results of the ESF ***interventions***, the ‘Régiment du Service Militaire Adapté’ (RSMA) - a French social-professional military system project - was implemented successfully in all French overseas regions. The objective was to train young unemployed people and assist them to integrate into the job market. After participation, 29 % of them were in employment. In the Canary Islands’ programme, more than 200 000 participants benefited from the ESF ***interventions***, approximately 2 000 businesses were created and 26 000 unemployed people found a job, after participating in active labour market policies. In Madeira, 39 % of young people who attended an information and career guidance session, found employment within 12 months after their participation in 2015. In addition, 83.6 % of the working population participated in actions of professional training. In the Azores, 57 % of the young people who completed the ‘transition to active life’ plan programme, found a first job once the programme was completed: 16 974 persons participated in certification courses to improve literacy levels and basic qualification. In 2014 - 2020, the ESF investment has increased in all outermost regions to a total allocation of 1.8 billion. In addition, the YEI budget is approximately EUR 260 million60, expected to be further increased for all eligible regions, following the mid-term revision of the Multiannual Financial Framework in June 2017. The outermost regions will thus, benefit from additional resources. The main priorities of the ESF programmes in the outermost regions are promoting youth employment, fostering mobility of workers and trainees, supporting vocational trainings, reducing early school leaving, promoting lifelong learning, increasing social inclusion and enhancing the institutional capacity of public authorities and stakeholders among others. 59 The French outermost regions benefited from EUR 110 million (35 % of the YEI for France), the Portuguese outermost regions of 11.3 million and the Canary Islands of EUR 58.6 million. 60 The YEI total budget includes the budget earmarked to the respective regions from the national YEI programme and for Guadeloupe and Martinique, it also includes the YEI allocations in their regional programmes. The amount includes the ESF matching part. 20 Some examples of the expected results are the following: an increase of 30 % by 2023 of the number of people placed in employment pathways in Reunion Island61, the support of 10 560 jobseekers in Guadeloupe, reduce school dropout rate by 30 % in French Guiana and 32 000 students completing their secondary education training, in the Canary islands. Furthermore, all ESI Funds support since 2014 the Community-Led Local Development strategies, which promote employment and labour mobility and have an important role in job creation by involving by local communities and organisations. Moreover, Integrated Territorial Investment strategies are also implemented to tackle urban and other complex territorial challenges. ***Agriculture*** and ***Rural*** Development The ***agriculture*** is a fundamental sector for the outermost regions both for the economy and employment. Together with forestry and fisheries, it represents on average 3.8 %62 of the economic activity and 5 % of the employment, with the Azores being, by far, the region where these sectors have a higher importance in both: 9.8 % and 13.8 %, respectively. Specific measures for ***agriculture*** have been implemented through the POSEI scheme under the first pillar of the common ***agricultural*** policy (CAP) and of Article 349 TFEU. Although some provisions of the POSEI scheme were revised in 2013, the general provisions of the scheme remained unchanged. It is financed by the European ***Agricultural*** Guarantee Fund (EAGF). The basic regulation63 sets an annual ceiling for each Member State64, with a total of EUR 653 million for all the regions. Two categories of measures have been implemented within the programmes: the specific supply arrangements, to support the supply of ***agricultural*** products and the support to local ***agricultural*** production. The way POSEI is programmed offers Member States the flexibility to define their actions based on their needs, while at the same time responding to common overall goals. On 15 December 2016, the Commission adopted a report on the implementation of the 2006 - 2014 POSEI scheme65. The report recommends maintaining the current basic regulation and underlines that the POSEI programmes succeeded in addressing the particular ***agricultural*** challenges faced by these regions over the examined period. It further stresses that Member States should also take into account the results and the recommendations to further improve the effectiveness of the measures in their programmes. In fact, this scheme is critical in reducing the difference in price of the supported products in the outermost regions compared to the European mainland and in maintaining the ***agricultural*** production activities. It contributes to the maintenance of production of both the traditional sectors for export, such as banana, milk, sugar, meat and wine and the diversification of 61 Under the Operation Programme Réunion- État. 62 1.6 % for the EU28 in 2014. 63 Regulation (EU) No 228/2013 of the European Parliament and the Council of 13 March laying down specific measures for ***agriculture*** in the outermost regions of the Union and repealing Council Regulation (EC) No 247/2006 (OJ L 78, 20.3.2013, p. 23). 64 French outermost regions: EUR 278.41 million, Canary Islands: EUR 268.42 million and Azores and Madeira: EUR 106.21 million. 65 See footnote 14. 21 productions for local consumption. The whole value chain was addressed through different support measures, including processing and marketing, although with a different balance for each outermost region. The POSEI programmes contributed to the overall objective of the CAP: viable food production, sustainable management of natural resources and balanced territorial growth. Without this scheme, the risk of ***agricultural*** production abandonment could negatively affect employment, environment or the territorial dimension of the outermost regions. There is a strong coherence between POSEI programmes and ***Rural*** Development Programmes (RDP). Numerous synergies have been identified (training, setting-up of young farmers and investments supported by RDP and production supported by POSEI). This is crucial to achieve the CAP objectives, given the strong interdependence between the two types of support. In the framework of the second pillar of the CAP, the ***rural*** development plans are financed by the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD). These programmes were set up, in line with the analysis of the territory and the needs identified by the outermost regions. During the 2007 - 2013 and 2014 - 2020 programming periods, the outermost regions benefit from more advantageous EAFRD contribution rates (85 % of the eligible public expenditure) and higher support rates (for physical investments in farms and investments in forestry technologies). During the 2014 - 2020 programming period, these regions also benefited from more flexibility on how to programme their allocations in order to better adapt the programmes to their specific needs. In the 2007 - 2013 programming period, the RDP had to be structured in four axes: competitiveness in the ***agriculture*** and forestry sector; environment and countryside; quality of life in ***rural*** areas; and diversification of the ***rural*** economy, and LEADER approach66. The outermost regions allocated approximately half of the amount of EAFDR in the competitiveness axes, except the Azores and French Guiana (with a more balanced distribution between the competitiveness and environment axes and the competitiveness and quality of live axes, respectively). The total public expenditure for the outermost regions was EUR 1 738 million (EUR 1 285 million of EAFRD support). The main results were the installation of nearly 1 400 young farmers, the modernisation of 13 000 farms, nearly 11 000 farmers with agro-environmental commitments, the support for 250 tourist projects, more than 600 projects promoting basic services for the ***rural*** population, 650 projects preserving the natural and cultural heritage, the creation of 2 000 jobs in ***rural*** areas and the support to 27 local action groups under the LEADER approach. In the 2014 - 2020 programming period, the outermost regions adopted different strategies in their RDP, according to the five priorities stipulated in the ***Rural*** Development regulations67. 66 The LEADER (from the French ‘Liaison Entre Actions de Développement de l’Économie Rurale’) is an initiative to support ***rural*** development projects initiated at the local level aiming at revitalising ***rural*** areas and create jobs. 67 The RDP programmes addresses at least three of the following priorities: competitiveness, food chain and risk management, ecosystems management, resource efficiency and climate, social inclusion and local development. There is also a cross-cutting priority: knowledge transfer and innovation. 22 Some regions clearly favoured one or two priorities, like the Azores (ecosystems management and competitiveness), Madeira (ecosystems management), French Guiana (social inclusion and local development), Martinique and Mayotte (competitiveness). Others, like the Canary Islands, Reunion Island and Guadeloupe opted for a more even distribution of the financial allocations across all priorities (Figure 5). Figure 5 –Financial allocations of the European ***Agricultural*** Fund for ***Rural*** Development in the 2014 - 2020 programming period by investment priority. In all outermost regions ‘investments in physical assets’ is the main support measure in financial terms, with the exception of French Guiana, where the main support goes to basic services and village renewal in ***rural*** areas. In this regard complementary use of EARDF (LEADER included) and ERDF support for basic services helps to promote employment and sustainable growth. In the 2014 - 2020 programming period, the allocation to the outermost regions is EUR 1 494 million (EUR 1 896 million of total public expenditure). This amount will contribute to supporting: the installation of more than 1 000 young farmers; the training of 13 000 participants; the modernisation of 7 400 farms; 97 000 ha under management contracts to improve biodiversity; water management and soil management measures; 230 tourist projects; more than 200 projects promoting basic services for the ***rural*** population; 100 projects preserving the natural and cultural heritage; the creation of 1 200 jobs in ***rural*** areas (900 jobs through LEADER); and 28 local action groups. The EAFRD also contributes to the European Innovation Partnership for ***agricultural*** productivity and sustainability (EIP-AGRI)68 by supporting EIP operational groups. These groups are set up by actors such as farmers, researchers, advisers and businesses involved in the ***agriculture*** and food sector. The outermost regions propose to support 133 operational groups in their RDP. 68 The European Innovation Partnership for ***agricultural*** productivity and sustainability (EIP-AGRI) has been launched in 2012 to contribute to the European Union’s strategy ‘Europe 2020’ for smart, sustainable and inclusive growth. Different types of available funding sources can be used, such as EARDF and Horizon 2020. 23 For 2014 - 2020, the allocation from both CAP pillars amounts at EUR 6.1 billion. Between 2012 and 2016, state aid for a total budget of about EUR 200 million was approved for the outermost regions under the AGRI State aid guidelines. This shows the interest for and the importance of those aids in the relevant Member States. The state aid granted to the outermost regions has contributed to support and maintain employment and economic activities in territories facing significant additional costs compared to other areas. Fisheries The outermost regions' fishing sector consists mainly in small-scale vessels. Industrial and long distance fishing fleets are also based in these regions, supplying raw material to locally important fish processing industries. Stimulating the development of sustainable fisheries and aquaculture was a strong priority for the European Fisheries Fund (EFF) in the outermost regions during the programming period 2007 - 2013. As less favoured regions, they benefited from higher budget and higher public support rates. The EFF allocation to the outermost regions amounted at EUR 92.3 million, with a level of execution of 88 %. Additionally, EUR 104 million was available through a specific ‘compensation regime’ for some of the regions69. Under the 2014 - 2020 programming period, a specific financial envelope for compensation of additional costs in the outermost regions was included in the national programmes under the European Maritime Fisheries Fund (EMFF). This envelope may cover additional costs in the production, processing and marketing of fishery and aquaculture products in these regions. The financial allocation for the ‘compensation regime’, has been reinforced by 50 % for the Canary Islands, the Azores and Madeira, and by 150 % for the six French outermost regions. Geographic coverage was extended to all French outermost regions. This represents EUR 192.5 million for 2014 - 2020, roughly 9 % of the EMFF allocation to the three Member States. Moreover, the EMFF finances 100 % of the compensation plans and the maximum aid intensity (share of public funding in the total costs) for other EMFF measures in the outermost regions, at 85 %, is 35 percentage points higher than for other regions. The latter applies to all eligible measures (e.g support for young fishermen, investments on board in health and safety, investments in fishing ports, support for control and enforcement and for data collection) with the exception of engine replacement (30 %). On public aid for fleet renewal, which was allowed until 31 December 200670 in the outermost regions, a total of around EUR 110 million of EU funds were spent in vessels based in these regions, corresponding to a total investment of EUR 271.5 million between 1994 and 2006. 69 The ‘compensation regime’ in the 2007 - 2013 programming period covered only the following regions: Canary Islands, French Guiana, Reunion Island, Azores and Madeira. 70 Council Regulation (EC) No 639/2004 of 30 March 2004 (OJ L 102, 7.4.2004, p. 9), later extended to 31.12.2006 by Council Regulation (EC) No 1646/2006 of 7 November 2006 (OJ L 309, 9.11.2006, p. 1). 24 The new Common Fisheries Policy (CFP) adopted in 2013, also takes the specific situation of the outermost regions into account. It allows protecting the fishing communities by establishing an exclusive access zone up to 100 nautical miles from the baseline of the outermost regions, extending to all of them the protection mechanism already in place in the Azores, Madeira and the Canary Islands since 2004. In these zones, until 31 December 2022, the Member States can restrict fishing activities to vessels registered in the ports of these territories and to vessels that traditionally fish in those waters. In addition, the CFP envisages the creation of a new Advisory Council for the outermost regions designed to ensure the appropriate consultation of stakeholders from these regions on issues related to fisheries. To date, this new Advisory Council has not been set up, as the Commission has not yet received the necessary request from interested parties. As a way to stimulate economic growth and jobs creation in the fisheries sector, the Commission signed a grant agreement in 2016, with Guadeloupe as a coordinator. The pilot project on ‘Innovative, low impact offshore fishing practices for small-scale vessels in the outermost regions’ (EUR 1 million) aims to make easier the exchange of knowledge on eco-efficient fishing techniques, problems encountered and solutions adopted. The expected result is to promote the development of offshore fishing in all outermost regions by increasing their economic and environmental effectiveness, therefore facilitating alleviation of fishing pressure in the more coastal fish resources. On Sustainable Fisheries Partnership Agreements (SFPA), the specificities of the outermost regions are taken into consideration during the negotiations, with the objective of obtaining for the fleets of those regions a fair share in the fishing opportunities obtained through these agreements, taking into account the type of activity and characteristics of the vessels concerned. Understanding the blue economy requires detailed and continuous data collection to inform and help decision-makers and businesses to devise appropriate policies and strategies. While the Commission is working with Eurostat to develop economic ***indicators*** for the blue economy, so far these are only available at the national level and do not allow the identification and monitoring of trends in individual regions. Gaps still exist in the collection, storage and availability of data and information in the outermost regions, and for some territories, the required data are not available. In order to improve the knowledge in the fisheries sector specifically, the Commission has put forward a new data collection framework since 2016, which can help the outermost regions to improve their knowledge in this domain. To investigate the current state and the potential of the blue economy in the outermost regions and in the corresponding maritime areas, the Commission published a dedicated study in 201771. The main focus of the study is on the possibilities for outermost regions to complete their blue growth potential in a number of sectors, such as coastal and cruise 71 COGEA et al., ‘Realising the potential of the Outermost Regions for sustainable blue growth’, Publications Office of the European Union, 2017 -   [*https://publications.europa.eu/en/publication-detail/-/publication/029afe70-a725-11e7-837e-01aa75ed71a1/language-en*](https://publications.europa.eu/en/publication-detail/-/publication/029afe70-a725-11e7-837e-01aa75ed71a1/language-en) 25 tourism, fisheries, aquaculture, blue biotechnology, shipping (maritime transport, ports, ship building and repair) and blue energy. Preliminary results highlight the socioeconomic importance of traditional sectors like tourism, fisheries and shipping in all outermost regions. On the other hand, innovative activities such as aquaculture, blue biotechnology and blue energy emerge as promising sectors for the future. For example, Reunion Island has the potential to become an innovation and knowledge transfer hub for blue biotechnology in the Indian Ocean. Maritime policy The outermost regions have significant Exclusive Economic Zones that harbour unique marine biodiversity hotspots. However, they are also greatly affected by climate change and the rise in sea level is a major threat to their coastal ecosystems and economies. Hence, taking a cooperative approach to governance at the global level is fundamental for these regions. The joint communication of the Commission and the European External Action Service on ‘International ocean governance: an agenda for the future of our oceans’72 highlights that ‘the outermost regions, due to their contribution to the EU maritime dimension and to their position in the Atlantic and Indian Oceans, are important actors that can actively contribute to improved ocean governance’. On sea basin-strategies, the outermost regions in the Atlantic ocean (Macaronesia and Caribbean-Amazonia), are part of the maritime strategy in the Atlantic and of its corresponding action plan73. This plan was adopted in 2013 and it suggests concrete actions to support blue growth and jobs creation, namely trough the targeted use of ESI Funds and Horizon 2020. The strategy offers a framework for cooperation on issues from coastal tourism and fisheries to renewable energy, mineral seabed exploration and marine biotechnology. For these regions, the planning of their maritime space is essential to achieve sustainable blue growth. To support the related work of the Member States and their outermost regions in implementing the Directive establishing a framework for Maritime Spatial Planning (MSP), a call for proposals covering their geographical area was launched in 2016, aiming at supporting concrete actions in these regions, helping to build capacity for maritime spatial planning and to support cooperation across borders. Due to their geographic location, flexible provisions in eligibility criteria were envisaged for projects carried out in the outermost regions (i.e the participation of at least two Member States was not requested to those outermost regions that did not border other EU Member States). Following this call, two projects have been awarded in 2017. For both of them, the grant agreements are yet to be signed and it is foreseen that activities will start in the beginning of 2018. The first one intends to reinforce maritime spatial planning in the Macaronesian archipelagos (Azores, Madeira and Canary Islands), by assisting the competent authorities of Portugal and Spain to develop operative mechanisms for effective planning. It will also help to reduce asymmetries in the implementation of maritime spatial planning in remote areas. 72   [*https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/join-2016-49\_en.pdf*](https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/join-2016-49_en.pdf) 73 COM(2013) 279 final, 13.5.2013 26 The second project, 'Ocean Metiss', is led by Reunion Island in the Indian Ocean. Supported by the intergovernmental organisation of the Indian Ocean State Islands74, the project will facilitate discussions and exchange of best practices in tackling issues of common concern related to the development of blue economy, exposure to natural risks, protection of the biodiversity and the ecosystem. On marine knowledge, the European Marine Observation and Data Network (EMOD-net)75 currently provides access to marine data concerning many diverse maritime themes (e.g costal mapping, seabed habitats, bathymetry) covering all regions. Relevant environmental data76 are also being assessed in the context of the Marine Strategy Framework Directive (2008/56/EC) and in particular, the marine strategies covering Macaronesia. Tourism Although tourism is an established area of activity for many outermost regions, there is still a potential for further development for most of them to build in particular on their unique natural and cultural assets by reinforcing or diversifying into new forms of tourism (such as yachting, pescatourism, whale watching or coasteering). In line with the Communication ‘A European Strategy for more Growth and Jobs in Coastal and Maritime Tourism’77, a study was published in 2016, on how to improve island connectivity and design innovative tourism strategies for (remote) islands. This study included some outermost regions as case studies: Lanzarote (Canary Islands) for Islands Connectivity and Reunion Island and the Azores for mass tourism destinations. The COSME78 programme has supported in the past five years the development and promotion of transnational thematic tourism products, in areas such as maritime affairs, culture, gastronomy, sports and wellness. Such examples are: the SUNRISE79 project to develop surf routes for tourism, coordinated by the University of Las Palmas de Gran Canaria (started in 2016); and the CurioSEAty project, to connect the market potential of water sports to the European maritime heritage, with the participation of the Madeira region. The ERDF also supported actions related to tourism trough the promotion of natural and cultural assets, protection and development of natural and cultural heritage and measures to improve tourism services. During the 2007 - 2013 programming period, the total spending amounted to roughly EUR 221 million, representing in average 5 % of the total financial expenditure under this Fund, a figure higher than the 2 %, spent in average at the EU level. A project financed by ERDF (EUR 13 million) in this field, was the Memorial ACTe –a Memorial to Slavery and the Slave Trade, which is expected to develop tourism prospects in Pointe-à-Pitre. 74 Mauritius, Comoros, Madagascar and Seychelles 75   [*http://www.emodnet.eu*](http://www.emodnet.eu)/ 76 Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive) (OJ L 164, 25.6.2008, p. 19). 77 COM(2014) 86 final, 20.2.2014 78 EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises. 79   [*http://sunriseproject.org/about-us*](http://sunriseproject.org/about-us)/ 27 This sector continues to play a prominent role in the ERDF in the planned actions for 2014 - 2020. The development of endogenous potential is supported, in particular, with investments in equipment and small scale structures. About EUR 220 million are allocated in the outermost regions operational programmes for the development and promotion of: tourism potential in natural and cultural areas; public tourism services; and commercial tourism assets and services in SMEs. Given the importance of tourism in ***rural*** areas, the EAFRD also provides funding for activities in this sector, in particular for the development and promotion of ***rural*** tourism. In 2007 - 2013, most of the outermost regions incorporated in their ***rural*** development plans a measure to promote tourism activities. For both the 2007 - 2013 and 2014 - 2020, actions in this sector can be supported under different measures, such as support for basic services in ***rural*** areas, diversification of activities and also by local development projects developed in the framework of the LEADER initiative. Low-carbon economy The current share of renewable energy in electricity production varies among the outermost regions, ranging from 1.5 % in Saint Martin to 64 % in French Guiana. The higher percentages correspond to outermost regions with hydro and geothermal resources that are able to provide stable power supply. Several strategies and plans are being put in place for a transition to renewable sources and energy efficiency, such as the Reunion Island 100 % renewable electricity strategy (by 2030), based on the combined use of several renewable sources; the plan to increase by 30 % the renewable electricity in the Azores (by 2021); the Porto Santo (Madeira) smart fossil free island (in 20 to 30 years) and the development and expansion of geothermal energy in Guadeloupe and Martinique (by 2023). However, despite the ongoing efforts, all outermost regions are still heavily dependent on imported oil80. Figure 6 — Presence of different renewable sources in the electricity production in the outermost regions and share of the total renewable sources in electricity production.64 80 Source: Report of the expert group on energy in the outermost regions.   [*http://ec.europa.eu/regional\_policy/sources/policy/themes/outermost-regions/pdf/energy\_report\_en.pdf*](http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/energy_report_en.pdf) 28 The outermost regions could further explore ocean for power generation at a larger scale. Feasibility studies have been carried out on the potential of floating windfarms and of ocean thermal energy in Martinique, a pilot project has been implemented for a wave energy plant in the Azores, and seawater air conditioning is to be used in public buildings in Guadeloupe and Reunion Island. However, affordable and suitable technologies for the exploitation of blue energy under the oftentimes extreme weather and sea conditions in the outermost regions are missing, and marine renewable energy is still at a research and development stage. Approximately EUR 400 million of ERDF are available in the 2014 - 2020 programming period for the outermost regions in order to invest in renewable energies, smart grids, energy efficiency81 and promote sustainable multimodal urban mobility, including the shift towards a low-carbon economy. Around 32 % of this budget is allocated to promote energy efficiency (namely, trough renovation of public infrastructures and housing), demonstration projects and support measures for energy efficiency in SMEs and large enterprises. Canary Islands, Mayotte and Madeira, will direct more than half of their investments to this area. In the 2007 - 2013 programming period, the expenditure related to this objective in the operational programmes amounted at EUR 136 million, mostly dedicated to promote energy efficiency; co-generation and energy management; assistance to SMEs for the promotion of environmentally-friendly products and production processes; and clean urban transport. Transport is one of the biggest energy challenges in the outermost regions, as it represents more than half of their primary energy needs. For instance, under the 2007 - 2013 programming period, ERDF supported a project to promote a cleaner and more efficient urban transport system in Funchal based on the previous initiative CIVITAS Mimosa82. Following this initiative, other actions to promote electric mobility in Madeira are provided in the Civitas Project Destinations (2017-2019), supported by the Horizon 2020 programme. With regard to European Regulations related to Energy Efficiency and Renewables, the three applicable Directives (Energy Efficiency83, Renewable Energy84 and Energy ***Performance*** of Buildings85 (EPBD) do not contain any specific measures for the outermost regions. In the first two, the targets are set at national level, while the EPBD requires that the whole territory of each Member State must comply with EPBD requirements ‘on a national or a regional basis’. The Clean Energy for All Europeans86 package (adopted in November 2016), is of interest for the outermost regions, in particular the promotion of local energy communities (Article 16 81 It includes also the sustainable multimodal urban mobility budget and the ETC allocated budget to this objective from the Caribbean programme. 82 This project was the Award winner of Regio Stars Awards 2011 — Category 4 ‘City Star’. Integrated, clean urban transport projects.   [*http://ec.europa.eu/regional\_policy/en/projects/best-practices/portugal/2120*](http://ec.europa.eu/regional_policy/en/projects/best-practices/portugal/2120) 83 Directive 2012/27/EU of the European Parliament and the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC Text with EEA relevance (OJ L 315, 14.11.2012, p. 1). 84 Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (OJ L 140, 5.6.2009, p. 16). 85 Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy ***performance*** of buildings (OJ L 153, 18.6.2010, p. 13). 86 COM(2016) 860 final, Annex II, 30.11.2016 29 of the proposed Directive on common rules for the internal market on electricity87). The proposals on the energy communities recognise the growing phenomenon of the local citizens’ initiatives and aim to boost public acceptance for renewable sources of energy and to increase the uptake of new technologies in distributed generation and peer-to-peer electricity sharing. Moreover, this package included the ‘Action to boost the clean energy transition’. It identifies islands and island regions as platforms for pilot initiatives on clean energy transition and as potential showcases at international level. The outermost regions are presented as an example, illustrated by the case of El Hierro (Canary Islands), an island with 100 % renewable energy. Following on the commitment of holding a high level meeting on clean energy opportunities and challenges for islands, the Commission, with France, Portugal and Spain, together with other 11 EU Member States88, met in May 2017 and signed a political declaration launching the new ‘Clean Energy for EU Islands’ initiative. The aim is to help islands reduce their dependency on energy imports by making better use of their own renewable energy sources and adopt more modern and innovative energy systems. This declaration was followed by an inaugural Forum in September 2017 in Crete (Greece), where the outermost regions presented their initiatives and projects. The Energy and Environmental Aid Guidelines (EEAG)89 allow state aid for energy and environment purposes, under certain conditions. According to the EEAG, in assessing the national support schemes, the Commission will take into account the specific handicaps of ‘assisted areas’ which include the outermost regions. Also, the guidelines allow for higher aid intensities for some types of aid or for investments located in these areas. Finally, the GBER90 deems as compatible with State aid rules the energy infrastructure investments located in assisted areas, under certain conditions and up to a certain threshold91. Small and medium size enterprises, social entrepreneurship SMEs are vital for the outermost regions’ economy as they account for the majority of private sector jobs. The 2012 Communication recommended improving access for SMEs and social enterprises to EU funding, by creating, among other measures, microcredit financial instruments and local investment funds in each outermost regions. In the programming period 2007 - 2013, the ERDF financed around EUR 621 millions of investments in business support in the outermost regions. For the 2014 - 2020 programming 87 Proposal for a Directive of the European Parliament and the Council on the common rules for the internal market in electricity - COM(2016) 864 final, 30.11.2016 88 The other participating Member States in this initiative are Croatia, Cyprus, Denmark, Estonia, Finland, Germany, Greece, Ireland, Italy, Malta and Sweden. 89 Communication from the Commission 'Guidelines on State aid for environmental protection and energy 2014-2020' (OJ C 200, 28.6.2014, p. 1). 90 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1). 91 In accordance with point 46 of the EEAG, ‘assisted areas’ means areas designated in an approved regional aid map for the period 1 July 2014 to 31 December 2020 in application of Articles 107(3)(a) and (c) of the Treaty. 30 period, roughly EUR 900 million are allocated to boost the competitiveness of SMEs, which represents, on average, about 19 % of the total budget. Furthermore, the ESF supported measures to promote entrepreneurship in 2014 - 2020 in the Canary Islands, Azores, Madeira and Reunion Island. For example, the Canary Islands programme includes two actions to offer guidance and support services (training and mentoring) during and after the set-up of new businesses with a budget of approximately EUR 10 million. The Madeira 2014 - 2020 operational programme includes ESF ***interventions*** on promoting entrepreneurship by trainings on updating IT skills, promoting innovation business management and market knowledge skills. The Azores operational programme 2014 - 2020 includes similar measures, such as training and qualification actions to promote the modernisation of SMEs. In Reunion Island a project supported (with EUR 2.8 million) actions targeting businesses in difficulty, with the aim to create accompanying paths adapted to the needs of beneficiaries and offering favourable conditions for the creation, consolidation and recovery of the businesses. On 31 December 2016, about 5 080 SMEs from five outermost regions (Guadeloupe, Martinique, French Guiana, Reunion Island and Canary Islands) out of a total of 172 800 SMEs accessed financing with the support of the COSME Loan Guarantee Facility programme. The overall volume of financing made available to these SMEs under this programme amounts to EUR 84.1 million92. The active participation of the outermost regions in the Erasmus for Young Entrepreneurs scheme under the COSME programme has been limited to Canary Islands since the programme initiated in 2009, although there are enterprises registered as hosts in other regions. Since the beginning of the programme, a total of 131 entrepreneurs have registered and 39 participated. In order to stimulate participation from remote locations, like the outermost regions, changes have been made in recent years both to lift the overall amount and to ensure that entrepreneurs coming or going from this regions benefit from the maximum value. In 2014, the Commission launched two calls for proposals to establish the Enterprise Europe Network. The aim was to assist SMEs in finding business partners and better understanding EU regulations and access to funds. The second call of proposals was directed to regions where no coverage emerged from the first call, as was the case for most of the French outermost regions. In 2017, businesses from Reunion Island, Guadeloupe, Martinique, Madeira, the Azores and Canary Islands participate in this network. More recently, a study carried out by the Committee of Regions on ‘Entrepreneurship on islands and other peripheral regions’ (April 2017) highlighted the opportunities linked mostly to the territorial specificities and to the endogenous potential. Out of the six cases studies, two focused on outermost regions: Canary Islands and Reunion Island, with identification of best practices. The study highlighted the efforts made by the regions’ interested parties to exploit 92 Financing was possibly also made available to SMEs located in the French overseas collectivity of Saint Martin, specific data on the number of SMEs and volume of financing is however not available as included in the aggregated data for ‘Collectivités d’outre-mer’. 31 the full potential, diversify the economy and focus on knowledge-intensive, technology-based activities and emerging sectors such as carbon economy93. In the field of social entrepreneurship, the 2012 Communication referred to exploring the options presented by the Social Business Initiative, in order to create a favourable environment for companies whose first ambition is to tackle social needs. In that respect, dedicated investment priorities were proposed in the ERDF and ESF regulations for 2014 - 2020. As an example, the Madeira 2014 - 2020 operational programme includes measures to promote social innovation, crowdfunding and upgrading the business environment. Though this measure is not directly linked to social enterprises, social innovation is usually closely linked to social enterprises, as the latter constitutes one of the main instruments towards social innovation. Research and innovation The smart specialisation strategies developed at regional level provide a framework for identifying priority areas and activities in order to enhance the outermost regions’ innovation and competitiveness potential. Seven out of the nine outermost regions joined the Smart Specialisation Platform initiated by the Commission to support regions in designing and implementing their strategy and facilitate exchange of experiences. An analysis of the state of play of these strategies in 201794 underlined the opportunity they offer to those regions to promote their assets and capacities, in Europe and internationally. It also highlights the necessity that strategies continuously adapt to emerging markets and technological progress and the challenge in closely involving enterprises in this process. The EU supports the research and innovation capacities of the outermost region; for example, through the funding of research infrastructures, science parks, training initiatives and networking actions. This is done in particular through the ERDF programmes that allocated EUR 389 million in 2014 - 2020 to strengthening research, technological development and innovation. This amount, which represents around 8 % of the total budget is an increase compared to the 2007 - 2013 period, where the estimated expenditure was around EUR 262 million. The NONAGON95, a science and technology park in the Azores, the multipurpose technical-scientific service infrastructure PLOCAN96 in Canary Islands, the satellite monitoring centre in Madeira, the scientific centre ‘Canopée des sciences’97 in French Guiana, and the reconstruction of the Volcanological and Sismological Observatory of Martinique98, are examples of scientific and technological infrastructures developed with the support of the EU. Research and innovation is also a relevant component of the 2014 - 2020 ETC programmes of Madeira-Açores-Canarias (MAC) and Indian Ocean, with 25 % and 42 % of their budget 93 Entrepreneurship on islands and other peripheral regions, pages 48 and 65. 94   [*http://ec.europa.eu/regional\_policy/fr/information/publications/studies/2017/analyse-de-la-mise-en-oeuvre-des-strategies-de-specialisation-intelligente-dans-les-regions-ultraperipheriques*](http://ec.europa.eu/regional_policy/fr/information/publications/studies/2017/analyse-de-la-mise-en-oeuvre-des-strategies-de-specialisation-intelligente-dans-les-regions-ultraperipheriques) 95   [*https://nonagon.pt*](https://nonagon.pt)/ 96   [*http://www.plocan.eu/index.php/es/*](http://www.plocan.eu/index.php/es/) 97   [*http://www.ccsti973.fr*](http://www.ccsti973.fr)/ 98   [*http://www.ipgp.fr/en/ovsm/volcanological-and-seismological-observatory-of-martinique*](http://www.ipgp.fr/en/ovsm/volcanological-and-seismological-observatory-of-martinique) 32 respectively, planned for this objective. This is also a strong priority for the Atlantic Area programme99, where about 33 % of the funding is concentrated on supporting cooperation between research organisations, industries, social and public organisations. The 2012 Communication stated that the participation of the outermost regions in Research and Innovation networks is important in ensuring ‘smart’ growth. Horizon 2020, the EU Research and Innovation programme in 2014 - 2020, offers through calls for proposals the possibility for outermost regions to nurture their scientific excellence and innovation, including in ***agriculture*** and biodiversity which are of particular interest to those regions. The participation of these regions in the European research programmes is difficult to track with complete accuracy, given that the Commission research database100 only provides the name and location of the contracting entity and thus, identifying regional partners in projects proposed by national research institutions, which is often the case in France, is not straightforward. Since 2007, a rough estimate counts around 200 projects developed with the participation of outermost regions’ institutions since 2007, half of them already in Horizon 2020. However, in both framework programmes the majority of the funded projects are from the Canary Islands. Some interesting projects supported in the field of biodiversity are the following: - The NetBiome — CSA101 (2013-2016), with the objective to strengthen the cooperation for smart and sustainable management of tropical and subtropical biodiversity in the outermost regions and OCTs. The outcome of the NETBIOME led to the adoption of the pilot project on ‘Mapping and Assessing ecosystems and their ecosystem services (MAES) in the EU’s Outermost Regions and Overseas Countries and Territories’ by the European Parliament in 2016. - The BiodivERsA3102, a network of 32 EU funding agencies, including a few from the outermost regions103, aiming at coordinating national research programmes on biodiversity. It's task is to reinforce the outermost regions and OCTs’ research capacities on biodiversity and ecosystems. Since 2010, the network has published six joint calls104 for a total of EUR 95 million on various subjects related with biodiversity and ecosystems services. Being most of them islands territories; the blue economy is an important area for research activities in the outermost regions. For instance, under the first Horizon 2020 Blue Growth call for proposals, launched in 2014, the following projects were supported with the participation of research institutions from the outermost regions: 99 This programme covers in its geographical eligibility the Azores, Canary Islands and Madeira. 100   [*http://cordis.europa.eu/home\_en.html*](http://cordis.europa.eu/home_en.html) 101 The NetBiome — CSA followed up the ERA-net NETBIOME supported under FP6 -   [*http://www.netbiome.org*](http://www.netbiome.org)/ 102   [*http://www.biodiversa.org*](http://www.biodiversa.org)/ 103 Azores, French Guiana, Guadeloupe, Reunion Island and the Canary. 104 For the last two joint calls the network has been supported by Horizon 2020, through ERA-Net COFUNDS leveraging, EU H2020 and national funding provided by national funding agencies. 33 - TASCMAR105 (Reunion Island), to develop the bio discovery and industrial exploitation of novel marine and derived biomolecules (pharmaceuticals, nutraceuticals and cosmetics). - AtlantOS106 (Azores and Canary Islands), a flagship project aiming at establishing an integrated Atlantic ocean observing system, with 62 joining partners from 18 countries, in a transatlantic cooperation including the USA, Canada, Brazil and South Africa. - The MERCES107 project (Azores) aiming to improve our understanding of the changing interaction between humans, the environment and marine species. Other examples of projects with strong outermost regions participation are the following: - The VUELCO108 project (El Hiero, in the Canary Islands) provided considerable insight into processes that take place before and during volcanic unrest. - The MATRIX109 project developed methods and tools that account for interdependencies between the different hazards in order to generate more accurate and comprehensive risk assessments, leading to better mitigation and response plans. - The URBAN WASTE110 project (the Canary Islands, Azores), aims to develop eco-innovative and gender-sensitive waste prevention and management strategies, in cities with high levels of tourism, in order to reduce the urban waste production and improve municipal waste management. - As part of the Biotechnology programme, the AGROCOS project (2010 – 2014)111 aims to discover and carry to the stage of development candidates, from small molecules with good potential as new cosmetic and agrochemical agents, deriving from plants originating from major biodiversity hotspots in Europe, Africa, Latin America, and the Asia-Pacific regions. Furthermore, under the Framework Programme 7 (FP7), theme ‘Capacities’, two programmes were implemented: 1) the ‘Regions of Knowledge’112, aiming to stimulate cooperation between innovation clusters; 2) the REGPOT113, aiming to strengthen capacities of convergence and the outermost regions. 105 The project continues the work initiated in the AGROCOS project -   [*http://www.tascmar.eu*](http://www.tascmar.eu)/ 106   [*https://www.atlantos-h2020.eu*](https://www.atlantos-h2020.eu)/ 107 MERCES Marine Ecosystem Restoration in Changing European Seas -   [*http://www.merces-project.eu*](http://www.merces-project.eu) 108 VUELCO — Volcanic Unrest in Europe and Latin America, including Phenomenology, eruption precursors, hazard forecast, and risk mitigation. It was financed under the previous EU Research and Innovation Framework Programmes -   [*http://www.vuelco.net*](http://www.vuelco.net)/ 109 New multi-hazard and multi-risk assessment methods for Europe. The methodologies and approaches were tested in Germany, Italy and the French West Indies; each test case covering different natural hazards and potential variations of events -   [*http://matrix.gpi.kit.edu*](http://matrix.gpi.kit.edu)/ 110   [*http://www.urban-waste.eu/project-consortium*](http://www.urban-waste.eu/project-consortium)/ 111 Guadeloupe, Martinique and French Guiana were involved in the project -   [*http://cordis.europa.eu/project/rcn/94701\_en.html*](http://cordis.europa.eu/project/rcn/94701_en.html) 112   [*https://ec.europa.eu/research/fp7/index\_en.cfm?pg=know*](https://ec.europa.eu/research/fp7/index_en.cfm?pg=know) 113   [*https://ec.europa.eu/research/participants/portal/desktop/en/opportunities/fp7/calls/fp7-regpot-2012-2013-1.html*](https://ec.europa.eu/research/participants/portal/desktop/en/opportunities/fp7/calls/fp7-regpot-2012-2013-1.html) 34 These programmes were of particular interest for the outermost regions. However, some might have found difficulties in complying with the requirements to access the first programme114, although two of the projects coordinated by an outermost region were funded and successfully implemented (INRES115 and INTRAREGIO116). On REGPOT, although a final evaluation concluded on the overall success of the programme117, it also suggested that these regions would need a similar programme support, for at least one more period, to give sustainability to the obtained achievements. In 2012, the Commission launched a first pilot call on ERA Chairs Scheme118 open to research organisations located in less-developed EU regions or similar areas in countries associated to FP7. Institutions of two outermost regions (Madeira and the Canary Islands), were among the 11 selected out of 111 proposals. However, for the 2014 - 2020 programming period, ERA Chairs eligibility rules are based on the excellence composite ***indicators*** calculated at national level. According to this ***indicator***, eligibility is restricted to the Member States that joined the EU after 2004 plus Portugal and Luxembourg119. As a consequence, Spain and France are not eligible to participate in this programme as coordinators. European Investment Bank (EIB) Group and the EFSI Under the EFSI, one of the three pillars of the Investment Plan for Europe, four projects benefiting the outermost regions have been signed: the bus transit system in Las Palmas120, the economic development risk-sharing instrument for overseas territories with the French Agency for Development (AFD)121, La Financière Région Réunion122, under the French regions’ SME programme and the improving and development of digital connectivity in Reunion Island and Mayotte.  The Las Palmas bus transit system (EIB finance of approximately EUR 50 million, to a total cost of approximately EUR 127 million) is expected to increase the capacity and improve the quality of service of the bus network. The project contributes to sustainable transport and climate change mitigation, in line with the EU’s objectives on climate action.  The economic development risk sharing instrument for overseas territories consists of an unfunded risk-sharing framework guarantee scheme for the Agence Française de Développement’s financing of investments in the French overseas departments. 114 The research-driven clusters must have been composed of at least three types of legal entities (legal entities conducting research, business entities and local/regional authorities) with the consortia of partners representing at least EU Member States and/or Associated Countries. 115   [*http://cordis.europa.eu/project/rcn/90156\_en.html*](http://cordis.europa.eu/project/rcn/90156_en.html) 116   [*http://cordis.europa.eu/project/rcn/101608\_en.html*](http://cordis.europa.eu/project/rcn/101608_en.html) 117   [*https://ec.europa.eu/research/regions/pdf/publications/regpot-final\_evaluation\_report.pd*](https://ec.europa.eu/research/regions/pdf/publications/regpot-final_evaluation_report.pd) 118 The ERA Chairs Scheme aims at enabling institutions to attract top academics so that they can compete with centers of excellence elsewhere in the European Research Area (ERA) -   [*http://ec.europa.eu/research/era/era-chairs\_en.html*](http://ec.europa.eu/research/era/era-chairs_en.html) 119 It includes as well eight of the non-EU countries associated to Horizon 2020. 120   [*http://www.eib.org/projects/pipelines/pipeline/20160323*](http://www.eib.org/projects/pipelines/pipeline/20160323) 121   [*http://www.eib.org/projects/pipelines/pipeline/20150363*](http://www.eib.org/projects/pipelines/pipeline/20150363) 122   [*http://www.eib.org/projects/pipelines/pipeline/20170340?f=search&media=search*](http://www.eib.org/projects/pipelines/pipeline/20170340?f=search&media=search) 35  The Reunion Island project for SMEs is expected to provide EUR 50 million of lending and investment to SMEs through a combination of EFSI and ESI Funds resources and, thereby, support the growth ambitions of entrepreneurs and small businesses.  In addition, the digital connectivity project recently signed under EFSI in 2017 (EUR 25 million of EIB financing), aims to modernise and develop the mobile network in Reunion Island and Mayotte, enabling the islands to move to superfast mobile broadband. Apart from EFSI-supported EIB ***interventions***, the EIB has also provided ‘standard’ loans on its own risk in the outermost regions such as the Electricity project in Madeira and the Azores and the Madeira post-floods framework loan. International trade agreements The Commission continues to take into account the outermost regions’ interests in trade agreements that have been negotiated and agreed with non-EU countries and groups of countries. Specific provisions relevant to the outermost regions have been included in trade agreements concluded with trade partners producing ***agricultural*** products that could directly compete with the outermost regions production. In trade negotiations (e.g with Latin America and with Vietnam) special protection has been given to sensitive ***agricultural*** products of the outermost regions and safeguard clauses have been included. On bananas, a special safeguard is provided under the free-trade agreements with some Latin American countries: a banana stabilisation mechanism (established until December 2019) can be activated in case of market disturbance. According to this mechanism, the Commission continuously monitors the EU banana market and carries out market analysis at regular intervals. If a serious disturbance of the EU banana market is found, an extension of the period of validity of the mechanism may be sought, subject to the agreement of the parties. On sugar, a special protection was granted in negotiations with different countries, including with Vietnam and Ukraine through the application of limited duty-free quotas. Moreover, the Economic Partnership Agreements (EPA) negotiations resulted in protection of the octroi de mer; protection of sugar and bananas from the outermost regions, and specific safeguard clauses, which the EU can activate to protect the outermost regions when a product imported from an African Caribbean Pacific (ACP) EPA country causes, or threatens to cause, serious damage or disruption. So far, the safeguard clauses were not activated (see Section 4.3). Impact Assessments and Evaluation The likely impacts on the outermost regions are assessed, when relevant, in the Sustainability Impact Assessments. However, estimating properly the possible impacts requires detailed and 36 timely data. Lack of information resulted in the past in re-opening trade negotiations, so as to include special protections for specific products from the outermost regions. Interested parties have at their disposal a range of tools that they can use to express their opinion since an early stage: they can participate in public consultations feeding into impact assessments and in ex-post evaluations and in the consultations carried out in the framework of the sustainability impact assessments during negotiations. Another tool that the Commission applied in 2016 and 2017 in the cohesion policy sector was the methodology of the ESPON TIA Tool123. The objective was to identify ex-ante potential territorial impacts of new EU legislations. This approach includes a workshop setting, where the experts can discuss on a set of ***indicators*** to establish potential territorial impact (economic, societal, environmental, governance) of an EU initiative. The results are fed into the ESPON TIA Quick Check web tool which combines the expert judgments with the sensitivity of regions into maps showing the potential territorial impact of EU policy on NUTS3 level. These maps serve as a starting point for further discussing the different impacts of a concrete EU policy on different regions. So, the experts participating in the workshop provide an important input for this quick check on potential territorial effects of an EU initiative. Thus, the participation of outermost regions’ experts and providing relevant data are of particular importance to identify the potential impact of EU policies on outermost regions. 4.3 Strengthening the regional integration Over the years, the Commission has been promoting a greater integration of the outermost regions in their regional neighbourhood and supported political dialogue and exchanges between the outermost regions and the neighbouring countries, including ACP countries and OCTs. The European Territorial Cooperation programmes (INTERREG) involving the outermost regions and their neighbours, the regional indicative programmes concerning the neighbouring ACP and OCTs countries funded by the European Development Fund (EDF) and the relevant EPA have been important instruments to support this process. In the 2012 Communication, the Commission argued for the establishment of regional neighbourhood plans, ‘consistent with EU external policy objectives’. For this purpose, the Commission started a process with representatives from the nine regions, the three Member States and the Commission, gathered in the outermost regions’ working groups to establish, at technical level, a common framework for these regional neighbourhood plans. This resulted in drawing a comprehensive set of measures and actions that could be taken at various levels for a better and deeper integration of the outermost regions in their respective neighbourhood. Moreover, in agreement with the outermost regions, it was decided that these plans would be established per geographical basin, and each region would select the actions to carry out in 123   [*https://www.espon.eu/main/Menu\_ToolsandMaps/TIA*](https://www.espon.eu/main/Menu_ToolsandMaps/TIA) 37 priority, adapting them on the basis of its specific situation and location. So far, the regional plans have not been established, however, the preparation of a common framework, intended to serve as a tool to support the regions in establishing their regional plans. It triggered an important dynamic on the ***strategic*** discussion of the outermost regions development within their respective basins. The 2012 Communication also mentioned territorial cooperation as one of the aspects that had to be reinforced, ‘in order to improve competitiveness, trade and knowledge links with the neighbours’. In the 2007 - 2013 programming period, the European territorial cooperation programmes invested, with an EU contribution of approximately EUR 147 million, in four different cooperation areas: MAC124, Indian Ocean, Caribbean and Amazonia. For the 2014 - 2020 programming period, the EU support is of EUR 295 million and two new programmes were added (Mayotte - Comores and Saint Martin/Sint Maarten) to a total of six programmes concerning the outermost regions. On the Atlantic area, the scope of the Atlantic programme was broadened so as to cover the outermost regions of the Azores, Madeira and the Canary Islands. Figure 7 gives an overview on the main priorities of investment for the outermost regions territorial cooperation programmes in the 2014 - 2020 programming period. Figure 7 — Financial allocations of the European Territorial Cooperation Programmes in the 2014 - 2020 programming period by thematic objective. Interreg Cross-Border: Madeira-Açores-Canarias (MAC); Saint Martin-Sint Maarten (St Martin); Mayotte-Comores (Mayotte). Interreg Transnational: Caribbean; Indian Ocean Area, Amazonia. 124 Interreg V-A - Spain-Portugal (Madeira-Açores-Canarias). It should be noted that Canary Islands also took part in the cross-border cooperation programme ‘Spain — external borders 2008-2013’ with a EU support of approximately EUR 15 million. 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100% MAC SMti - SMte Mayotte Caribbean Indian Ocean Amazonia Research & Innovation Competitiveness of SMEs Low-Carbon Economy Climate Change Adaptation & Risk Prevention Environment Protection & Resource Efficiency Network Infrastructures in Transport and Energy Social Inclusion Educational & Vocational Training Efficient Public Administration Technical Assistance 38 Amongst the many Interreg projects financed under the 2007 - 2013 programming period, some examples are listed below: - The CONNECTAFRICA125 project in the Canary Islands under the MAC programme, aiming to improve the exchange between Tenerife (and in general the Canary Islands) with West Africa (Senegal, Mauritania and Cabo Verde) by specific lines’ connections, in addition to the ones offered already by the transport system. - A cooperation platform called PReRAD (in French ‘Plateforme Régionale de Recherche Agronomique pour le Développement’), a regional platform for agronomical research. - The ICT ‘Spany Est’ project, under the Amazonia programme, which led to set up a cable connecting French Guiana and Amapa and therefore to reduce communication costs in the cross-border area. It should be noted that the number of joint projects (financed by EDF and ERDF) was overall limited. For the 2014 - 2020 programming period, further progress was made to enhance cooperation on the ground between the outermost regions and their neighbours. At the end of 2014, the Commission issued a guidance note to the EU delegations, the outermost regions’ managing authorities and the relevant stakeholders to facilitate cooperation between them and the neighbouring ACP and OCTs (EDF beneficiaries). A range of options that the managing authorities could use, under existing provisions, to improve cooperation with non-EU countries or territories were put forward. In the framework of INTERREG programmes, platforms for the dialogue between EDF and ERDF authorities and beneficiaries have been set up in each outermost region basin, based on the example of the Indian Ocean Region where a regional operational platform for EDF-ERDF funding coordination already existed. Furthermore, in 2014 - 2020, the programming periods for the EDF and the ERDF have been aligned; a timing aspect which makes coordination easier. The EDF provides also support for regional integration and cooperation between the EDF beneficiaries and their neighbours, including the outermost regions. For instance, under the 10th EDF126, a project called ‘Wider Caribbean’, supporting the implementation of the EPA EU-CARIFORUM127, was implemented. The project aimed to develop the CARIFORUM capacity to deepen and widen cooperation, both among CARIFORUM countries, as well as with outermost regions present in the Caribbean. The proximity of the outermost regions with the EPA partners offers them new opportunities of partnership in their respective regions. The EPA for trade and development are an 125   [*http://www.pct-mac.org/registroficha?id=d0589ab6-7ea7-4c80-9467-329284bfe02a*](http://www.pct-mac.org/registroficha?id=d0589ab6-7ea7-4c80-9467-329284bfe02a) 126 Tenth European Development Fund as set up by the internal agreement between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies -   [*https://ec.europa.eu/europeaid/sites/devco/files/internal-agreement-10edf-2006\_en.pdf*](https://ec.europa.eu/europeaid/sites/devco/files/internal-agreement-10edf-2006_en.pdf) 127 CARIFORUM countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Vincent and the Grenadines, St Kitts and Nevis, Suriname and Trinidad and Tobago -   [*http://ec.europa.eu/trade/policy/countries-and-regions/regions/caribbean/*](http://ec.europa.eu/trade/policy/countries-and-regions/regions/caribbean/) 39 important tool to deepen cooperation and exchanges. They aim at promoting trade and investment between the EU and the ACP countries on a stable and lasting basis. Specific articles in EPA texts provide for cooperation in different fields between the outermost regions and their ACP neighbours. In certain regions (CARIFORUM), the outermost regions participate to the EPA Committees while in others, the EPA have brought them closer to ACP countries (Reunion Island and Mauritius), becoming facilitating factors of regional integration. Between June 2012 and June 2017, all EPA have been negotiated and are (or about to be) in the process of being implemented. However, most of them are recent and given the duration of the transitional implementation periods, the main results are still to be seen in the future. 4.4 Fostering employment, education and social Inclusion As the previous analysis on the socioeconomic trends on the outermost regions demonstrated (Chapter 3), the unemployment is the main issue in these regions, in particular among young people (the average rate is double the EU-28 rate). Promoting sustainable and quality employment and supporting labour mobility Sustainable and quality employment is supported by ESF through the respective regional programmes in all outermost regions, with a total allocated budget of EUR 669 million (Figure 8). As an example, Madeira and the Azores invest, among others, in measures aiming to improve gender equality of job opportunities and promote self-employment. ERDF also supports investments in employment and labour mobility with a contribution of EUR 23 million in the regional programmes. 40 Figure 8 — French, Spanish and Portuguese allocations in 2014 - 2020 (in million EUR) for the Thematic Objective on promoting sustainable and quality employment and promoting labour mobility The YEI aims to foster youth employment and includes among others training actions to improve employability; actions to reduce early school leaving; and ***interventions*** to promote cooperation with the metropolitan area. The ESF also supports measures to encourage mobility in different outermost regions, through regional programmes in 2014 - 2020. For example, in the Azores programme, the ESF supports internships for young people in different European cities. Similarly, the Agency for Overseas Mobility128 supports the mobility of young people with trainings outside the French outermost regions. The Canary Islands programme supports a transnational mobility project to favour the labour market integration of the workforce on sectors with high-demand in jobs. Specific training will be also provided to participants (such as languages, job counselling and socio-cultural integration). On the EURES initiative, the Commission has taken into account the particular situation of the outermost regions in a call for proposals, launched in 2014, for targeted mobility schemes under your First EURES Job. Under this call, the initiative covered the costs of the projects (for example interview attendance costs, relocation costs, etc.). To make the movement of people in non-EU countries easier, the EU negotiated an EU-Cape Verde Visa Facilitation Agreement that entered into force on 1 December 2014. It facilitates EU citizens (including citizens from the Canary Islands, the Azores and Madeira) to travel to Cape Verde as well as citizens from Cape Verde to travel to the Schengen area. The outermost regions have set up in 2014 a network dedicated to fostering employment in their regions and exchange good practices. In March 2016, the Commission and the European Economic and Social Committee organised a seminar on employment to accompany the work of this network. As from the beginning of 2017, the outermost regions network has been supported by the INTERREG Europe programme. Promoting social inclusion, combating poverty and any discrimination 128 L’Agence de l’Outre Mer pour la Mobilité. 41 The 2012 Communication highlighted that fighting poverty and enhancing social inclusion is one of the main priorities of the ESF for the outermost regions. For the 2014 - 2020 programming period, the ESF allocated a total of EUR 496 million to this priority (Figure 9). In addition, ERDF supports investments in this field with a contribution of EUR 317 million in the regional programmes. Figure 9- French, Spanish and Portuguese allocations in 2014 - 2020 (in million EUR) for the Thematic Objective on promoting social inclusion, combating poverty and any discrimination Projects as the one implemented in Guadeloupe, by reinforcing street teams to accompany marginalised young people or those in great difficulty of labour integration, are among the examples of social inclusion actions. Another example is the project implemented in Madeira, where unemployed people with viable business ideas were assisted to create their enterprise, which in turn could contribute to the creation of employment through the recruitment of additional employees. Moreover, the ESF supports measures in favour of the inclusion of migrants such as the construction of shelters or the protection of women who are alone or accompanied by young children, in Mayotte. In particular, Mayotte and French Guiana have continued to face significant migratory flows. The outermost regions benefit of the financial support provided by the EU to face migratory flows and ensure secure conditions for social and economic development. In addition to the assistance provided by ESI Funds, the Asylum, Migration and Integration Fund (AMIF) supports actions regarding integration of migrants and return of persons in irregular situation. The Internal Security Fund (ISF) helps in strengthening operational capacities to prevent and fight against organised crime, including drug and arm trafficking. For instance, the ISF national programme of France for the 2014 - 2020 programming period contains a specific reference to the French West Indies regarding prevention and fight against organised crime. The 2012 Communication also underlined the need to improve healthcare infrastructure in the outermost regions: under the ERDF programmes in the 2007 - 2013 programming period, EUR 152 million were invested in healthcare infrastructures in most regions,. In Madeira, for example, a healthcare centre was built in Porto da Cruz (Centro de Saude do Porto da Cruz). In the Azores, EUR 40 million from ERDF was devoted to ***interventions*** in 14 health 42 infrastructures. This effort continues under the 2014 - 2020 programming period with the installation of eHealth equipment in all islands of the Azores, the construction of health centres for population with specific needs (elderly, disabled) in remote areas of the French outermost regions and the improvement of health infrastructures - including eHealth and transport between islands or between the islands and the mainland - in the Canary islands (with a budget of more than EUR 72 million). For this period, about EUR 161 million from ERDF are allocated to investments in healthcare infrastructures. Investing in education, training and vocational training for skills and lifelong learning Concerning education and training in both 2007 - 2013 and 2014 - 2020, the main objectives of the ESF support in all outermost regions are to reduce early school leaving and increase participation in higher education, lifelong learning and vocational education and training. For the 2014 - 2020 period, the ESF allocated a total of EUR 564 million to this priority (Figure 10). Furthermore, ERDF supports investments in this field with a contribution of EUR 266 million in the regional programmes. Figure 10 — French, Spanish and Portuguese allocations in 2014 - 2020 (in million EUR) for the Thematic Objective on investing in education, training and vocational training for skills and lifelong learning Early school leaving is still a major challenge in many outermost regions, with levels far above the national and European average. Measures to combat early school leaving are implemented in all outermost regions with the support of ESF. In French Guiana, which is particularly affected by this challenge, measures under the ESF include the development of educational support and literacy modules in college, especially for young non-French-speakers. Reunion Island devotes 31 % of its ESF allocation to reduce the dropout rate and improve employability: the aim is to support 7 647 young people by 2023. In the Canary Islands, EUR 61 million are allocated in 2014 - 2020 to Vocational Education and Training (VET) programmes, aiming to help students to complete their secondary education training programmes. The programmes are implemented in sectors with high job creation perspectives, such as the ICT sector. In the Azores, in both 2007 - 2013 and 2014 - 2020, preventive measures to reduce early school leaving, to combat absenteeism, diversifying the educational 43 offer and offering an inclusive access to pre-school, primary and secondary educational levels are supported. On higher education, in the Azores for example, the programme supports students from a disadvantaged background to pursue a PhD in research and innovation and schemes to support the employability of young graduates. The ESF programme for the Canary Islands 2014 - 2020 will support PhD students receiving grants to complete their training programmes and to follow an International MBA Programme (budget of EUR 11 million). In Madeira in 2007 -2013, EUR 114.6 million were dedicated to education and training with a particular focus on certifying competences and knowledge. The number of young people with certification was 1 176 in 2015, while the number of adults certified through ‘Recognition, Validation and Certification of Skills’ (RVCC) processes was 2 895, overachieving the expected target. 7 893 students in total are in the process of skill recognition and validation and 5 383 apprenticeships are supported. The 2012 Communication stated that ‘the Erasmus+ programme will provide opportunities to support partnerships between business and education and training institutions (i.e universities, vocational training institutions) of the outermost regions and facilitate and promote the mobility of student and teachers to and from the outermost regions. The outermost regions' dimension has been taken into account under Erasmus+ in the following ways. In case of both higher education and vocational training (including adult education), there are special rules for both learners and staff: if the contribution to the travel costs covers less than 70 % of the real cost, then applicants can request a higher contribution, under the exceptional costs budget, covering up to 80 % of the eligible costs. As from the 2017 call, such possibility has been extended, in some cases, to those going to the outermost regions. Moreover, in the 2017 call, for beneficiaries travelling from and to regions which are far away (more than 8 000 km), the reimbursement of travel expenses has increased to EUR 1 300 (against EUR 1 100 previously). According to the latest data available, in 2014-2015 the number of participants (students, teachers and other higher education staff) under the Erasmus+ programme coming from the outermost regions was about 1 800 and the participants going to those regions were about 2 200. In addition, Erasmus+ supports the outermost regions through the international credit mobility (ICM) scheme. The ICM action is about student and staff international mobility (i.e between a programme country and a partner country) between 3 and 12 months to obtain credits in a host institution, which are then recognised by the home institution. In 2016-2017, seven higher education institutions from the outermost regions are involved in ICM, organising 276 mobility's, with financial support of approximately EUR 1 million in total. These institutions offer their students and staff the opportunity to participate in international learning mobility's, and also welcome students and staff from partner country higher education institutions129. 129 The Erasmus+ programme distinguishes ‘Programme Countries’ and ‘Partner Countries’. Programme Countries are those participating fully in the Erasmus+ programme. To do so, they have set up a National Agency and contribute financially to the programme. The 33 Programme Countries are the 28 EU Member States and Iceland, Liechtenstein, 44 The 2012 Communication recommended that the Commission should seek to ensure access for the outermost regions to the EU’s future cultural policy programmes and initiatives in order to develop cultural and creative industries. However, nothing specific is registered at this level. 4.5 Mainstreaming climate change and protecting the environment The outermost regions are among the EU areas facing some of the most significant challenges related to climate change. In 2014, a study carried out for the Commission on the economic impact of climate change and adaptation in the outermost regions, identified significant risks for their ecosystems as a result of climate change130. This study helped to support the mainstreaming of climate mitigation and adaptation into the European Structural Investment Funds dedicated to those territories in the 2014 - 2020 programming period. Keeping in line with the EU goal for 20 % of the EU budget to be directed to climate change mitigation and adaptation, around 22 % of the budget was allocated to climate related expenditure in the EARDF and ERDF131 in the outermost regions for the 2014 - 2020 programming period. One example is the ERDF operational programme of Reunion Island, a region particularly exposed to climate related risks, where around 23 % of the allocation is related to this objective. Additionally, the European territorial cooperation programmes are used in particular to develop long-term strategies covering territories struck by the same climate related risks. The Caribbean area programme, for example, envisages a comprehensive approach of cooperation on climate-related risk management. The ***rural*** development programmes also support the shift to low carbon and climate resilient economy in ***agriculture***, food and forestry sectors. Some examples of actions aiming at coping with climate change are the introduction of climate change resilient varieties of sugarcane, sustainable management of banana plantations to limit soil erosion (Guadeloupe) or strengthening the environmental functions of forests (Martinique). The outermost regions are home to a rich and valuable biodiversity, unique in the European context. The LIFE programme, the EU’s funding instrument for the environment and climate action, has supported 21 projects in the outermost regions since 2012 concerning biodiversity protection or Natura2000, (6 in France, 10 in Portugal and 5 in Spain) for a total amount of EUR 26.8 million (EU contribution of EUR 15.1 million). Since the French outermost regions don´t have protected areas defined in the framework of the Birds and Habitats directives132, these regions cannot apply under the financial envelopes for LIFE Norway, the Former Yugoslav Republic of Macedonia and Turkey. Partner Countries are all other countries in the world, grouped together in different regions. 130 Final report ‘The economic impact of climate change and adaptation in the outermost regions’, 2014,   [*http://ec.europa.eu/regional\_policy/sources/activity/outermost/doc/impact\_climate\_change\_en.pdf*](http://ec.europa.eu/regional_policy/sources/activity/outermost/doc/impact_climate_change_en.pdf) 131 The EMFF budget is defined at national level is not possible to have the estimative for climate related expenditure specifically for the outermost regions. 132 The wild bird species naturally occurring in these regions, as well as other wild species and habitat types, are not included in the annexes of the Birds and Habitats directives listing the protected species and habitats. 45 Nature and Biodiversity priority area133, except under the thematic priorities for biodiversity. The climate action sub-programme, since it started in 2014, has supported one project with an outermost regions participant (Canary Islands)134. As an example, the project LIFE + Cap Dom, was selected as a LIFE Nature and Biodiversity ‘Best Project’ by the Commission, allowing exchange of good practice between French Guiana, Martinique and Reunion Island on techniques to protect endangered birds or methods of calculation and follow-up of more common birds, later adopted by other regions and OCTs. Two other project examples under this theme are the LIFE Terras do Priolo135, adopting conservation measures to protect one of Europe’s most endangered birds — the Azores bullfinch — and the LIFE+ Garajonay Vive, dedicated to the ecological restoration works on the Garajonay National Park and surrounding area following the forest fire in 2012136. On biodiversity and ecosystem services, the outermost regions have benefited since 2012 from six projects out of the 16 BEST projects funded under the two open calls for proposals (BEST 2011 and BEST 2012) in the frame of the BEST preparatory action137. The French Development Aid Agency (AFD) funded 2 additional projects in the French outermost regions from the reserve list proposals138 of BEST 2012. In the frame of the BEST III contract139, regional ecosystem profiles140 have been established in a participatory process, aiming at strengthening the efforts to support the conservation of biodiversity and the sustainable use of ecosystem services in the outermost regions and OCTs. These profiles provide valuable information, helping to define and prioritise needs and to ensure the financing institutions and private benefactors of the relevancy and added value of the projects they wish to support. Links between the BEST initiative and the structural funds have not yet been developed. In addition, the European Parliament adopted two further Pilot projects, one on the ‘Inventories of Species and Habitats in French outermost regions’ (EUR 1 million) in 2015, and another on ‘Mapping and assessing the state of ecosystems and their services in the outermost regions and OCTs’ in 2016 (EUR 1 million). In the framework of the first project, a call for ‘swift small grants’ in French outermost regions has been launched in 2017141. The Marine Strategy Framework Directive (MSFD) requires that EU Member States take the necessary measures to achieve or maintain the Good Environmental Status of the EU’s marine waters by 2020. This Directive applies in the Macaronesian region, namely on the waters surrounding the Azores, Madeira and the Canary Islands. Spain and Portugal have identified a number of pressures acting on the marine environment and have designed 133 Under the sub-programme for Environment. 134 The Green Link, aimed at restoring desertified areas with an innovative tree growing method across the Mediterranean border to increase resilience, with the participation of an institution from the Canary Islands. 135   [*http://ec.europa.eu/environment/life/project/Projects/index.cfm?fuseaction=search.dspPage&n\_proj\_id=4740*](http://ec.europa.eu/environment/life/project/Projects/index.cfm?fuseaction=search.dspPage&n_proj_id=4740) 136   [*http://lifegarajonayvive.com/english*](http://lifegarajonayvive.com/english)/ 137   [*http://ec.europa.eu/environment/nature/biodiversity/best/projects/current/index\_en.htm*](http://ec.europa.eu/environment/nature/biodiversity/best/projects/current/index_en.htm) 138 Reserve list proposals are proposals which had passed the evaluation but which could not be funded because all budget available through the BEST preparatory action had been used. 139 To implement the third and last year of the BEST preparatory action an open call for tender was published in 2013 aiming to create a critical mass to achieve the transition towards a sustainable scheme. The BEST III contract is the outcome of this call for tender, which was won by a consortium led by IUCN. 140   [*http://ec.europa.eu/environment/nature/biodiversity/best/regions/index\_en.htm*](http://ec.europa.eu/environment/nature/biodiversity/best/regions/index_en.htm) 141   [*http://ec.europa.eu/environment/nature/biodiversity/best/funding/index\_en.htm*](http://ec.europa.eu/environment/nature/biodiversity/best/funding/index_en.htm) -   [*http://www.bestrup.org*](http://www.bestrup.org)/ 46 programmes of measures to tackle them, thereby allowing for the sustainable use of the marine environment. In the programming period 2014 - 2020, EUR 780.8 million are allocated in the ERDF regional operational programmes for the preservation and protection of the environment, promotion of the resource efficiency objectives and promotion of the climate change adaptation. Around EUR 125 million of this budget will be dedicated to measures related to biodiversity. The French outermost regions will concentrate a major part of their funding on waste management and the water sector, while the other regions will favour actions on biodiversity and nature (Canary Islands), support to resource efficiency in SMEs (Madeira) and adaptation to climate change and climate related risks (Azores). An additional EUR 99 million is available in this domain in the ETC programmes142. During the 2007 - 2013 programming period, the ERDF supported moreover environment-related actions with approximately EUR 1 billion. Drinking water management and distribution and water treatment represented strong priorities in this programming period, particularly for the French outermost regions. The Matiti’s water treatment facility, implemented in French Guiana, is an example of a project in this area. The promotion of natural assets in the Azores, risk prevention in Madeira and promotion of biodiversity and Natura2000 in the Canary Islands were also key priorities of investment in this domain. In the programming period 2014 - 2020, EUR 603 million of EAFRD143 are allocated in the ***Rural*** Development Plans of outermost regions to restoring, preserving and enhancing ecosystems and promoting resource efficiency related to ***agriculture***, food and forestry sectors. To achieve these objectives several measures are being implemented, such as training, advice, physical investments in ***agriculture*** and forest sector, agri-environment-climate measures, organic farming but also investments in basic services and cooperation. In the 2007 - 2013 programming period EUR 319 million of EAFRD144 were allocated to improve the environment and the countryside by measures such as agri-environmental payments, investments in forestry, forest environment payments and support for non-productive investments. Waste management is a challenging area for the outermost regions. Relevant investments, benefiting from EU funding, have been made in these regions, such as the Ecodec recycling centre in Guadeloupe to process tyres and plastics for reuse, or the waste processing centres in most of the Azorean islands. However, additional efforts and investments are required145. In the fight against Invasive Alien Species (IAS), the Regulation146 takes into account the specificities of the outermost regions by giving them the possibility to define their own list of IAS. On the basis of Article 6(2) of this Regulation the list had to be proposed by the Member State in consultation with the outermost regions. 142 This value does not include the budget available under the national Operational Programmes, the Atlantic Ocean Programme and the technical adjustment [COM(2015) 320 final 22/05/2015]. 143 EAFRD allocated to priorities 4 and 5 in RDP 2014-2020. 144 EAFRD allocated to axe 2 in RDP 2007 - 2013. 145 Report of the expert group on green and circular economy in the outermost region:   [*http://ec.europa.eu/regional\_policy/sources/policy/themes/outermost-regions/pdf/green\_circ\_econ\_report\_en.pdf*](http://ec.europa.eu/regional_policy/sources/policy/themes/outermost-regions/pdf/green_circ_econ_report_en.pdf) 146 Regulation (EU) No 1143/2014 of the European Parliament and of the Council of 22 October 2014 on the prevention and management of the introduction and spread of invasive alien species (OJ L 317, 4.11.2014, p. 35). 47 The outermost regions are particularly vulnerable to natural disasters, while their geography and difficult topography hampers the ***intervention*** in the event of a major emergency. Decision 1313/2013/EU147 on a Union Civil Protection Mechanism148 provides financing for exercises and specifies, in the scope, the need to take into account the special needs of isolated, outermost and island regions. In 2017, an EU RICHTER-17 exercise took place, organised by France and funded by the EU: a violent earthquake and tsunami north of Guadeloupe was simulated, triggering the response of security teams from neighbouring countries of the region and the European Civil Protection Mechanism (EERC). In the EU Solidarity Fund revision of 2014149, the threshold to benefit from financial contribution in case of regional natural disaster, in terms of the direct damage occurred, has been reduced, compared to other regions, from to 1.5 % to 1 % of the regional GDP. Since 2012, the Fund has provided assistance at one occasion: a natural disaster in Madeira (fires in 2016) with EUR 3.9 million. Moreover, Regulation (EU) No 2017/1199 of the European Parliament and of the Council150 provides for specific measures offering additional assistance to Member States affected by natural disaster. Member States now have the possibility of introducing a separate priority for reconstruction and recovery projects supported by the ERDF within a programme. Given the potential magnitude of the impact of such natural disasters, the ERDF can support such projects with limited national co-financing151. As the outermost regions are particularly exposed to the risk of natural disasters and climate change, this possibility could be of interest in the future. 147 Decision No 1313/2013/EU of the European Parliament and of the Council of 17 December 2013 on a Union Civil Protection Mechanism (OJ L 347, 20.12.2013, p. 92). 148 The Union Civil Protection Mechanism was set up to foster cooperation among national civil protection authorities across Europe and enable coordinated assistance to victims of natural and man-made disasters in EU, participating countries and elsewhere. 149 Regulation (EU) No 661/2014 of the European of 15 May 2014, amending Council Regulation (EC) No 2012/2002 establishing the European Union Solidarity Fund (OJ L 189, 27.6.2014, p. 143). 150 Regulation (EU) 2017/1199 of the European Parliament and of the Council of 4 July 2017 amending Regulation (EU) No 1303/2013 as regards specific measures to provide additional assistance to Member States affected by natural disasters (OJ L 176, 7.7.2017, p. 1). 151 The ERDF co-financing rate can go up to a maximum of 95 % and thus, the national co-financing can be at least 5 %. 48 4.6 Taxation and State aid Taxation The outermost regions have been benefiting from specific taxation regimes in favour of the competitiveness of their economies aiming to offset the permanent handicaps affecting their economic and social situation. The fiscal dock dues (octroi de mer) scheme in force in the French outermost regions (except from Saint Martin) provides for reductions or exonerations from the dock dues tax, subject to authorised limits, for a specific list of locally produced products so as to allow these products to compete with imported ones, given the additional costs incurred by companies in the outermost regions. The current dock dues regime is authorised by Council Decision 940/2014/EU152 until 31 December 2020. The AIEM (arbitrio sobre las importaciones y entregas de mercancías) is a similar tax scheme applied in the Canary Islands. In June 2014 the Council adopted Decision 377/2014/EU153 authorising the Spanish authorities to apply, subject to the authorised limits, reductions in or exemptions from the AIEM tax for a specific list of domestic products until 31 December 2020. In line with the relevant decisions, both regimes will be reviewed in the course of 2017-2018, following the submission of reports by national authorities indicating the impact of the schemes and their contribution to the development of local economic activities in the light of the handicaps affecting the outermost regions. On the basis of these reports, the Commission will submit a report to the Council and may decide to make proposals for adapting the provisions of the decisions at issue. Other specific taxation regimes targeting certain local products were revised in the last years, namely the reduced rate of excise duties for French rum in 2014 and the scheme for locally produced and consumed rum and liqueurs in Madeira and liqueurs and eau-de-vie in the Azores the same year. In 2017, following a request from the French authorities supported by a report justifying the adaptation, the Commission proposed to the Council the increase of the rum quota at a reduced rate of excise duties. France will send a report to the Commission by the end of 2017, enabling it to assess whether the reasons justifying this derogation still exist and whether the fiscal advantage is proportionate and sufficient to support a competitive cane-sugar-rum value chain in the concerned outermost regions. 152 Council Decision No 940/2014/EU of 17 December 2014 concerning the dock dues in the French outermost regions (OJ L 367, 23.12.2014, p. 1). 153 Council Decision No 377/2014/EU of 12 June 2014 on the AIEM tax applicable in the Canary Islands (OJ L 182, 21.6.2014, p. 4). 49 State aid In 2013, the Commission adopted new regional aid guidelines for the programming period 2014 - 2020. Regional aid intensities were lowered in all European regions, except in the most disadvantaged and outermost regions. In line with the provisions of Article 107(3)(a) TFEU, the 2014 - 2020 regional aid guidelines designate all outermost regions as ‘a’-regions154. As a result of their status as ‘a’ areas, outermost regions also benefit from a favourable State aid treatment in some other State aid areas (e.g companies in outermost regions qualify for increased bonuses for innovation aid). As in the past, operating aid can be granted to companies in the outermost regions under the 2014 - 2020 regional aid guidelines. To reduce the administrative burden on the national and regional authorities responsible for the outermost regions, the Commission introduced regional operating and transport aid provisions for outermost regions in the 2014 GBER. As a result, Member States could grant these types of aid to companies in the outermost regions without a need for ex-ante notification to and approval by the Commission. In 2017, the GBER was reviewed, extending the scope of the regional operating aid provisions of the GBER to cover undertakings of all sectors, including transport and energy, ***agriculture*** and fisheries, as well as businesses in difficulty. In addition, operating aid ceilings were increased significantly to ensure that all estimated additional costs of companies in the outermost regions (including additional transport costs) can be covered. The recent reform of the EU State aid regime under the State aid modernisation process (including the 2017 revision of the GBER) introduced changes to the specific rules affecting the outermost regions, The changes were made in full dialogue with the representatives of these regions and of the Member States concerned, accommodating their main concerns, in particular by the amendments introduced in the regional operating and investment aid rules. In addition to the extensive possibilities for aid for which no notification is required, the Commission has already approved several schemes providing further investment and operating aid to companies in the outermost regions. For example, in March 2017, the Commission approved support in the form of reductions of the dock dues tax, as compatible state aid on the basis of regional aid guidelines, considering that it promotes the development of Guadeloupe, French Guiana, Martinique, Mayotte and Reunion Island without distorting competition in the single market to an extent contrary to the common interest. 154 Areas fulfilling the conditions set out under Article 107(3)(a) TFEU. The guidelines stipulate what can be designated as ‘a’ area: NUTS 2 regions with a gross domestic product (GDP) per capita in purchasing power standards that is equal to or less than 75 % of the EU-27 average and outermost regions. 50 5. Conclusion Since 2012, significant progress has been recorded in several EU policy fields, in order to promote growth and employment in the outermost regions. Cohesion policy has played an important role in that respect, by supporting investments for a smart, sustainable and inclusive growth. In parallel, support to traditional sectors like ***agriculture*** and fisheries, essential for the societies of the outermost regions, has been provided. Specific measures have been maintained and new ones have been taken across many EU fields, including State aid, taxation, and other important sectors for the outermost regions' development. Despite the achievements, the specificities of the outermost regions were not always systematically taken into account or adequately reflected in the EU initiatives. There is the need to scale up efforts and better meet these regions' needs on the basis of a stronger ***strategic*** framework and a partnership enlarged to other EU Institutions and relevant actors. Although innovative practices and solutions are already being developed in many areas, research and innovation is fundamental for boosting business competiveness, helping the development of emerging sectors (such as renewable energies and marine bio-technology) and sustainable use of their unique assets. This requires reinforced efforts on education and professional training to equip people, in particular youth, with new skills and experience adapted to their local labour markets. There is also the need to further improve transport and digital connectivity. Deepening cooperation with their neighbours and other partners is an important avenue to follow for a better integration in their geographical context and create new opportunities in the neighbouring and international markets. Furthermore, improving climate change adaptation and protecting their rich unique biodiversity remain crucial for livelihoods and economy. The Commission will pay more attention in the future to the specific constraints of the outermost regions recalled in Article 349 TFEU and value better the extraordinary assets they offer to the EU. In particular, their specific interests should be better reflected upstream in the legislative process in the framework of the Better Regulation Agenda155. The Commission is committed to pursue its efforts and further maximise the potential of the outermost regions. The support of the partnership will be crucial in that respect. 155 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Better regulation for better results - An EU agenda' - COM(2015) 215 final, 19.5.2015 51 List of acronyms and abbreviations ACP — African, Caribbean and Pacific countries AFD — French Agency for Development BEST — Biodiversity and Ecosystem Services in Territories of European overseas CAP — Common ***Agricultural*** Policy CEF — Connecting Europe Facility CFP — Common Fisheries Policy COSME — Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme EAFRD — European ***Agricultural*** Fund for ***Rural*** Development EAGF — European ***Agricultural*** Guarantee Fund EDF — European Development Fund ESA-IO RIP — Regional Indicative Programmes Eastern Africa and Indian Ocean EERC — European Civil Protection Mechanism EFF — European Fisheries Fund EFSI — European Fund for ***Strategic*** Investments EIB — European Investment Bank EIP — European Innovation Partnership EMFF — European Maritime and Fisheries Fund EPA — Economic Partnership Agreement EPAs — Economic Partnership Agreements ERDF — European Regional Development Fund) ESF — European Social Fund ESI Funds — European Structural and Investment Funds ETC — European Territorial Cooperation ETS — Emissions trading system EU — European Union EURES — The European job mobility portal GBER — General Block Exemption Regulation GDP — Gross Domestic Product ICT — Information and Communication Technologies INTERREG — European territorial cooperation programmes LNG — Liquefied natural gas MSP — Maritime Spatial Planning NEET — Young people no in employment not in training OCTs — Overseas countries and territories POSEI — Programme of options specific to the remote and insular nature of the outermost regions RDP — ***Rural*** Development Programme RDP — ***Rural*** Development Programmes SME –Small and Medium Entreprise TEN-T — Trans-European Networks TFUE — Treaty on the functioning of the EU TIA — Territorial Impact Assessments YEI — Youth Employment Initiative 52 Annex I — Geographical location of the outermost regions: lands of Europe in the World. 53 Annex II — European Union funding in the outermost regions European funding for the 2014 - 2020 period (million €) ERDF1 ESF2 YEI3, 4 EMFF EAFRD Region / Operational programme Specific allocation Classic measures5 Compensation Plan Canary Islands 513.6 484.1 162.4 117.2 22.0 60.9 157.5 Guadeloupe and St Martin (State)6 31.4 7.2 165.2 44.8 86.5 174.0 Guadeloupe 424.1 97 .8 84.5 22.0 Martinique 352.0 93.1 70.8 19.4 130.2 Martinique (State) 124.7 French Guiana 286.0 52.1 54.4 12 112.0 French Guiana (State) 83.9 Reunion Island 940.2 190.3 57.8 385.5 Reunion Island (State) 516.8 Mayotte 146.0 2.8 65.5 9.2 60.0 Azores 767.5 57.5 314.7 10.6 56.9 30.7 295.3 Madeira 216.2 58.2 129 11.8 14.5 179.4 Grand Total 3 677.0 1 043.1 1 771.9 260.0 123.7 192.5 1 493.9 Sources: Open Data Platform, for ERDF, ESF and EAFRD. 1 Regional Operational Programme. The funding contribution from the national programmes, namely for the Canary Islands, is not included. 2 The figures do not include the ESF amounts used for matching the YEI special allocation. These amounts are included in the column YEI. 3 The figures show the budget earmarked to the respective regions from the national YEI programme. For Guadeloupe and Martinique, they also include the YEI allocations in their regional programmes. All amounts include the ESF matching. 4 The YEI budget is expected to be further increased for all eligible regions, following the mid-term revision of the MFF in June 2017. 5 The allocations for the classic measures are based on informal communication by the Member States. The values presented are indicative and non-binding. Spain and France set-up national measures, covering also the outermost regions, which are not included in this Annex. 6 The ERDF allocation under this Operational Programme is devoted only to St Martin. 54 Source: Open Data Platform, except MAC programme. POSEI The POSEI Scheme is financed by the EAGF. The financial annual ceiling for each Member State is laid down in Regulation (EU) No 228/2013. For all outermost regions, the total allocation amounts to EUR 653 million (EUR 4 571 million for 2014 - 2020). European Territorial Cooperation (INTERREG) funding for the 2014 - 2020 period (million €) Cross border Cooperation Programmes EUR Mayotte — Comores — Madagascar 12.0 Saint Martin — Sint Maarten 10.0 MAC 126.5 Transnational Amazonia 18.9 Indian Ocean Area 63.2 Caribbean Area 64.3 Annual allocations for POSEI programmes (million €) Spain 268.42 France 278.41 Portugal 106.21 Total 653.04

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**Body**

ALGERIA Citi Algeria Despite the difficulties posed by lower commodity prices, Algeria's 2016 economic perf o r m a n c e w a s r e l a t i v e ly re s i l i e n t. Nevertheless, the challenges that the country continues to endure are significant. Current account and fiscal deficits have grown in recent times, while the government has introduced a number of regulatory initiatives that have negatively impacted the fortunes of the country's banks. These include new import licences for construction material and consumer products as well as reductions to the foreign obligation to regulatory capital ratio, among others.

In this environment, Citi Algeria has once again scooped the country award. Above all, the judges were impressed with the bank's commitment to customer service in challenging circumstances. In addition, the bank's efforts to support community development and financial inclusion initiatives were also praised.

In terms of the numbers, Citi Algeria's return on equity remained relatively stable at 13% in 2016, down from the 14% registered in the previous year but up from the 12% recorded in 2014. In 2016, its cost-to-income ratio was constant year on year at 35%. Asset growth in 2016 hit 10% in local currency terms, although net profits and Tier 1 capital both fell by 6% and 5%, respectively.

Citi Algeria's commitment to social development saw the bank partner with Enactus, a global non-profit entity focusing on entrepreneurial action, to develop the employability and skills of 1500 young people in the country by 2018. This same programme is also being rolled out in two other Maghreb countries.

"Under an increasingly competitive environment, Citi in Algeria has been standing out as we have been able to strengthen our operations, to efficiently serve our clients with world-class products and to grow our market shares at a time where market is shrinking," says Ramz Hamzaoui, chief executive of Citibank Algeria.

ANGOLA Standard Bank Angola The winner of this year's Angola country award, Standard Bank Angola, has gone from strength to strength in recent times. A return on equity of 49% in 2016 was accompanied by a cost-to-income ratio of 59%, representing a massive reduction from the 71% registered at the end of 2014.

In local currency terms, net profits surged over the 2016 review period with an increase of 50%, while assets jumped by 23% and Tier 1 capital rose by 60%. These achievements have come despite the bank operating in the market for only seven years as of 2017.

"Standard Bank Angola celebrated seven years in operation in the Angolan market this year. The main challenge of setting up a new business in a foreign market with strong entrenched competitors has been access to skills and the creation of a unique Standard Bank Angola culture in the market," says Antonio Coutinho, chief executive of Standard Bank Angola.

Over the past 12 to 15 months, Standard Bank Angola has invested heavily in processes designed to improve its customer serv i c e p r o p o s i t i o n. T h i s i n c l u d e s improvements to its payments workflow, covering the automation of tasks and reducing the turnaround times, as well as the implementation of a new internet platform for private banking and commercial clients, among other improvements. "[We have refocused] the business on being a far more customer-centric business, [which was] achieved through the creation of a dedicated senior executive position," says Mr Coutinho.

On the personal and business banking front, Standard Bank Angola is driving forward with a multi-channel digital development strategy. This focuses on six key principles, including digital security, branch digitisation and new product development, among others.

BENIN Bank of Africa Benin Benin's economic ***performance*** has remained relatively robust despite a more challenging regional economic environment in recent years. The International Monetary Fund expects full-year gross domestic product growth of 5.4% in 2017. But serious challenges still exist, ranging from the impact of cooling economic fortunes of larger neighbours to a changing domestic political environment. This has required the country's banks to be adaptable, innovative and forward thinking.

The winner of the 2017 country award, Bank of Africa Benin has displayed all three of these qualities in abundance.

"In the past year, Bank of Africa Benin has faced [a number of ] challenges, [including] the large-scale slowdown of economic activities due to the economic downturn in Nigeria, Benin's main economic partner. [In addition], there has been a slowdown in private domestic and foreign investment due to the 2016 election and the change of the government," says Faustin Amoussou, managing director of Bank of Africa Benin.

Despite these difficulties, the bank registered impressive growth numbers across all key ***performance*** ***indicators***. In local currency terms, net profits surged by 29% in 2016, while assets and Tier 1 capital increased by 9.7% and 6%, respectively. Return on equity, meanwhile, grew to 21.4% from 18.4% in the previous year.

Over the past 18 months, Bank of Africa Benin has taken a number of steps to improve its position in the market. This includes the introduction of a pricing task force to conduct market research on bank pricing in order to set competitive pricing for its own services, as well as a 'customer first' programme to improve the customer experience. "[Over the next year] we will develop products and services for real estate and home loans, consumer and home appliance loans, a customer loyalty programme and a proprietary solution for mobile banking," says Mr Amoussou.

BOTSWANA FNB Botswana Botswana's economic growth is slowly recovering from the lows of recent years, as an improving outlook in the mining and services sectors helps to spur a wider recovery across the country. In turn, this is providing the country's banks with a more positive growth trajectory. The winner of the 2017 country category, FNB Botswana, impressed the judges based on its customer-centric approach to growth, as well as its solid financial ***performance***.

Over the review period, the bank saw its assets increase by 4%, while Tier 1 capital grew by 10%. Though net profits decreased, FNB Botswana's return on equity hit 20% and its non-performing loan ratio sat at a comfortable 3%. Looking ahead, the bank intends to pursue its overarching customer-centric strategy to achieve increased growth. This includes four ***strategic*** initiatives that cover the extraction of maximum value from the current business, by streamlining business processes, deploying more products from the group level (FirstRand), leveraging ***strategic*** partnerships and diversifying revenue streams.

In terms of innovative new offerings, FNB Botswana launched its eBucks rewards programme, which helps customers to earn as they bank. Under eBucks, qualifying customers are rewarded when they use pre-paid airtime or pre-paid electricity through the bank's electronic channels. In addition, the bank's private clients can earn up to 1.5% back in eBucks through credit card transactions.

Meanwhile, FNB Botswana's multi-channel growth strategy continues at pace. This includes the development of a new digital offering known as the Integration Race that will see the bank integrate its systems with government, private companies and parastatals to facilitate access to new services. "Behind our customer-centricity strategy is the digital migration, and effort to encourage our customers to utilise our digital service platforms which are more convenient and cost-effective for them," says Steven Lefentse Bogatsu, chief executive of FNB Botswana.

BURKINA FASO Orabank Things are looking up for Burkina Faso. The country registered gross domestic product growth of 5.9% in 2016, up from 4% in 2015 according to the World Bank. Despite rising insecurity across the wider region, the government's investments in public infrastructure, coupled with an expanding mining sector, underline the brighter outlook for Burkina Faso relative to some of its regional peers. These improvements are having a tangible impact on the country's banks and the winner of this year's country award, Orabank Burkina Faso, is no exception.

"Burkina Faso is presenting glimmers of hope with positive events such as the normal functioning of all the institutions of the republic and the start of the PNDES, Burkina Faso's ***strategic*** plan for growth. We are confidant Burkina Faso will grow steadily in the coming years," says Martial Goeh-Akue, managing director of Orabank Burkina Faso.

This is the first time that Orabank has scooped the country award for Burkina Faso. The judges were impressed with the bank's excellent financial ***performance*** over the review period, as well as its investments in digital banking. Over the review period, Tier 1 capital increased by 29% in local currency terms, while assets and net profits both surged, by 58% and 35%, respectively. More encouraging still, Orabank's return on equity hit 34% in 2016, up from 32% in the previous year, as its cost-to-income ratio fell to 59% from 66%.

This truly impressive financial ***performance*** was achieved in tandem with a number of investments in the bank's digital capacity. In 2016, the bank implemented a new banking system called 'Sopra Amplitute Banking'. This new software promotes automated transaction processing while offering multi-channel availability 24/7 to offer customers a wide range of services. "It facilitates the production of statistics and [enable us] to meet the challenge of digitalisation," says Mr Goeh-Akue.

CAMEROON Ecobank Cameroon The winner of the 2017 Cameroon country award, Ecobank Cameroon, emerged as the standout entry in a competitive category. The bank's return on equity surged to 50% over the 2016 review period, up from 44% in the previous year. Net profits, meanwhile, increased by 18% as Tier 1 Capital grew by 5%. This ***performance*** was achieved with a cost-to-income ratio of 58% and a non-performing loan ratio of 3.9%.

The judging panel was particularly impressed with the bank's approach to customer service and the various innovations that it has introduced in the market. This includes the launch of the Ecobank mobile app, the first mobile app in Cameroon, which permits customers to check their balance, pay bills and transfer money anywhere, any time. The introduction of Masterpass QR allows the bank's corporate clients to better manage their cash by receiving instant payment alerts, while on the retail side, customers can pay merchants by scanning and validating a QR code on their mobile phones.

Meanwhile, the introduction of the lender's Rapid-Transfer Online service gives all Ecobank customers the opportunity to execute cross-border transfers through the bank's website.

Other market-shaping innovations have also helped to spur the bank's growth. This includes the launch of instant card and PINs for customers in the branch, as well as the introduction of pre-paid cards for both account and non-account holders to capture a larger segment of the unbanked population.

Indeed, Ecobank's efforts to promote financial inclusion have seen its agency banking model deploy pre-paid card offerings and remittances products throughout some of Cameroon's most remote regions. For these reasons, and others, Ecobank comfortably secured the 2017 country award.

CHAD United Bank for Africa Chad Chad's economic growth has cooled in recent years as the twin challenge of regional insecurity and lower oil prices have taken their toll on the country's prospects.

The International Monetary Fund expects gross domestic product growth of just 0.6% in 2017. But it is not all doom and gloom for the country's banks. Indeed, the winner of this year's country category, United Bank for Africa Chad (UBA Chad), has gone from strength to strength of late.

Between 2014 and 2016, the lender's return on equity climbed from 11% to 19%, just as its cost-to-income ratio fell from 76% to 66%. Meanwhile, in local currency terms, the bank saw its net profits surge by 105% in 2016 following a marginal contraction the previous year. Assets growth also jumped considerably, reaching 70% over the review period.

UBA Chad's success in a difficult market is a testament to the strength of its growth strategy. The bank has prioritised the diversification of its lending activities to the most resilient sectors of the economy. In particular, UBA Chad has targeted the massive development opportunities presented by intra-African trade initiatives which in turn has generated multiple revenue streams, including foreign exchange and fee-related incomes.

Over the review period, UBA Chad also upgraded its core banking system, from Finacle 7.0 to Finacle 10. This has helped to increase the bank's service delivery to support its rapidly growing retail business across the country. In the growing retail sector, the bank has a country-wide network of branches that act in tandem with an after sales service delivered through various e-channels designed to improve and ease the overall customer experience.

DEMOCRATIC REPUBLIC OF THE CONGO Trust Merchant Bank Recent times have not been kind to the Democratic Republic of the Congo (DRC). Political instability and the lingering impact of lower commodity prices have hit the country's economic fortunes hard; the value of the Congolese franc has slumped, inflation has spiked and economic growth has cooled. In these circumstances, the country's banks have suffered. But the winner of the 2017 country award, Trust Merchant Bank (TMB), impressed the judges based on its unique strategy, financial inclusion initiatives and commitment to investing in its capabilities during a challenging time.

"Despite the broader environment, TMB has achieved a number of successes during the past year. Chief among these is a partnership agreement with the Congolese Post Office which will see TMB provide banking services at post offices across the country, with a particular focus on remote areas. A wholesale redevelopment of the bank's IT infrastructure, critical to providing for ongoing sustainable growth, has been another major success of the year," says Oliver Meisenberg, chief executive of TMB.

Indeed, TMB's partnership agreement with the DRC's post office will offer the bank a number of unique advantages. For one, it will expose the lender to hundreds of thousands of potential new clients across the country. But it will also help to diversify TMB's revenue sources, loan portfolio risk and liquidity position. Under the terms of the partnership, the bank will initially restore 60 post office locations out of a total network of 350.

Meanwhile, TMB's progress in the digital banking space is progressing swiftly. "With Pepele Mobile, our revolutionary mobile banking product, we can say with some confidence that TMB is owning the fintech revolution here in the DRC," says Mr Meisenberg.

DJIBOUTI Exim Bank Djibouti Exim Bank Djibouti enjoyed a strong year in 2016, mirroring the economic conditions in a country that grew by about 6.5% over the period. Net profits at the bank surged, hitting $2m, which was an increase of 259% from the previous year. Total assets and Tier 1 capital increased by 76% and 74%, respectively, while the bank's cost-to-income ratio fell drastically over the same period from 77% to 58%. As a newer entrant in Djibouti's banking market, this ***performance*** was deeply impressive.

"The main challenge in the past year was to build the [bank's] name and the market's confidence in an industry predominantly dominated by two major players with a large market share and historic background," says Jacky Kayiteshonga, country managing director for Exim Bank Djibouti.

The lender's strategy is to focus on high-performing sectors of the economy with the objective of banking the entire value chain of each targeted segment. This includes large corporates, key suppliers and corporate clients, employees and other stakeholders.

Exim Bank Djibouti will continue this approach over the coming year as it broadens its clientele base to include major commercial houses ranging from cargo transit partners, fast-moving consumer goods groups, free zones and public institutions. In a mark of its growing role in Djibouti's banking market, the lender participated in the financing of fibre optic cable network for the country's national telecoms operator.

"The success over the past years from our ability to understand the peculiarities of the market we are playing in and tactically delivering products and services that fit our client base. Continuous interaction with our clientele, availability, expertise and knowledge of our human capital are the key drivers of our success story," says Mr Kayiteshonga.

EGYPT Arab African International Bank Arab African International Bank's (AAIB's) eye-catching list of recent achievements is impressive. But it was the lender's 179% increase in net profits in 2016 that best sums up its country award-winning ***performance***. This was the highest increase in the Egyptian banking industry and builds on already impressive 19% growth in net profits in 2015. This was accompanied by a 75% increase in assets and a 170% jump in Tier 1 capital.

The judging panel was also impressed with AAIB's improving return on equity, which reached 18.2% in 2016, up from 15.6% in 2014, as well as its cost-to-income ratio, which was 19.9% over the review period.

"We achieved the highest increase in profit in the Egyptian banking sector while we ensured the growth of our clients in Egypt and the region. At the same time, AAIB expanded its client base to include a new segment, small and medium-sized enterprises, in addition to extending [our microfinance offering]," says Hassan Abdalla, chief executive of AAIB.

Beyond the numbers, AAIB's various business initiatives captured the attention of the judges. These include the bank's new partnership with the Suez Canal Economic Zone, in which it became the first lender in the country to sign a deal covering banking services, financial consultancy and the funding of mega-projects. In addition, AAIB is currently upgrading its core banking system to Temenos T24, which will improve its system architecture, operational activities and system security and control, among other features.

Meanwhile, AAIB's outlook remains bright. "Opportunities lie ahead in catering to international investors targeting Egypt, the Gulf and Africa. There is also growth potential in funding mega-projects that are currently booming in Egypt," says Mr Abdalla.

EQUATORIAL GUINEA Banco Nacional de Guinea Ecuatorial As is the case in other oil-producing countries in the Gulf of Guinea, Equatorial Guinea has struggled to adapt to a lower global price environment. With hydrocarbons dominating the national economy, the outcome has been heightened fiscal and external imbalances and cooling growth. Nevertheless, the winner of this year's country award, Banco Nacional de Guinea Ecuatorial (BNEG), was better prepared than many of its peers for this reversal in fortunes.

In 2012, the bank's leadership radically restructured the lender's business priorities by focusing on the strongest retail segments, including public servants, as well as corporations with high revenues and cash flow, such as retailers. In terms of sectors, the bank looked to high-growth targets such as ***agriculture*** and fishing.

Cumulatively, this strategy has paid dividends and softened the blow for BNEG during a challenging time for the market as a whole.

"The recent crash in the market value of oil, the country's main source of revenue, could have had a severely damaging effect on the bank´s profit results for the years 2016 and 2017. However, our relentless pursuit to innovate our catalogue of financial products, as well as our highly efficient risk management procedures, has allowed us to maintain a stable track of profits, similar to previous years when the country's economy was in better shape," says Manuel Osa Nsue Nsua, chief executive of BNEG.

In recent times, BNEG has massively expanded its network of branches, from 13 to 22, to become the bank with the largest footprint in the country. In addition, it has also developed an online banking service for its clients as part of its 2015-17 ***strategic*** plan.

GABON United Bank for Africa Gabon Gabon, Africa's fifth largest oil producer, has been struggling to diversify its economy in a challenging economic climate. Gross domestic product growth slowed to 2.1% in 2016, down from 3.9% in 2015 as the country's current account deficit has increased and the fiscal deficit has widened. Though a $642m International Monetary Fund facility is expected to help the government over the medium to longer term, the country's immediate prospects are less promising. Nevertheless, it hasn't been all bad news for the country's banks. Our winner in the 2017 country award, United Bank for Africa Gabon (UBA Gabon), has performed particularly well despite these challenging circumstances.

The bank's net profits, in local currency terms, increased by 87% in 2016. Though this, in part, reflects a more difficult ***performance*** in 2015 when net profits fell by 54%. Total assets grew by 19% over the same period, marking a significant improvement on the 1% growth recorded in 2015. More impressively, UBA Gabon's return on equity increased over the review period by reaching 12%, up from the 6% it posted in the previous year. In addition, its cost-toincome ratio and non-performing loan ratio both fell by 1% year on year, hitting 73% and 1%, respectively.

UBA Gabon's financial inclusion initiatives also impressed the judging panel. In particular, the launch of the bank's prepaid cards for customers without bank accounts, representing one of the first offerings of this type in the country, stood out. UBA Gabon also provides an agency banking platform to microfinance institutions looking to bank underserved segments of the population as well as micro, small and medium-sized enterprises across the country.

GAMBIA Ecobank Gambia Ecobank Gambia has reason to be pleased with its recent ***performance***. In 2016, the bank registered net profit growth of 3%, after achieving 64% growth in 2015, while total assets and Tier 1 capital increased by 8% and 31%, respectively. Return on equity was strong at 22% and the bank's cost-toincome ratio was more or less steady at 58%. Underscoring this ***performance*** is the bank's strategy; to build a simple and digital brand the helps customers to access their accounts 24/7 and ensure that they receive faster and more efficient service through the use of technology.

"Our mobile banking app provides retail customers with 'whenever and wherever banking' using their mobile phones and they can check account balances, transfer money, pay bills and generate statements from the comfort of their current location," says Josephine Anan-Ankomah, managing director of Ecobank Gambia.

Innovations such as Ecobank's Xpress Account also caught the attention of the judges. This account uses a customer's mobile phone number and the Ecobank mobile app to open a new bank account. This is the fastest means possible for a customer to open a new account.

"Our plan is to continue to innovate our products and services and, most especially, fully implement agency banking and the increased digitalisation of our products to significantly improve financial inclusion," says Ms Anan-Ankomah.

Meanwhile, Ecobank Gambia has also been pursuing a strategy of revenue diversification to improve risk management, augment shareholder value and increase the bank's operational efficiency. This is being executed in tandem with efforts to recruit and keep the country's best talent and to become the employer of choice in the banking industry.

GHANA Zenith Bank Ghana Though Ghana's economy has improved over the course of 2017, it registered gross domestic product growth of just 3.5% in 2016, its lowest level in two decades. But if the market as a whole was depressed over this period there is little evidence that it troubled the 2017 country winner, Zenith Bank Ghana, at all.

The lender's net profits increased by 76% in 2016 while its total assets and Tier 1 capital grew by 34% and 32%, respectively. Beyond this, Zenith Bank Ghana's return on equity increased to 40% from 29% year on year, while its cost-to-income ratio fell to 40% from 44%.

"The bank prides itself with the creation of a reputation for excellent customer service and a respectable corporate governance culture. Consequently, our balance sheet has grown by 45% year on year and we have maintained a customer retention rate of 99.97%. These have resulted in the bank winning notable awards across the globe," says Henry Oroh, managing director and chief executive of Zenith Bank Ghana.

Over the 2016 review period, the bank pursued a number of ***strategic*** initiatives. These included a greater emphasis on retail banking to minimise the reliance on volatile corporate deposits, the development of innovative products and services to cater to the unbanked population, and the development of a state-of-the-art 24/7 customer contact centre.

"The bank will continue to stay engaged with customers and focus on initiatives that will position it as a market leader in the Ghanaian banking industry. Opportunities are also expected to emerge from increased infrastructural spend, developments in the oil and gas sector, and expansions in trade services for private sector growth," says Mr Oroh.

GUINEA Ecobank Guinea Guinea's economy is slowly recovering from the shocks associated with the outbreak of Ebola across the region and the commodity price slowdown of recent years. Economic growth reached 6.6% in 2016, while the International Monetary Fund expects 6.7% growth in 2017 thanks to an improving ***agricultural*** output and stronger activity in the mining and construction sectors. This offered a fertile growth environment for the country's banks. The winner of the country award, Ecobank Guinea, saw its net profits increase by 30% in 2016, while total assets and Tier 1 capital grew by 22% and 9%, respectively.

Nevertheless, challenges for Guinea's banks remain. "In the market, we are facing disruption from big telecommunications firms deploying mobile payments, such as cash in-cash out and bill payments across the country. In fact, this is not really a surprise since the regulatory [environment is changing] and telcos and various fintech groups are attacking every aspect of the financial services sector [in the country]," says Moukaramou Chanou, managing director of Ecobank Guinea.

Ecobank Guinea has worked hard to improve its in-country distribution in recent times. This is done through eight branches in the capital, Conakry, and 12 across the country. This is accompanied by 39 ATMs country-wide, accepting Visa, MasterCard and China UnionPay. In addition, the bank boasts 56 electronic payment terminals in the country.

"We want to close 2017 with 50,000 new customers using mobile and by 2018 we want to double this figure. The target is to have more than 400,000 customers before 2020. We will continue our mission to create a truly world-class pan-African bank while contributing to Guinea's economic development. That's why our new campaign focuses on our mission to help people realise their dreams," says Mr Chanou.

KENYA KCB Group KCB Group, the winner of the 2017 Kenya country award, stood out in a competitive country category based on its strong financials, its commitment to customer service and technological innovation.

The bank's net profits surged by 19% in 2016, while assets and Tier 1 capital grew by 7% and 27%, respectively. KCB Group's return on equity, meanwhile, hit 24% over the review period, up from 21% in 2015. This striking growth was achieved despite a number of pressing challenges in the market. "The general operating environment has been fraught with difficulties, ranging from a prolonged electioneering period in Kenya to a change in market conditions occasioned by a cap in interest rates that was introduced in [the country]," says Joshua Oigara, chief executive of KCB Group.

KCB Group impressed the judging panel with its unique strength in the mobile banking space. Over the review period, the group as a whole boarded an additional 10 million customers onto its mobile bank offering. This allows customers to open an account through their mobile phone. KCB Group is also able to score each client, enabling customers to secure credit via the same means. Mobile banking now accounts for 57% of the group's total transactions. For customers who do not have smartphones, the bank has developed USSD banking, allowing them to benefit from the nearly 15,000 agency outlets the group boasts across the wider east Africa region.

"The bank continues to perform well despite these challenges as reflected in our exemplary 2017 half-year ***performance***, which recorded a pre-tax profit of Ks14.75bn [$142.7m]. This was boosted by a strong ***performance*** of our core retail and corporate business, non-interest income and lower interest expense," says Mr Oigara.

MAURITIUS Mauritius Commercial Bank As an open and globally integrated country, Mauritius's economy has been buffeted by regional and international headwinds in recent years. But the sophistication and strength of its banking sector has meant that many of the country's lenders have nevertheless been able to post stellar growth numbers. Mauritius Commercial Bank (MCB), this year's country winner, is no exception. By year-end 2016, net profits had increased by 14.9%, while total assets and Tier 1 capital grew by 12% and 10%, respectively. These strong numbers were achieved despite an array of challenges at home and abroad.

"The bank pursued its business growth [strategy] in spite of challenging operating conditions that prevailed on both the domestic and regional fronts. In Mauritius, sluggish investment levels and growing recourse to non-bank financing by corporates continued to impact the demand for credit," says Alain Law Min, chief executive of MCB.

With a ***strategic*** outlook that focuses on an expansion of the bank's offerings and frontiers, and the completion of its transformation into a digital lender with a human touch, MCB is not short of ambition. Indeed, its cautious growth across the African continent is granting the bank a strong footprint in fast-growing markets in southern and eastern Africa.

In tandem, MCB's project finance business is branching out to new and swiftly developing markets including Kenya, Tanzania, Rwanda, Côte d'Ivoire and Ghana, among others. In doing so it is also widening its participation to new industries, including shipping, telecommunications, aviation and solar energy.

"MCB has sharpened its focus on growth pillars and pursued its regional market diversification agenda. Towards those ends, it has judiciously leveraged its human and physical resources, while furthering technological innovation," says Mr Law Min.

MOROCCO BMCE Bank of Africa In a competitive country category, BMCE Bank of Africa emerged as the clear winner in Morocco for 2017. The judging panel was impressed with the bank's support for social and economic development across its operating footprint, its commitment to digital innovation in terms of product and service offerings, as well as its strong regional growth across the African continent. These factors, coupled with its solid financial ***performance***, ensured that it scooped the country award.

The bank's net profits grew by 4% in 2016 while its total assets and Tier 1 capital exhibited a similar upward trajectory, by expanding 9% and 5%, respectively.

In July 2016, the bank launched its first digital branch to improve the services available for customers living outside of Morocco. This digital branch permits customers to open a bank account through their computer, tablet or smartphone 24 hours a day, seven days a week. In addition, customers can subscribe to the bank's products and services and seek assistance in up to seven different languages with a bank adviser through the online chat system or by telephone.

BMCE Bank of Africa's African Entrepreneurship Award was a standout component of the bank's entry. This award helps to offer seed financing to launch and scale small businesses across Africa. The annual award provides seed financing to 21 small businesses across the continent and is applied for by businesses from all 54 African countries.

"Beyond its solid financial ***performance*** in 2016, our group continued to invest in sustainable development through a pioneering approach, best illustrated through the BMCE Bank Foundation's initiative in promoting education in ***rural*** areas, the support and development of entrepreneurship across Africa, in addition to setting up the first building blocks in positive impact finance," says Othman Benjelloun, chairman and chief executive of BMCE Bank of Africa.

MOZAMBIQUE Millennium bim Our winner for the 2017 Mozambique country award, Millennium bim, has gone from strength to strength in recent times. Stellar financial growth has been accompanied by investments in the bank's financial inclusion and outreach initiatives as well as support for small and medium-sized enterprises. In addition, Millennium bim's success on the digital banking front caught the judges' attention. Nevertheless, a difficult economic environment has not made this progress easy.

"Cost of funding has been the major challenge for the bank this past year, due to the economic slowdown and the devaluation of the national currency, the metical. Gross domestic product growth has been the lowest in the past 15 years, at 3.8% in 2016. This economic scenario has had a direct impact on the banking system," says José Reino da Costa, vice-chairman and CEO of Millennium bim.

In 2016, Millennium bim established a new agency banking channel in which it partners with local businesses, including shops and grocery stores, in remote and underserved areas of Mozambique to offer banking products and services. In addition, the lender has partnered with the country's state-owned postal services provider to offer banking services at post offices nationwide.

"The main successes were undoubtedly related to the expansion of our commercial network, not only by opening new branches but through our partnership project with Postal Service of Mozambique too, which helped implement banking services and postal services in ***rural*** areas as well as through our JáJá Banking Agents project, where we offer a range of financial services to ***rural*** and suburban areas. Millennium bim is the first bank with national coverage in Mozambique," says Mr Reino da Costa.

The bank's net profits increased by 33% in 2016, while total assets and Tier 1 capital grew by 14% and 25%, respectively.

NAMIBIA FNB Namibia On financial ***performance*** alone, FNB Namibia is a worthy country award winner. The bank's net profits surged by 22% in 2016, matched closely by the increase to its Tier 1 capital at 20% and total asset growth, which came in at 15%. In addition, the bank's return on equity was relatively steady at 31%, while its cost-to-income ratio was 43%. All of this was achieved despite a range of economic headwinds buffeting the domestic economy and that of the wider region.

"The macroeconomic environment remained tough in the past 12 months, globally, in the rest of the sub-Saharan region and locally. A number of countries, including Namibia, had to deal with ongoing commodity price challenges, weakening government finances and drought conditions," says Sarel Van Zyl, chief executive of FNB Namibia.

But beyond the numbers, the judges were impressed with the bank's ambitious growth plans as well as its efforts to innovate in order to improve the customer experience. In recent times, FNB Namibia has acquired a 100% stake in local financial services groups Pointbreak and EBank, giving the lender additional reach in very different market segments. Pointbreak provides investment wealth management services to institutional, corporate and private clients, while EBank offers innovative inclusive banking services to underserved areas of the country.

The acquisition of EBank, in particular, will augment the bank's focus on digital banking and financial inclusion through the use of mobile phones. Existing EBank customers will now be offered the use of FNB Namibia's innovative e-wallet product.

The bank continues to support the country's wider development. "OurHoldings Foundation Trust has made significant progress in 2017 in advancing our priority areas of skills development, education and financial literacy, community and health development, and has invested more than N$11m [$792,000] [this past year]," says Mr Van Zyl.

NIGERIA Guaranty Trust Bank In one of the most competitive country categories in Africa, Guaranty Trust Bank has emerged as Nigeria's Bank of the Year. The bank's leadership team has reason to be pleased after presiding over an outstanding growth story amid a challenging domestic and regional operating environment. Over the 2016 review period, net profits surged by 37% while total assets and Tier 1 capital both grew by 23%. But in a sign of just how well Guaranty Trust Bank has performed, its return on equity increased to 28% from 25%, while its cost-to-income ratio fell to 40% from 44%.

"The year 2016 was particularly challenging given the weakness of the naira, depressed oil earnings and inadequate supply of foreign exchange, all of which culminated in the eventual slide of the Nigerian economy into recession. However, we played to our strength by leveraging technology to deliver superior payment solutions, grow our customer base and enhance our service delivery channels to make banking with us simpler, faster and better," says Segun Agbaje, chief executive of Guaranty Trust Bank Nigeria.

The bank's outstanding success in the e-payments space is an example of the role that market-beating innovations are playing in its longer term growth story. About 10% of Guaranty Trust Bank's 2016 profit before tax came from e-payment services, of which 'Bank 737', a USSD delivery channel, has played no small part. This service allows any Nigerian to open an account without a minimum balance requirement and to execute transfers and pay bills remotely. Since its launch, the service has gained 3 million customers and facilitated N1000bn ($2.77bn)-worth of transactions.

"We are transforming our organisation into a platform for enriching lives by positioning ourselves at the centre of an extended ecosystem that offers our stakeholders benefits beyond banking," says Mr Agbaje.

REPUBLIC OF THE CONGO United Bank for Africa Congo The impact of falling oil prices continues to hit the Republic of the Congo's economy hard. Annual gross domestic product growth contracted by 2.8% in 2016 as both the oil and non-oil sectors shrank over the period. The country's immediate outlook is not much brighter; the World Bank expects economic growth to average about 0.9% between 2017 and 2019. In this environment it is all the more impressive that our country winner, United Bank for Africa Congo (UBA Congo), has performed so well.

In local currency terms, the bank's Tier 1 capital increased by 22% in 2016, while its assets and net profits jumped by 3% and 44%, respectively. Meanwhile, the bank's return on equity hit 41%, marking a dramatic rise from the 22% recorded in 2014. UBA Congo's cost-to-income ratio has achieved a similar feat, falling from 70% in 2014 to 54% in 2016.

Much of this success is down to the bank's multi-pronged growth strategy, which includes offering a holistic set of products and services along the corporate value chain, next-generation banking for the middle-class retail market, customised payments to facilitate trade and partnering with telecoms companies to offer mobile money. Moreover, UBA Congo is the only lender in the country to have partnered with Visa to develop a prepaid card for both customers and non-customers. The card can be used at ATMs, points of sale and online to carry out transactions.

UBA Congo's commitment to financial inclusion also caught the attention of the judges, as the bank has identified the most excluded groups in society, including women, students, artistic professions and small traders, and developed capacity-raising initiatives around their specific needs.

RWANDA Bank of Kigali Over the past few years, Rwanda's Bank of Kigali has worked hard to strengthen its leading position in the country's banking market. By December 2016 the bank had a 33.9% market share of loans and advances and 35.3% of total system deposits, firmly placing it as the dominant player in the country.

For 2016 as a whole, Bank of Kigali's ***performance*** metrics were strong; net profits increased by 1.3%, while total assets and Tier 1 capital grew by 13.7% and 1.9%. The lender's return on equity, cost-to-income ratio and non-performing loans all remained relatively stable year on year, sitting at 20%, 47% and 4%, respectively.

Despite its dominant position in the market, this growth story has not been free of challenges. "A challenge worth noting has been the stiffer price competition in the industry as banks jostled for big money corporate entities, for deposits, and for other business opportunities, although we believe this benefits the customer more and encourages innovation on our side," says Dr Diane Karusisi, chief executive of Bank of Kigali.

In terms of its strategy, Bank of Kigali has decided to slow its regional expansion over the short term and instead dedicate more energy to the untapped potential in the Rwandan market. This includes growing the retail component of its domestic business through the introduction of innovative products and services, particularly in the microcredit space, and by making full use of digital banking capabilities.

"For us, 2018 is going to be customercentric, and to achieve that we are going to optimise our efficiency in serving customers through digitising our operations," says Ms Karusisi.

SENEGAL UBA Senegal Senegal has enjoyed something of an economic renaissance over the past few years. While many of its regional peers have struggled as a result of cooling commodity prices, the Senegalese economy has powered ahead to become one of the continent's best performing markets. Much of this success is down to the government's 'Plan Senegal Emergent' (PSE), enacted in 2014, which is designed to tackle low economic growth and sluggish poverty reduction. The result has seen economic growth accelerate to about 6.5% over the past two years with the ***agricultural*** and industrial sectors playing a key role in this ***performance***.

For the banks, this uptick in economic activity has been welcome news. The winner of our 2017 country award, UBA Senegal, is a case in point. Net profits at the bank grew by 12%, while total assets and Tier 1 capital increased by 42% and 22%, respectively. This strong year-on-year ***performance*** was accompanied by a return on equity of 27% and a cost-to-income ratio of 50%. Non-performing loans, meanwhile, were particularly healthy and remained below 1%.

The bank is increasingly looking to digital products and services to drive customer engagement and promote financial inclusion. The roll out of an e-commerce platform called Instant Bills, for example, permits customers to pay for goods and services and conduct other payments 24/7 online. In addition, UBA Senegal's U-Direct internet banking service is tailored to both corporate and retail users and affords them full account functionality on Android or iOS devices.

Meanwhile, UBA Senegal is positioning itself as the go-to bank for small and mediumsized enterprises in the country, particularly in the area of cross-border finance.

SIERRA LEONE Guaranty Trust Bank Sierra Leone Things are looking up for Sierra Leone. After rebounding from the twin challenges of an Ebola outbreak and a collapse in iron ore prices, the country registered gross domestic product growth of about 6.3% in 2016. Though the International Monetary Fund expects this figure to moderate somewhat in 2017, to 5.6%, it nevertheless anticipates a brighter medium-term outlook. For the country's banking sector, this bodes well.

Guaranty Trust Bank Sierra Leone, the winner of the 2017 country award, has shown that there are good profits to be made in the market. Net profits at the bank increased by 15% in 2016, as did total assets, which grew by 14%, and Tier 1 capital, which rose 20%. Meanwhile, the bank's return on equity was 49% and its cost-to-income ratio was 48%.

The bank's growth is attributable to its impressive innovations in the market. This includes offerings such as GT-Simpay which enables to interact and transact with their bank account using their mobile phones. Guaranty Trust Bank Sierra Leone has developed two platforms to deliver GT-Simpay. The first involves an overlay, essentially an ultra-thin SIM card, that is inserted alongside an existing SIM card. The second is through the bank's mobile app, which is an Android-enabled smartphone offering.

The judges were also impressed with Guaranty Trust Bank Sierra Leone's commitment to financial inclusion. This includes a financial literacy campaign and workshops on financial inclusion to assist those underserved by the financial services sector. In addition, the bank partners with various public institutions, including the central bank and government ministries, to promote financial inclusion initiatives in different regions and provinces of the country.

SOUTH AFRICA Standard Bank Standard Bank enjoyed a strong and steady year in 2016 despite facing a number of headwinds, both at home and across the wider African region. Net profits increased by 4% year on year while the lender's return on equity was 15.3%, which remained inside its target band of between 15% and 18%. Encouragingly, both its cost-to-income ratio and non-performing loan remained steady at 56% and 3.1%, respectively.

"In common with the industry as a whole, our biggest challenge remains the defence against cybercrime. As a South Africa-based bank with substantial businesses in the rest of the continent, we also had to deal with considerable currency volatility and increasingly difficult macroeconomic conditions in South Africa," says Sim Tshabalala, chief executive of Standard Bank.

Over the past 18 months, Standard Bank has continued to upgrade its core banking system, involving the simultaneous overhaul of both front-and back-office infrastructure across its regional footprint. At the time of writing, the completed upgrade was scheduled for completion by the end of 2017. "We made excellent progress in upgrading our systems and processes to improve customer experience and we have nearly completed a comprehensive IT upgrade," says Mr Tshabalala. Meanwhile, Standard Bank continued to invest and upgrade in its capabilities across the continent as part of a new continuous delivery model. This has contributed to the launch of a universal mobile banking app in Botswana, Ghana, Namibia, Swaziland, Uganda, Zambia and Zimbabwe.

"We remain firmly bullish about Africa. We expect [economic] growth to accelerate again to about 4% a year over the next two years and many countries - particularly those in east Africa - will continue to grow very fast indeed," says Mr Tshabalala.

SUDAN Omdurman National Bank Sudan's economic growth has been stable if not spectacular in recent years. The International Monetary Fund expects gross domestic product growth to hit 3.2% in 2017, a slight decrease from the 3.6% the country posted in 2016. But six years after the separation of South Sudan, the country continues to face an array of challenges, including difficulties in accessing external financing. Yet, the winner of the 2017 country award, Omdurman National Bank (ONB), has posted impressive growth figures despite these difficulties.

"Over the past few years, ONB has successfully overcome a number of challenges, the most important of which was the negative economic results of the separation of South Sudan and loss of oil resources," says Dr Abdel-Hamid Mohamed Jamil.Net profits increased by 21% over the 2016 review period, while total assets and Tier 1 capital grew by 11% and 16%, respectively. ONB's return on equity improved year on year to hit 29.7%, up from 27%, while its cost-to-income ratio continued to fall to 22.7% from 24.4%.

This stellar ***performance*** was, in part, helped by the installation of a new core banking system. The launch of this system has reduced waiting time for customers looking to secure new financing while making it cheaper and more effective for the bank to engage with its clients.

"ONB looks forward to continuing the development of banking technology, while striving to improve the quality of its services, its clients' loyalty, and its working environment. The bank is working to maintain its pioneering position in our sector and benefit from the available opportunities, such as the improvement in the political and economic environment as well as opportunities linked with geographic expansion," says Mr Jamil.

TANZANIA NMB Bank Plc Though Tanzania's economy was one of the fastest growing in Africa in 2016, expanding by about 7% according to the World Bank, by the end of the year and into early 2017 this growth had started to slow. For the banking sector, the impact of this incremental but downward shift in conditions has led to a higher degree of non-performing loans (NPLs).

"To a degree, economic growth has slowed and the private sector is struggling, which has made it difficult for companies to meet their loan obligations, thus increasing NPLs. NMB Bank plc has been fortunate in terms of its NPL rate, because it has a crosssection of public and private sector customers," says Ineke Bussemaker, chief executive of NMB Bank.

Indeed, NMB Bank's recent ***performance*** has been eye catching. The bank's net profits grew by 2% over the 2016 review period, while total assets and Tier 1 capital increased by 8% and 12%, respectively. The lender's return on equity and cost-to-income ratio remained healthy at 20% and 59%, respectively. These strong financials have been accompanied by the introduction of innovative products and services and an increase in the bank's footprint and distribution channels.

Today, NMB Bank has more than 190 branches and is present in 95% of the government's administrative districts, while 60% of all branch locations are in ***rural*** areas. In addition, the bank as more than 600 ATMs in the market, and its mobile offering, known as NMB Mobile, goes from strength to strength with more than 1 million registered users.

"Mobile and internet services have significantly increased financial inclusion, which, naturally, was not possible 10 to 15 years ago. With mobile banking and mobile services, however, there is a low-cost, scalable way to reach more people than ever before," says Ms Bussemaker.

TOGO Ecobank Unlike many of its west African peers, Togo's economy has achieved stable and robust growth in recent times. Over the past five years, gross domestic product growth has averaged about 5.5%, according to the World Bank. Driving much of this growth has been a well-structured public investment programme, as well as the strong ***performance*** of the ***agricultural*** sector, the extractive industries and trade. Cumulatively, this has been a source of good news for the country's banking sector. Ecobank, the winner of the 2017 country award, and a lender that dominates the country's financial services sector, is no exception.

After a deeply challenging ***performance*** in 2015, which largely reflects the travails of a lender that operates across the wider region, Ecobank posted strong numbers in the 2016 review period. Net profits rose by no less than 292%, while total assets grew by 17%. The bank's return on equity hit 54%, while its cost-to-income ratio remained steady at 67%.

In Togo, the bank has leveraged its unique resources and expertise to achieve strong growth. This includes the bank's peerless ATM network, which currently numbers 77 nationwide, as well as the launch of its mobile app which has more than 40,000 clients in the country. Indeed, Ecobank's smartphone app allows customers to create an account online.

Looking ahead, the bank will soon adopt cardless payment technology that will enable customers to cash out at ATMs or sub-agent outlets. In addition, Ecobank will start an agency banking model in the country that will allow customers to cash in and cash out quickly and securely at a location that is convenient for them.

TUNISIA Attijari Bank Though Tunisia's economic growth has slowly improved in the years following the country's revolution, it remains sub-optimal. The International Monetary Fund expects gross domestic product growth of about 3.2% in 2017, down from the 3.5% registered in 2016. For the banks, this environment has had a tangible impact on their growth prospects, even if the winner of this year's country award, Attijari Bank, exhibited outstanding numbers by most key ***performance*** metrics.

"The Tunisian economic transition is still giving cause for concern, a situation that has had repercussions on almost all sectors. In spite of the difficult financial environment, 2017 was a key year for us, during which our new ***strategic*** plan was launched," says Hicham Seffa, chief executive of Attijari Bank.

The lender's net profits grew by 17.5% in 2016, while its total assets and Tier 1 capital increased by 13.6% and 10.8%, respectively. More impressively still, Attijari Bank's return on equity improved over the period by hitting 28%, up from the 26% it registered in 2015. Underscoring this amelioration was a reduction in the bank's cost-to-income ratio, which dropped to 50% from 54%.

In 2016 the bank launched its new strategy titled 'Excellence 2020'. As a feature of this strategy, the bank has worked to optimise the credit process by reducing the time it takes for retail clients to receive funds. This has lowered the waiting time from eight days to one day for personal loans and from 27 days to five days for mortgages.

"Attijari Bank will continue to fulfil its role as a driving force to the economic recovery by supporting different actors and financing structuring investments, says Mr Seffa.

UGANDA Ecobank Uganda Uganda's fortunes have taken a turn for the worse in recent years. While economic growth has ticked along at a relatively respectable pace, the economy has nonetheless performed below its potential. In the five years to 2016, average growth was about 4.5% according to the World Bank, compared with 7% in the early 2000s. Poor weather conditions, political volatility in neighbouring countries and private sector credit constraints have all conspired to dent Uganda's immediate economic fortunes.

But in the banking sector, good news stories have emerged and the 2017 country award winner, Ecobank Uganda, is the prime example. The bank's net profits surged by 206% over the 2016 review period while its Tier 1 capital grew by 6%. In addition, the lender was able to halve its level of non-performing loans (NPLs), which came in at 5.5% at the end of 2016, down from 10.2%.

"In 2016, we were faced with macroeconomic challenges, with the economy growing at about 3.4% and the banking industry experiencing the highest asset quality deterioration with the industry NPL standing at more than 10%. Coupled with that, the real estate market also plateaued, thereby slowing down private sector lending," says Clement Dodoo, managing director of Ecobank Uganda.

In the financial inclusion arena, the bank received regulatory approval to launch its Xpress Account, which uses standard mobile phones to permit customers to open accounts with the bank by using their phone number as the account number.

"Partnering with the telecoms and fintech companies will be an opportunity to extend our services to more persons who are currently unbanked," says Mr Dodoo.

ZAMBIA Stanbic Bank Zambia Recent years have not been easy for Zambia. The country has endured a decrease in copper output accompanied by a lower global price environment, electricity rationing and the depreciation of the Zambian kwacha, among other challenges. In 2015, the country's economy grew at its slowest rate since 1988 by registering just 2.9% gross domestic product growth for the year. But times are changing. According to the World Bank, the Zambian economy grew by 3.4% in 2016, while it is expected to increase further to 4.1% for 2017.

In this fast-changing environment, only the most innovative and customer-centric banks can prosper. And this is why Stanbic Bank Zambia has scooped the country award.

In September 2016, the bank officially upgraded its core banking system to Finacle, as part of its parent group's region-wide upgrade, drastically improving its ability to effectively serve its client base. With a total investment cost of $25m, the new system has already delivered significant and positive change to the bank's in-country operations. This includes an improved internet banking platform, automated account processes, a new accounts opening process and a worldclass mobile banking app.

Meanwhile, Stanbic Bank Zambia has become the first lender in the country to provide a dedicated banking package for women. Known as Anakazi Banking, the offering was designed and launched in partnership with the Global Banking Alliance for Women, meaning that it was devised by women for women. Since its launch, more than 1000 women have signed up for Anakazi Banking. A further 100 women have signed up for the Women in Business programmes run by the bank.

ZIMBABWE Standard Chartered Bank Zimbabwe Zimbabwe is a difficult place to do banking. Economic growth in 2016 was anaemic, at just 0.7% as the country battled back from the effects of an El Nino-related drought. Even though the financial sector has struggled in these conditions, Standard Chartered Bank Zimbabwe has emerged as the winner of this year's country award based on its overall resilience and its ability to continuously innovate in order to provide the best possible customer service.

"Standard Chartered Bank Zimbabwe continues to cement its more than 125-year history by supporting its customers and staff. We continue to play a key role in supporting critical sectors of the economy, notably the tobacco sector, which remains the leading generator of foreign currency. As a key player in the banking sector, we have helped industry and individual customers better manage the foreign currency and cash shortages," says Ralph Watungwa, CEO of Standard Chartered Bank Zimbabwe.

The bank has played a crucial role in supporting the country's corporate community in 2016. Throughout the year, it delivered $458m-worth of support to key sectors including ***agriculture***, commerce, manufacturing and commodities. In addition, the bank started catering to new business segments, including medium-market enterprises and high value small businesses, to provide expert assistance to an important component of the national economy.

And looking ahead, despite the challenges, Standard Chartered Bank Zimbabwe sees substantial opportunity for growth. "The bank seeks to cement its digital platforms and to lead the market in terms of compliance. We also see opportunities in ***agriculture***, where we can work with various value chains to create real value for our customers. Support for the mining sector will be key as this is a key source of the much-needed foreign currency," says Mr Watungwa.

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**Graphic**

Antonio Coutinho, chief executive, Standard Bank AngolaRamz Hamzaoui, chief executive, Citibank AlgeriaFaustin Amoussou, managing director, Bank of Africa BeninSteven Lefentse Bogatsu, chief executive, FNB BotswanaOliver Meisenberg, chief executive, TMBJacky Kayiteshonga, country managing director, Exim Bank DjiboutiManuel Osa Nsue Nsua, chief executive, BNEGJosephine Anan-Ankomah, managing director, Ecobank GambiaHenry Oroh, managing director and chief executive, Zenith Bank GhanaAlain Law Min, chief executive, MCBJosé Reino da Costa, vice-chairman and CEO, Millennium bimOthman Benjelloun, chairman and chief executive, BMCE Bank of AfricaSarel Van Zyl, chief executive, FNB NamibiaSegun Agbaje, chief executive, Guaranty Trust Bank NigeriaDiane Karusisi, chief executive, Bank of KigaliIneke Bussemaker, chief executive, NMB Bank PlcHicham Seffa, chief executive, Attijari BankClement Dodoo, managing director, Ecobank UgandaRalph Watungwa, CEO, Standard Chartered Bank Zimbabwe

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**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing September 2017 EPRS | European Parliamentary Research Service Author: Vasilis Margaras Members' Research Service PE 608.723 EN Harnessing globalisation for local and regional authorities Challenges and possible solutions SUMMARY Globalisation has various positive and negative aspects. On the positive side, economic opportunities can emerge. Exports may flourish, companies may find new global customers, knowledge may be easily circulated, and trade may pick up, thus stimulating economic growth. Interaction through new technological instruments helps to interconnect people in different parts of the world. However, globalisation may also have disadvantages.

For instance, various EU industries (e.g coal, steel, iron, shipbuilding, automotive and textiles) have been affected by global competition, and have had to downsize their activities. Cheap imports of non-EU manufacturing goods have led to the decline of various EU industrial sectors, but also to relocations, closures and redundancies. In addition, globalisation has an environmental, demographic, technological and cultural dimension. The impact of globalisation therefore affects the activities and development of regional and local entities within the EU. In order to address all these issues, the European Commission has presented a reflection paper on harnessing globalisation. This briefing addresses some of the most important challenges that globalisation brings to EU regions, and sets out ideas that may be useful in tackling these challenges. Harnessing globalisation requires a holistic approach. European, national and local synergies will have to be established to address the multi-layered challenges stemming from globalisation. Serious thinking will have to be done on how to empower local and regional authorities in order to address these challenges successfully. In this briefing:  Introduction  Mapping the impact of globalisation in EU regions  Challenges of globalisation  Possible solutions to challenges  The view of the European Parliament  Advisory bodies and stakeholders  Outlook EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 2 of 12 Introduction Globalisation is an ongoing process that leads to continuous and increasing interaction on many aspects of human life and to a growing interdependence among all parts of our planet. It has a considerable impact on the economy, society, technology, demography and the environment. However, its impact is not always easily measurable, as it is a product of different factors that are closely interwoven and exercise their impact simultaneously. Globalisation may bring a number of opportunities to EU regions through an increase in exchange of goods and services, exports of products, intercultural and educational exchanges and a boost in tourism. Economic opportunities may emerge for producers, consumers, the workforce and entrepreneurs, all of whom are in a position to exploit global markets. Regions that are well connected to global 'chain' networks will have the chance to explore more opportunities. However, globalisation may also lead to a number of challenges, such as business relocations, job losses, unfair trade competition, pollution, increase of migration and cultural homogenisation. All these can have a detrimental impact on local and regional authorities (LRAs). Nevertheless, globalisation is not the only factor to blame for this outcome as, according to the 2017 OECD Economic Outlook, global losses in the manufacturing sector are the result of multiple forces, including shifts in preferences of consumers, technical progress and increasing reliance on services inputs in industry and trade. The European Commission has recently contributed to the debate on the impact of globalisation with its Reflection paper on harnessing globalisation, presented in July 2017 as part of a series of papers on the future of Europe. In this paper, the European Commission proposed a new set of actions to be launched in autumn 2017, to further help Europe's regions invest in their areas of competitive strength ('smart specialisation') and generate the innovation, resilience and growth needed. This would be done through two pilot projects: tailored support for the specific challenges of regions facing industrial transition and interregional innovation partnerships supported by EU funds. In addition, the Commission will consider stronger linkages between existing EU instruments with the common objective of responding to new industrial challenges. The Commission suggests that smart specialisation could be scaled up to help all regions take advantage of the changes brought by globalisation. Mapping the impact of globalisation in EU regions In 2009, a Commission background document presented a Globalisation Vulnerability Index consisting of five key ***indicators*** available at the regional level, with projections to the year 2020: productivity growth, employment and unemployment rate, high and low educational attainment. The document offers a map of the EU where the deeper the blue colour, the larger the vulnerability of each region is (see Figure 1). Many regions in the north-western periphery of the EU appear to be in a rather favourable position. They are predominantly located in Finland, Sweden, Denmark, the UK and Ireland. They are expected to benefit from a workforce with a high level of educational attainment, a high level of employment, a high share of employment in advanced sectors and an elevated level of labour productivity. In contrast, many regions located in the southern and eastern parts of the EU appear to be much more exposed to the challenge of globalisation. This is predominantly due to the relatively large share of low-value-added activities in these regions and the low qualification level of their workforce, which may lead to difficulties in attracting investment and creating/maintaining jobs. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 3 of 12 At the sub-national level, the Commission document reveals that, in many Member States, regions with major urban centres and metropolitan areas should be relatively well placed to respond to the challenges linked to globalisation. These areas tend to benefit from a large share of highly educated residents, dynamic sectors and leading-edge economic activities. Yet, the concentration of economic activities in agglomerations may bring negative consequences (such as congestion, urban sprawl, drain of natural resources) and may also lead to underutilised economic potential elsewhere. The document comes to the conclusion that Europe must increase productivity, invest more in R&D and new technologies, and draw on its ability to compete in products and services with a high knowledge content. The Commission's 2016 Regional Competitiveness Index (RCI) tends to confirm the above-mentioned regional variations. The index is based on 74 ***indicators*** grouped in 11 pillars corresponding to various aspects of regional competitiveness, such as innovation, infrastructure, human capital and governance. Regional competitiveness is defined as the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work. The RCI shows that regions (Figure 2) in the northern and northwestern parts of Europe tend to score better (light/dark green colour in the figure). Regions in light/dark purple tend to score lower. These are mostly located in the eastern and southern part of the EU. Although metropolitan cities and urban areas tend to do generally well, this trend does not necessarily get repeated in each EU city. As an ESPON study suggests: '... while global networks are certainly important for a few global cities, we do not know the exact impact of improving connectivity for others. ... Hence, policies that focus on improving cities' position in global networks are highly problematic because of both the difficulty to impact on this structural feature (path dependence) and the uncertain impact it will have on economic competitiveness for the city as a whole'. The study concludes that, although cities should not be ignored, an exclusive focus on metropolitan areas as motors of growth is likely to increase the vulnerability of weaker regions. In addition, the same study claims that the idea that the wealth of major European and national cities will automatically benefit non-metropolitan territories is not empirically proven. Therefore, a more comprehensive approach to territorial investment is necessary. Figure 1 – Globalisation Vulnerability Index 2020 Source: European Commission, 2009. Figure 2 - Regional Competitiveness Index Source: European Commission, 2016. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 4 of 12 Challenges of globalisation A number of varied challenges stemming from – or being reinforced by – globalisation may have an impact on European LRAs. Some of the most prominent challenges are analysed below. Economic challenges Global economic competition affects EU regions in a variety of ways. Economic growth from global activities, such as trade, is not evenly distributed. It is mostly concentrated in regions that can withstand higher competition and attract new economic activities. The share of manufacturing in employment has continued to decline, although the extent varies amongst EU countries. The consequences are tough for the regions that are losing out. According to a 2014 Commission memo on progress in industrial competitiveness, 3.5 million jobs have been lost in manufacturing since 2008, with some countries being particularly strongly hit (see Figure 3). In addition, investment dynamics have been slowed by decreasing demand and reduced credit availability. The share of manufacturing in the EU gross value added diminished from 15.8 % in 2008 to 15.1 % in 2013, against an EU target of 20 % set for 2020 by the European Commission. Routine jobs, which are undertaken by middle-skilled workers, are more likely to be lost through technological automatisation. A 2016 Eurofound study claims that three manufacturing sectors account for 60 % of offshoring job losses: production of motor vehicles, electronics and electrical products such as domestic appliances. Still, the study suggests that the construction and manufacturing sectors have begun to stabilise or grow modestly. Nevertheless, the loss of jobs in manufacturing is significant for the broader state of the economy for a number of reasons. In its 2013 Competitiveness Report, the Commission claims that 'a declining manufacturing share erodes the knowledge and technology base of the whole economy, which is crucial for achieving sustainable development'. In addition, it also states that manufacturing has strong spill-over effects on the rest of the economy: 'each euro of added final demand in manufacturing generates around 50 cent[s] of additional final demand in other sectors of the economy'. On the contrary, various other service sectors have expanded and are expected to do well in the future. The Eurofound study claims that the fields of education, health, legal, computing/information technology, accounting, engineering, management consultancy and administrative services (employment, security, travel and building maintenance) are job-growing sectors. These tended to grow even during the major economic crisis of 2008-2013, and their growth has accelerated even more since then. In addition, a 2017 OECD study suggests that job dislocation linked to service imports may be less severe than for manufacturing, as advanced economies retain a competitive edge in providing sophisticated services. Figure 3 – Job losses in the EU Member States' manufacturing sector (2007-2012, thousands) Source: European Commission, 2014. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 5 of 12 When it comes to the regional level, many areas in Europe have been severely affected by industrial decline. In these areas, jobs that are displaced/dismantled due to closures and relocation of industries are not always compensated by new jobs. In addition, displaced workers do not necessarily have the skills to take up emerging jobs. Regions that do not succeed to keep businesses or attract new economic activities have experienced high unemployment and outflows of workers leading to a loss of skills, residents and, consequently, to rapid population ageing. Furthermore, decline in economic activity generates job losses in a wider regional scale, a reduction of real wages for unskilled jobs and further social inequality and marginalisation. Regional concentration of manufacturing employment means that sector-specific shocks to manufacturing may have a substantial regional impact. However, globalisation does not only affect industrial areas and cities that have experienced industrial decline. The import of cheap food products and the volatility of ***agricultural*** goods' prices also have an impact on areas that depend on ***agriculture***. According to the 2017 OECD study, many ***rural*** areas 'appear less diversified and tend to specialise in primary goods and low-quality manufacturing, which have been hardest hit by trade shocks'. In addition, according to the same study, workers in ***rural*** areas tend to be lower-educated than in urban areas, and therefore have greater difficulty in finding alternative employment. Other issues that have been intensified by the economic aspects of globalisation may pose other challenges. Popular dissatisfaction with economic decline may lead to a wave of populism. The growing levels of unemployment and poverty may result in political radicalisation, social marginalisation and apathy. The taking over of towns and urban centres by big enterprise chains may lead to a loss of regional and local characteristics. The long and expensive road to regeneration It usually takes a long time for industrial regions to recover. De-industrialised areas often face the challenge of turning over-sized derelict buildings and polluted sites into revitalised spaces of economic creativity. Various tasks, such as land reclamation, decontamination and building of innovative infrastructure, cannot be undertaken only locally and may require national and European support. Furthermore, regenerating a region requires a multi-faceted strategy. This implies dedicated long-term cooperation of multiple players and actors holding various competencies. This is not an easy task to accomplish as it requires considerable coordination and persistence as well as generous financial support. The physical regeneration of land and infrastructure may prove quite a costly procedure. In addition, it has to be complemented with investment in human capital to allow the local workforce to adapt its skills and acquire new ones. This process may take a long time to bear fruit. According to a 2009 OECD study on regional growth, 'infrastructure and human capital require three years to positively influence regional growth, while innovation is a longer-term process, having a positive effect on regional growth only after a five-year period'. Environmental issues Pollution is not always confined within country borders. Global warming is a characteristic example of an environmental problem that affects all regions. Climate change may pose new dangers to various communities due to rising sea levels and the destruction of local flora and fauna. In this respect, the EU has set a number of ambitious environmental targets that require radical change in attitudes and in production modes. At European level, a comprehensive package of policy measures to reduce greenhouse gas emissions has been initiated through the European Climate Change Programme (ECCP), and this EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 6 of 12 move has brought positive results. Nevertheless, a 2017 study claims that weatherrelated disasters could still affect about two-thirds of the European population annually by the year 2100 during the 2071–2100 period, compared with 5 % during the reference period (1981–2010). The impact will be severe in southern Europe (see Figure 4). Notwithstanding its efforts, the EU is still far away from achieving all its environmental standards: the 2008 Waste Framework Directive introduced a new 50 % recycling target for waste. According to a 2013 European Environment Agency report, although there are clear indications of a shift away from landfilling towards preferred waste management approaches, only a few countries reduced their municipal waste output between 2001 and 2010. The majority of countries still landfilled more than half of their municipal waste in 2010. In addition, according to Eurostat, the amount of municipal waste generated per person in the EU in 2015 amounted to 477 kg, down 9 % compared with its peak of 527 kg per person in 2002, but slightly up, for the first time since 2007, from the 474 kg recorded in 2014. Demography and immigration Job losses and the scaling-down of economic activity have a negative impact on population numbers as certain industrial and ***rural*** regions stagnate. Their younger residents tend to abandon them in search of better professional prospects. According to official Eurostat data, there has been a population decline across the Baltic States, Bulgaria, Romania, most of eastern Germany, Slovakia and Croatia, but also southern Italy, parts of Spain, inner parts of France and some northern Nordic regions. Countries such as Greece, Spain and Portugal have also seen their populations shrink as a result of migration caused by economic recession. On the other hand, increasing immigration towards Europe has been recorded in the last couple of years; this can have a positive impact on income per capita if immigrants get well-integrated into the labour market. However, if this is not the case, issues of segregation/division of local societies may arise. Overall, most immigrants who come to Europe have low skills. A 2012 ESPON study claims that one of the major issues for Europe is to attract highly qualified labour. However, the EU is not doing well in recruiting such persons. Furthermore, immigration to the EU is affecting parts of it disproportionately. Certain EU Member States and regions feel the impact of immigration more than others. They will have to make the necessary investments in order to ensure the successful integration of immigrants into society. Eurostat claims that in 2016, compared with the existing population of each Member State, the highest number of registered first-time applicants was recorded in Germany (8 789 first-time applicants per million inhabitants), ahead of Greece (4 625), Austria (4 587), Malta (3 989), Luxembourg (3 582) and Cyprus (3 350). In contrast, the lowest numbers were observed in Slovakia (18 applicants per million inhabitants), Portugal (69), Romania (94), the Czech Republic and Estonia (both 114). Figure 4 – Relative change in the number of people exposed to weather-related hazards Data source: Forzieri et al, 2017. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 7 of 12 Possible solutions to challenges There is no 'one size fits all' strategy to address challenges stemming from globalisation. However, various actions may help to mitigate its impact. A 2009 OECD study on how regions grow observes: 'policies can benefit from an integrated approach: policies aiming at providing infrastructure only are bound to be unsuccessful as endogenous growth factors such as human capital and innovation need also to be taken into account'. Providing adequate strategies for all types of EU areas Finding the right tools to address issues in all EU areas is important, as not all EU regions have the same needs. A 2017 study, Towards Cohesion Policy 4.0, groups regions into 'global frontiers' 'intermediate regions' and 'lagging ones', on the basis of their productivity ***performance***, and makes recommendations for each of them. For instance, the study suggests that global frontier regions should implement crucial structural and regulatory reforms, focus on the implementation of excellence-based instruments, such as Horizon 2020, and increase capacity to manage inclusion (through, for instance, addressing the issues of polarised labour markets and inclusion of immigrants). Intermediate regions should adopt strategies that would transform them into leading creators of distinct value within the global networks. Lagging regions, on the other hand, should implement strategies aiming to develop regional innovation ecosystems. When it comes to ***rural*** areas, expanding ***agricultural*** economy into new forms of activity may provide another possibility for them to grow. The reflection paper on harnessing globalisation also mentions that a modern common ***agricultural*** policy plays a key role in encouraging competitiveness in the agri-food sector and ensuring successful integration in international markets by promoting high standards. Strengthening digitalisation in order to address the digital gap between remote ***rural*** and busy urban areas can also help lagging ***rural*** regions to catch up. Other ideas on enhancing the links between ***rural*** and urban areas can also be explored. Innovation – smart specialisation The reflection paper on harnessing globalisation makes various recommendations for increasing local and regional resilience to globalisation, one such being to invest in innovation. It expects that the data economy will increase to €739 billion by 2020, representing 4 % of overall EU GDP. However, it also suggests that the divide between more and less technologically advanced regions risks widening, unless governments invest in education, equip their citizens with the right skills, encourage innovation, ensure fair competition and regulate smartly. A 2015 Centre for Cities study on UK cities also confirms the importance of innovation by claiming: 'Our weakest performing cities have struggled not because of the inevitable decline of manufacturing employment, but because of their inability to support jobs growth in new, more knowledge-focused industries'. Setting up smart specialisation strategies may be an added value, as these can be combined with the activities of the local industries. Regulation (EU) No 1303/2013 specifies that a smart specialisation strategy: 'means the national or regional innovation strategies which set priorities in order to build competitive advantage by developing and matching research and innovation own strengths to business needs in order to address emerging opportunities and market developments in a coherent manner, while avoiding duplication and fragmentation of efforts; a smart specialisation strategy may take the form of, or be included in, a national or regional research and innovation (R&I) ***strategic*** policy framework'. According to the Joint Research Centre (JRC), smart specialisation EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 8 of 12 builds on the assets and resources available to regions and Member States and on their specific socio-economic challenges in order to identify unique opportunities for development and growth. Regeneration – diversification and expansion of economic activities Although regeneration is not always an easy task, various successful regeneration projects have contributed positively to areas having suffered from job losses and industry closures. Declining heavy industries have been dealt with by adopting new innovative projects with a direct impact on re-shaping the areas they were in. As a result, industrial areas became greener, old industrial sites were decontaminated and derelict factory infrastructures were turned into museums and cultural centres. Investment in industrial patrimony that has an added value for tourism can also be seen as an opportunity. Various LRAs have tried to address pressures from de-industrialisation and global competition by investing in high-quality sustainable infrastructure. Emphasis has been given to promoting Industry 4.0 activities, ICT, technology and tertiary education, as well as cluster and incubator centres. Investing in city-centre refurbishment, creative industries, new forms of transport and health is also seen as a priority. Addressing issues of sustainable transport and housing through spatial planning may also constitute another opportunity for regions desiring to rebrand themselves. Making efforts to diversify economic activities and uniting economic activities in clusters may constitute an alternative to declining industries. It is important to encourage a variety of actions in order to build upon competences available in the region. Regions relying on a small number of industries are very vulnerable, if these industries face a severe crisis. According to a 2013 study for the European Parliament, 'industrial policy has been most successful when strongly linked to demand and in support of light-house projects that can act as a focus for further public and private investment'. Therefore, a diversified economy that combines well-performing industrial and service sectors with a favourable business environment is the best basis for sustainable growth. The new EU Industrial Policy Strategy that was presented in September 2017 by the Commission includes various measures, such as a comprehensive package to reinforce industry cybersecurity. New proposals for clean, competitive and connected mobility, such as tightened CO2 emissions standards for cars and vans, an Alternative Fuels Infrastructure Action Plan to support the deployment of charging infrastructure, and actions to foster autonomous driving are also part of the strategy. The extension of the EU Skills Agenda to new key industry sectors, such as construction, steel, paper, green technologies and renewable energies, manufacturing and maritime shipping constitutes yet another of its priorities. The declared European framework for the screening of foreign direct investments that may pose a threat to security or public order can also have an impact when it comes to protecting various EU-based industries. Enhancing cooperation with local actors to internationalise economic activity and promote training Working closer with local industries and addressing their needs may be another priority. Start-ups and innovators in the EU regions can be brought into collaborations with leading players so that they can enter global value chains. Setting up transnational innovation clusters, linking up companies, universities, start-ups, investors and local governments together may also have positive results. Nevertheless, SMEs may need support to internationalise their activities, as they do not have the necessary resources. This may also be the case when it comes to training their employees. According to the June 2017 EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 9 of 12 OECD Economic Outlook, low-skilled workers tend to participate less in life-long learning programmes, and workers in SMEs tend to have lower cognitive skills than their peers in larger firms, which makes it more difficult for SMEs to meet the hiring standards of exporting firms. Nevertheless, certain sectors of the economy are in vital need of training. For instance, according to the 2017 Europe's Digital Progress Report, 90 % of all jobs require some level of digital skills. Therefore, when it comes to addressing the issue of diverging market needs, LRAs can provide assistance to local companies by providing lifelong learning and labour retraining activities that are fitted to local needs. Addressing environmental challenges The reflection paper on harnessing globalisation emphasises the need 'to further strengthen the European transition towards a digital, decarbonised and more circular European economy'. The global deterioration of the climate will also have an impact on the number of natural disasters that affect EU territories. Physical-disasters management will be an area in which LRAs will be called to assume a more active role. In this respect, the Commission adopted an EU adaptation strategy in April 2013. Adaptation means anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause, or taking advantage of opportunities that may arise. Due to the varying severity and nature of climate impacts between regions in Europe, most adaptation initiatives will be taken at the regional or local level. Improving waste management could also deliver positive effects for the economy. As part of a shift towards a circular economy, the Commission has made four legislative proposals that introduce new waste-management targets regarding reuse, recycling and landfilling, strengthening provisions on waste prevention and extended producer responsibility. Furthermore, they streamline the relevant definitions and the reporting obligations/calculation methods for the targets. Much of this legislation will affect the way LRAs collect and process waste. Networks of cities and regions are already working together to learn from each other and to exchange good positive examples in this regard. Moreover, various local/regional level initiatives are promoting environmental causes such as the Covenant of Mayors for Climate and Energy. Promoting local diversity Investing in a local or regional identity by promoting its special characteristics may provide an added value for LRAs. Promoting local culture can bring new opportunities for growth and foster a feeling of community belonging. An upgrade of cultural and heritage facilities may also have a positive impact in the development of tourism, which constitutes one of the main growing industries in the EU. Fair-trade demand, local food chains and the growing value of local products could provide additional opportunities for activities that foster regional/local identities and contribute to economic growth. Tackling demographic challenges Areas that are affected by demographic issues explore a number of ways of keeping their population and enhancing its opportunities in life. For instance, by investing in childcare facilities, LRAs can try to attract young families. Teleworking, promoting work-life balance and enhancing job opportunities for people with reduced mobility may also help to encourage sections of the population to remain professionally active and to attract a younger population. In this respect, synergies with the private sector and the adoption of new technologies may help. The successful integration of migrants into society may be another possible solution. Issues of immigration and depopulation may also be of EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 10 of 12 importance to cross-border areas, which may explore opportunities for cross-border cooperation with other neighbouring territories. Drawing inspiration from positive examples LRAs may draw inspiration from various projects and practices that suit their needs. For instance, when it comes to long-term employment, the 2017 OECD Economic Outlook claims that the Swedish system provides advice and counselling to workers well in advance of layoffs. This has had a positive result, allowing 85 % of displaced workers to find a new job within a year. The outcome can be explained by a long-standing tradition of collaboration between the social partners. A 2014 European Policy Centre study claims that countries like Austria and Germany have a positive tradition in providing apprenticeships that combine both formal education and work-based training and lead to a high percentage of inclusion of youth into the labour market. When it comes to regeneration, a Euro

pean Parliament study on regional strategies for industrial areas also suggests successful strategies for industrial areas on the basis of the policies carried out in Manchester, Essen, Lille and Bilbao. Another Parliament study on industrial heritage and agri/***rural*** tourism in Europe includes valuable recommendations when it comes to developing this particular sector. An Interreg guide on Boosting the regeneration process of Europe's coalfield regions contains considerable points of reference for carrying out successful projects in this regard. Funding sources According to a Parliament study, the reconversion of old-industrialised areas has slipped into the list of EU policy priorities. The same study also suggests that focus on regional investments has gradually shifted from industrial regions to other areas that may offer more stable growth prospects. Nevertheless, a number of EU funds exist that can help EU regions to tackle issues stemming from globalisation, most notably the European structural and investment funds (ESI funds). For instance, the European Regional Development Fund (ERDF) promotes balanced development across the EU regions. The European Social Fund (ESF) supports employment-related projects throughout Europe and invests in Europe's human capital. The Cohesion Fund (CF) finances transport and environmental projects in countries where the gross national income per inhabitant is less than 90 % of the EU average. The European ***Agricultural*** Fund for ***Rural*** Development (EAFRD) focuses on resolving the particular challenges facing EU ***rural*** areas, whereas the European Maritime and Fisheries Fund (EMFF) helps fishermen to adopt sustainable fishing practices and coastal communities to diversify their economies. Other EU instruments can help regions to empower themselves by investing in research activities through universities and research institutes (Horizon 2020). The Creative Europe programme may benefit culture-related activities. Interreg programmes may help to connect cross-border regions that face similar challenges. The Asylum, Migration and Integration Fund (AMIF) may help to alleviate migration pressures. The European Globalisation Adjustment Fund (EGF) provides support to people losing their jobs as a result of major structural changes in world trade patterns due to globalisation, for instance, when a large company shuts down or production is moved outside the EU, or as a result of the global economic and financial crisis. The European Investment Bank provides a variety of opportunities for lending that may be used in order to spur investment. The European Fund for ***Strategic*** Investments (EFSI) may also support major investment projects and SMEs. To facilitate access to EU funding for LRAs and other beneficiaries, EPRS has prepared a Guide to EU Funding for 2014-2020, covering major sources of EU funding by relevant sector. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 11 of 12 The view of the European Parliament The European Parliament has adopted a number of resolutions on issues related to the economic impact of globalisation. In its 2011 resolution (2010/2095(INI)) on An Industrial Policy for a Globalised Era (rapporteur: Bernd Lange, S&D, Germany), the Parliament, amongst other things, urged the Commission to place greater emphasis on industrial renewal, competitiveness and sustainability. It called for ambitious funding for industrial policy and infrastructure facilities. It also considered that competitive clusters and innovation networks and linkages among businesses themselves and with other players (value-added chains, synergies) are essential to investment decisions. In its 2013 resolution (2012/2100(INI)) on Regional strategies for industrial areas in the European Union (rapporteur: Jens Geier, S&D, Germany), the Parliament drew attention to the existing resources made available through cohesion policy and the structural funds. It regretted that these options do not always address the real region-specific problems and that the structural and investment funding made available is not fully taken up by Member States and regions. It pointed out that further aid measures to assist old industrialised regions, particularly mono-industrialised regions, need to be put in place, and called for more integrated and systemic approaches to industrial renewal and regional development. Parliament's 2014 resolution (2013/2006 (INI)) on Reindustrialising Europe to promote competitiveness and sustainability (rapporteur: Reinhard Bütikofer, Greens/EFA, Germany), stressed that the EU's future industrial strength and importance lie in a Renaissance of Industry for a Sustainable Europe (RISE) strategy, which pursues technological, business, financial, environmental and social innovation towards a third industrial revolution (RIS3) including an efficiency strategy that reindustrialises Europe, strengthens European industry as a whole and acts as a response to rising social challenges. In its 2016 resolution (2015/2278(INI)) on Cohesion policy and Research and Innovation Strategies for Smart Specialisation (rapporteur: Ramón Luis Valcárcel Siso, EPP, Spain), the Parliament underlined that smart specialisation strategies support thematic concentration and ***strategic*** programming of ESI Funds, and called on all entities involved to develop RIS3 on the basis of analyses of each region's existing capabilities, assets and competences, and to focus on entrepreneurial discovery in order to detect emerging niches or comparative advantages for smart specialisation. The view of advisory bodies and stakeholders The European Committee of the Regions (CoR) is preparing an opinion on a European strategy for industry as well as an opinion on the Commission's paper on harnessing globalisation. It held a workshop on the future of industry in Europe in 2017, where a report on the same topic was presented, summing up key challenges and possible policy responses by LRAs. The role of smart specialisation strategies was explored in two recent CoR opinions, respectively dealing with measures to support the creation of high-tech start-up ecosystems (2014) and closing the innovation divide (2013). In its resolution on Anticipating change and restructuring, the European Trade Union Confederation (ETUC) mentions the key role of training, maintaining and creating jobs and giving workers a voice and place in ***strategic*** decisions. EPRS Harnessing globalisation for regions and local authorities Members' Research Service Page 12 of 12 Outlook No single actor at the European, national or local level can tackle the multiple challenges stemming from globalisation on its own. Nevertheless, the EU and its Member States can experiment with various policy initiatives in order to ensure that the benefits of globalisation are distributed evenly and that the negative impacts of it are mitigated. As the impact of globalisation touches upon many aspects of human activity, multifaceted strategies may tackle the variety of challenges that stem from it. In this respect, the role of local and regional authorities is crucial. LRAs, in cooperation with other relevant actors, will have to foresee, prepare and take relevant actions in order to empower their populations against the negative aspects of globalisation. EPRS publications that address regional issues related to globalisation The regions in the Digital Single Market - ICT and digital opportunities for regions and cities (2015) Smart specialisation: The concept and its application to EU cohesion policy (2016) Delivering the Urban Agenda for the EU (2017) Industry 4.0 Digitalisation for productivity and growth (2015) Ten more technologies which could change our lives (2017) EU port cities and port area regeneration (2017) Circular economy package – Four legislative proposals on waste (2017) The impact of globalisation (2016) Reflection paper on harnessing globalisation (2017) Main references Dhéret, C., Morosi, M et al, Towards a New Industrial Policy for Europe, EPC Issue Paper No 78, 2014. ESPON, Territorial Impact of Globalisation for Europe and its Regions, 2012. European Committee of the Regions, The future of industry in Europe, 2017. Swinney, P. and Thomas, E., A century of cities, Centre for Cities, 2015. 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[***P8\_TA(2015)0402 Cohesion policy and marginalised communities European Parliament resolution of 24 November 2015 on cohesion policy and marginalised communities (2014/2247(INI))***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PX3-MST1-JDG9-Y27W-00000-00&context=1516831)

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Brussels: Official Journal of the European Union has issued the following notice:

P8\_TA(2015)0402

Cohesion policy and marginalised communities

European Parliament resolution of 24 November 2015 on cohesion policy and marginalised communities (2014/2247(INI))

(2017/C 366/04)

The European Parliament,

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| ? | having regard to Articles 2 and 3 of the Treaty on European Union, |

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| ? | having regard to Articles 151, 153, 162 and 174 to 176 of the Treaty on the Functioning of the European Union, |

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| ? | having regard to the EU Charter of Fundamental Rights, |

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| ? | having regard to European conventions protecting human rights and fundamental freedoms, notably the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) and the related case law of the European Court of Human Rights, the European Social Charter and the related recommendations of the European Committee of Social Rights, and the Framework Convention for the Protection of National Minorities of the Council of Europe, |

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| --- | --- |
| ? | having regard to the UN Declaration on the Rights of Indigenous Peoples, |

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| ? | having regard to the ILO Convention concerning Indigenous and Tribal Peoples in Independent Countries, |

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| ? | having regard to the EU anti-discrimination directives, Article 14 of the European Convention on Human Rights and Protocol No 12 to that convention, |

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| ? | having regard to the United Nations Convention of 5 January 2011 on the Rights of Persons with Disabilities, |

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| ? | having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (1) (hereinafter ?the CPR?), |

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| ? | having regard to Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 (2), |

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| ? | having regard to Regulation (EU) No 437/2010 of the European Parliament and of the Council of 19 May 2010 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of housing ***interventions*** in favour of marginalised communities (3), |

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| ? | having regard to Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006 (4), |

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| ? | having regard to Regulation (EU) No 1381/2013 of the European Parliament and of the Council of 17 December 2013 establishing a Rights, Equality and Citizenship Programme for the period 2014 to 2020 (5), |

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| ? | having regard to Regulation (EU) No 223/2014 of the European Parliament and of the Council of 11 March 2014 on the Fund for European Aid to the Most Deprived (6), |

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| ? | having regard to Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds (7), |

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| ? | having regard to its resolution of 26 February 2014 on the European Commission?s 7th and 8th progress reports on the EU Cohesion Policy and the ***Strategic*** Report 2013 on programme implementation 2007-2013 (8), |

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| ? | having regard to its resolution of 12 December 2013 on the progress made in the implementation of the National Roma Integration Strategies (9), |

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| ? | having regard to its resolution of 11 June 2013 on social housing in the European Union (10), |

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| ? | having regard to its resolution of 9 March 2011 on the EU strategy on Roma inclusion (11), |

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| ? | having regard to its resolution of 20 May 2010 on the contribution of the cohesion policy to the achievement of Lisbon and the EU2020 objectives (12), |

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| ? | having regard to its resolution of 11 March 2009 on the social situation of the Roma and their improved access to the labour market in the EU (13), |

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| ? | having regard to the Commission?s sixth report on economic, social and territorial cohesion of 23 July 2014 entitled ?Investment for jobs and growth: promoting economic, social and territorial cohesion in the Union?, |

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| ? | having regard to the Commission?s Thematic Guidance Fiche of 27 February 2014 on Roma and Marginalised Communities (Thematic objective 9 ? Social Inclusion and Poverty), |

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| ? | having regard to the Commission communication of 2 April 2014 entitled ?Report on the implementation of the EU Framework for National Roma Integration Strategies? (COM(2014)0209), |

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| ? | having regard to the Commission communication of 21 May 2012 entitled ?National Roma integration Strategies: a first step in the implementation of the EU Framework? (COM(2012)0226), |

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| ? | having regard to the Commission communication of 8 December 2010 entitled ?European Union Strategy for Danube Region? (COM(2010)0715), |

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| ? | having regard to the Commission communication of 12 December 2010 entitled ?The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion? (COM(2010)0758), |

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| ? | having regard to the Commission communication of 3 March 2010 entitled ?Europe 2020 ? A strategy for smart, sustainable and inclusive growth? (COM(2010)2020), |

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| ? | having regard to Council recommendation of 9 December 2013 on effective Roma integration measures in the Member States (14), |

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| ? | having regard to the Commission?s ?Guidance Note on the use of European Structural and Investment Funds in tackling educational and spatial segregation (Draft)? of 1 July 2015, |

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| ? | having regard to the question for written answer to the Commission of 24 February 2015 on funding for marginalised communities (E-002782/2015), |

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| ? | having regard to the Opinion of the Committee of the Regions on ?Roma integration strategies? (15), |

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| ? | having regard to Rule 52 of its Rules of Procedure, |

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| ? | having regard to the report of the Committee on Regional Development and the opinions of the Committee on Employment and Social Affairs and the Committee on Women?s Rights and Gender Equality (A8-0314/2015), |

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| A. | whereas cohesion policy is aimed at enhancing economic, social and territorial cohesion, reducing social disparities, including the reduction and eradication of poverty and exclusion, which calls for the prevention of segregation and for the promotion of equal access and opportunities for all citizens, including the most marginalised communities as well as groups and individuals of all ages facing poverty and social exclusion and lacking access to education, employment, housing and healthcare systems; |

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| B. | whereas cohesion policy, as defined in the 1986 Single European Act, is about reducing disparities between the various regions, and the backwardness of the least-favoured regions; whereas the Treaty on the Functioning of the European Union adds another facet to cohesion, referring to ?economic, social and territorial cohesion?; |

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| C. | whereas the objective of social cohesion calls for a European role in policies for the inclusion of marginalised communities, and requires Member States to use their competences in this area to take supportive action and action also under transnational cooperation as well as national programmes; |

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| D. | whereas funding opportunities for marginalised communities were introduced into the European Regional Development Fund (ERDF) in 2010; whereas the legislative framework for cohesion policy 2014-2020 offers a ***strategic*** approach; |

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| E. | whereas Regulation (EU) No 1304/2013 stipulates that the ESF benefits people, including disadvantaged groups such as the long-term unemployed, people with disabilities, migrants, ethnic minorities, marginalised communities and people of all ages facing poverty and social exclusion; |

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| F. | whereas at least 23,1 % of the Cohesion Policy budget will be allocated to investments under the ESF during the 2014-2020 programming period; whereas the ERDF and the ESF play a specific and significant role, with at least 20 % of the ESF earmarked in each Member State for the specific objective of promoting social inclusion and combating poverty and all forms of discrimination, thus representing a crucial tool in the promotion of greater inclusion of marginalised communities; |

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| G. | whereas Regulation (EU) No 1303/2013 lays down a number of preconditions related to non-discrimination, gender and disability that need to be complied with (16); |

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| H. | whereas the sixth report of the Commission on economic, social and territorial cohesion has shown that the economic crisis has increased poverty and social exclusion; |

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| I. | whereas the economic crisis and resulting budget cuts and austerity measures have led to numerous problems, often resulting in severe budgetary problems for municipalities, leading to a lack of options when dealing with marginalised groups and seeking to improve their inclusion and prevent segregation, as such policies are chiefly, and sometimes solely, dependent on European Structural and Investment Funds (ESIF) funding; |

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| J. | whereas the consequences of the economic crisis and the cutbacks in public services have exacerbated the situation of women within marginalised communities; |

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| K. | whereas women in marginalised communities suffer more intense multiple discrimination, and have a much lower employment rate, than do men in those communities and than do other women; |

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| L. | whereas a large number of public and private actors at different levels and sectors, including civil society representatives, are involved and often play an important role in implementing inclusion policies, thus requiring a coherent and well-coordinated approach; |

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| M. | whereas there is no definition of marginalised community at present at European Union level; whereas understanding the report begins by understanding marginalisation based on an analysis of specific attributes and characteristics of marginalised groups, which takes into account their specific situation and needs, such as living and working conditions, limited access to education and health care systems and employment, early school leaving, accompanied by structural and systemic exclusion and aims at ensuring their effective socio-economic inclusion; |

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| N. | whereas the Commission has not provided a definition of marginalised communities, leaving Member States the responsibility of deciding on a definition on the basis of their national ***indicators***; notes, however, that marginalisation can be established by looking at a set of relevant ***indicators*** such as social exclusion, high long-term unemployment, a low level of education, (extremely) poor housing conditions, a high level of discrimination, and excessive exposure to health risks and/or lack of access to healthcare, i.e those populations considered to be most vulnerable and most in need of help; |

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| O. | whereas marginalisation is a social phenomenon in which individuals or communities are socially excluded and systematically blocked from participating in, or denied access to, social and political processes that are essential to their social integration; whereas ?marginalised communities? refers to diverse groups and individuals, such as minorities, Roma, people with disabilities, people living below the poverty line or at risk of poverty, migrants, refugees and socially excluded groups in society; whereas racism, patriarchy, homophobia, economic disadvantages and other discriminatory factors contribute to creating layers of inequality and a dynamic of disempowerment for women within marginalised communities; |

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| P. | whereas common characteristics shared by marginalised communities include communities of places, such as marginalised communities living in ***rural*** areas and disadvantaged neighbourhoods; communities of interests, such as refugees and asylum seekers, and ethnic and linguistic minorities; and people with disabilities, elderly people, homeless as well as indigenous peoples; whereas different types of marginalised communities share common difficulties and all suffer from multiple forms of stigmatisation and discrimination; |

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| Q. | whereas there are a large number of marginalised groups in Europe; whereas among them the Roma people, a term which is understood differently across Europe, is Europe?s largest ethnic minority and one of the most marginalised communities; |

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| R. | whereas cohesion policy should address marginalised communities in their diversity, taking into account specific needs; whereas the inclusion of marginalised communities in funding requires that efforts be made at all levels, involving a long-term, integrated and coherent approach, permanent solutions, empowerment, building on experience and capacity building, including for women and girls within marginalised communities, transition from institutional to community-based care, in order to end segregation and reach normalisation; |

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| S. | whereas European cohesion policy strategies for empowering women in marginalised communities must take into account the situation of aging women, women with disabilities, women carers and women with mental health problems; |

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| T. | whereas arts and culture-based projects promoting intercultural exchanges, empowerment of participants, development of creative and social skills and active participation in the life of the local community are among the most effective tools for addressing social inclusion and integration; |

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| U. | whereas education, both formal and informal, is instrumental in overcoming marginalisation and multiple discrimination, in terms of creating dialogue, openness and understanding between communities, and in terms of empowering marginalised communities; whereas a gender perspective in education, and its role in empowering women and girls in marginalised communities, must not be forgotten; |

General principles

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|  | 1. | Recalls the urgent need to tackle the issue of marginalised communities; underlines the important role of cohesion policy in supporting their economic, social and territorial inclusion; |

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|  | 2. | Recalls that marginalised communities were introduced as a focus of cohesion policy measures because of the growing concern about, and commitment to combat, social exclusion, including concern about the situation of Roma and the longstanding demand to improve their living conditions; |

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|  | 3. | Calls on the Commission to issue guidance on the definition of marginalised communities, specifying a set of attributes and characteristics of marginalised groups, taking into account the specific situation, challenges and needs of each potential target group with the aim of promoting their socio-economic inclusion, and involving representatives of those communities; emphasises that such guidance would further increase the effectiveness of cohesion policy in strengthening economic, social and territorial cohesion throughout the European Union; |

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|  | 4. | Welcomes the fact that the legislative framework for cohesion policy 2014-2020 introduced new elements which consolidate the initial approach by extending funding opportunities and inserting mechanisms to ensure that support for marginalised communities complies with European values and objectives and takes into account the need to involve those groups in the whole process; |

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|  | 5. | Calls on the Commission to provide detailed information about the take-up of funding opportunities for marginalised communities; asks for an analysis that allows appropriate conclusions to be drawn and obstacles that prevent further take-up or the best possible results to be identified; |

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|  | 6. | Calls on the Commission to monitor the effective use of the European Code of Conduct with regard to the partnership principle and the involvement of civil society; recalls that the horizontal principles in the Common Provisions Regulation (CPR) ? which embody fundamental rights such as the promotion of equal opportunities, the prevention of discrimination and the promotion of sustainable development ? must be applied when preparing and implementing programmes under the ESIF; recalls that all Member States' actions, which are funded under the EU cohesion policy, should respect fundamental rights principles and must never contribute to segregation in any way; |

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|  | 7. | Emphasises that equal opportunities and non-discrimination are embodied in the ESIF funding rules for the purpose of eradicating the systemic causes of inequality, whether economic, social or based on gender, as well as concerning the access to culture and education; highlights that understanding, and raising awareness about, systemic xenophobia and racism should be a focal point when analysing the roots of exclusion; |

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|  | 8. | Recalls that equality between women and men constitutes a principle that applies horizontally to cohesion policy; deplores the multiple discrimination suffered in particular by women, migrants and persons with disabilities within marginalised communities; |

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|  | 9. | Highlights that the implementation of the cohesion policy must tackle the crucial challenge of poverty and exclusion of young people and children, adults and people with disabilities, including the transition from institutional to community-based care and services; urges the Member States concerned to take appropriate action and measures to develop and implement strategies towards this end, applying the integrated approach; |

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|  | 10. | Points out that, in developing policies addressed to specific target audiences following the principle of ?explicit but not exclusive targeting?, care must be taken not to exclude other groups in similar socio-economic circumstances, so as to avoid triggering defensive reactions; emphasises that this principle is only a first step in recognising the need to pay attention to some of the most vulnerable and marginalised communities and individuals; |

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|  | 11. | Stresses that accountable, transparent and democratic structures should be in place to fight corruption and the fraudulent use of funds to ensure the inclusion of marginalised communities; |

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|  | 12. | Regards access to public services as one of the major goals when addressing inclusion of marginalised groups; calls on the Member States to improve the provision of tailored health-information material and the development of disease-prevention strategies and community-health initiatives in marginalised communities; calls for the creation of specialised structures, such as clearing points advising on issues related to access to healthcare, labour market and education; demands that action be taken to effect a shift in public administrations from a demand-driven approach to a welcoming service approach; |

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|  | 13. | Calls for better coordination and stronger links between national strategies for marginalised communities, including National Roma Inclusion Strategies, National Poverty Reduction Strategies, strategies for the inclusion of other marginalised or less favoured communities, and gender equality strategies with cohesion policy; |

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|  | 14. | Calls on the Member States and the Commission to regard children as a priority when implementing the EU Framework for National Roma Strategies, and reiterates the importance of promoting equal access to housing, healthcare, education and dignified living conditions for children; |

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|  | 15. | Calls on Member States and local authorities to encourage the use of ESF funding to support informal learning and lifelong learning projects, as well as culture-based projects, in order to reach the objectives of investing in new skills for innovation and combating unemployment, poverty and social exclusion; |

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|  | 16. | Recalls ? bearing in mind the growing regional disparities, the demographic challenges and the situation faced by the growing number of young people who have left or are currently planning to leave their country of origin ? that in the 2014-2020 budgetary cycle less funding is available for cohesion policy; believes that cohesion policy still has the potential to add value to the work already under way in Member States, and that ? by focusing on improving employment opportunities, participation in society and investment in skills, particularly in those regions that need it most ? cohesion policy will result in, among other benefits, greater social inclusion and poverty reduction by allowing appropriate flexibility to enable the Member States to implement individualised support in line with local needs and ensure that funding is used in those areas in which unemployment is highest and where funding is most needed; |

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|  | 17. | Calls on the Commission to ensure that the Member States comply with these principles during the implementation of operational programmes; invites the Commission to include its analysis in its reporting, including on National Roma Integration Strategies; |

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|  | 18. | Stresses that budget cuts for public services in some Member States during the crisis have led to heightened unemployment, a lack of social security, a difficult housing situation and health problems; calls on the Member States to use ESF support more efficiently in order to improve the quality of, and equal access to, public services for marginalised communities, and to combat any form of discrimination; |

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|  | 19. | Calls for a human-rights perspective to be taken into account when designing actions supported by cohesion funds, and stresses that cultural, economic and social rights should be integrated into policies aimed at recognising women from marginalised communities as active citizens in their own right, and that racism, both open and invisible, should explicitly be addressed in every action and policy design; |

Preparation of programmes

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|  | 20. | Stresses that the partnership principle must lead to involvement at all levels, and needs to be applied by Member States on an obligatory basis and not merely pro forma; stresses the importance of implementing the code of conduct on partnership in ensuring equal participation and representation of partners, whereby specific attention should be paid to including marginalised communities so that their specific situation, and any potential challenges that they face in contributing substantially to the partnership, may be taken into account; is concerned about the poor compliance with the obligatory involvement of partners in accordance with the respective principles laid down in the CPR and the European code of conduct on partnership; urges the Commission and the Member States to ensure the involvement of partners, including those most concerned, and to implement a system of incentives and exchange of best practices, including specific support to those managing authorities and beneficiaries that have had particularly good results in this area; |

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|  | 21. | Regrets that the Commission has accepted partnership agreements that do not include marginalised communities to a sufficient degree; asks the Commission to take measures to facilitate the inclusion of marginalised communities in the preparation, implementation and assessment of projects, as a tool for empowering the concerned communities; suggests that recommendations be presented in the context of the European Semester as a suitable way of promoting action to be taken by Member States; |

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|  | 22. | Calls on the Member States to act on, and on the Commission to follow up closely, the country-specific recommendations issued on the social inclusion of marginalised communities; |

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|  | 23. | Welcomes the fact that some Member States, including those receiving recommendations, choose the socio-economic integration of marginalised communities as an investment priority in their operational programmes; warns, however, that this must also be mainstreamed in policy areas such as education and employment; |

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|  | 24. | Calls on the Member States to make full use of the funds; emphasises the need for a special focus on funding measures that go beyond targeted action under the thematic objective for social inclusion, combating poverty and any discrimination, favouring an integrated and systematic approach; |

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|  | 25. | Considers multi-level governance and coordination to play an important role; emphasises that the involvement of local authorities and local stakeholders is essential if the target group is to be reached, and that it requires the highest territorial proximity possible; |

Implementation of programmes

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|  | 26. | Points to the importance of an integrated approach; is of the opinion that funds should be used in a more integrated way, including by means of multi-fund programmes, Community-Led Local Development, Integrated Territorial Investment and cross-financing, as referred to in Article 98.2 of the CPR, and that synergies should be achieved with other EU and national funding instruments; calls on the administrations and authorities concerned to strive for active cooperation at all levels, including across borders; |

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|  | 27. | Notes that cross-financing is currently used in a limited way, to some extent caused by complex rules described in Article 98(2) of the CPR; is of the opinion that increasing the flexibility of rules for cross-financing, particularly in reference to marginalised communities, could increase the effectiveness of the projects and bring an important added value to their impact; calls, therefore, on the Commission to conduct an analysis of the application and level of use of cross-financing; |

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|  | 28. | Notes that marginalised communities often live in less favourable parts of cities; emphasises the importance of a genuine implementation of urban renewal and regeneration programmes for deprived neighbourhoods that combine integrated and place-based approaches and partnerships, tackle both economic, social and territorial challenges, and improve the urban environment, and that also focus on increasing connectivity with a view to giving these communities better access; considers that the future EU Urban Agenda should address, in an adequate way, the key challenges and needs related to marginalised communities in urban areas in order to prevent the establishment of ghetto areas and successfully fight segregation, poverty and social exclusion; |

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|  | 29. | Draws attention to the specific needs that marginalised communities living in ***rural***, mountainous and isolated areas face, including challenges related to connectivity, mobility and access to services, but also in terms of cultural and social opportunities; highlights the importance of connecting the regions in a better way; notes also that people in cross-border areas are often subject to marginalisation owing to their geographical situation and that this should be taken into consideration in a better way when cohesion policy is formulated, notably as regards the European territorial cooperation goal; |

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|  | 30. | Underlines the need to build up the capacity of the stakeholders, including public services, administrations and civil-society bodies, with a view of empowering communities, notably by allowing them to take greater part in policy making; calls for targeted technical assistance and funding to be used also to this end; |

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|  | 31. | Calls on the Commission to offer the technical support needed to improve the administrative capacity of bodies involved in the administration of the Structural Funds, and calls on the Member States to provide advice and administrative assistance, e.g by organising training and by helping with aid applications and explanations, so as to make it easier for marginalised communities such as Roma to obtain information concerning European and national funding programmes in support of entrepreneurship and employment and to submit the relevant applications; |

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|  | 32. | Stresses that the social partners must have access to technical assistance not only in order to strengthen their capacity, but also to ensure their coordination and representation in the ad hoc committees that define and implement the operational programmes; |

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|  | 33. | Points out that, in partnership with representatives of marginalised communities, the Commission, after giving guidance on the definition of marginalised communities, should set up an ad hoc expert group for advice, and promote appropriate training for administrative staff, in order to provide specific knowledge of the difficulties facing marginalised communities, and to combat discriminatory practices, with a view to fostering inclusion through constructive and effective dialogue, and to implementing and monitoring EU-funded projects related to marginalised communities in an integrated and effective way, thereby maximising their impact; |

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|  | 34. | Considers it essential to include equality bodies, women's organisations and women from marginalised communities in the decision-making process on the allocation, use, implementation and monitoring of the funds, at all levels ? from local and regional through Member State to EU level ? and considers that the monitoring and evaluation of the programmes implemented should be regarded as a key process in enhancing the participation of women from marginalised communities; |

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|  | 35. | Notes the approach that all ***strategic*** and operational policy arrangements, including sufficient administrative or institutional capacity, are to be in place before investments are made; encourages the Commission to monitor thoroughly the fulfilment of these conditions, and to ensure that complementary actions are taken by the Member States concerned, in particular in the field of promoting inclusion and combating poverty and discrimination; |

Monitoring and recommendations

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|  | 36. | Points out that EU-funded projects must have a long-term perspective in order to be effective, and that the funds must support investment in the actual needs of the beneficiaries, with mechanisms to ensure that target groups are reached and to address exclusion and marginalisation; calls for qualitative evaluation and monitoring mechanisms; calls on the Commission to put in place proactive and participatory mechanisms for monitoring and observing Members States' actions in the planning and evaluation processes for funds used for marginalised communities; |

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|  | 37. | Highlights that housing exclusion, homelessness, education exclusion and unemployment are often key elements of marginalisation; emphasises, therefore, the importance of integrated housing, educational and employment ***interventions***, in favour of marginalised communities; |

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|  | 38. | Recalls ? bearing in mind that the recent economic and financial crisis has been felt particularly hard by those marginalised groups that face the greatest risk of losing their jobs during times of turbulence on the labour market ? that education and employment are the best ways out of poverty, and that integrating marginalised communities into society and the labour market should therefore be a priority; notes with concern that members of marginalised communities are frequently excluded from society and suffer discrimination, and consequently face barriers to accessing high-quality education, employment, healthcare, transportation, information and services in general, which poses a complex problem that needs to be addressed properly through the complementary use and effective combination of ESIF and national resources; emphasises, accordingly, the need to make special efforts as regards existing EU programmes, such as the Youth Employment Initiative, Erasmus+ and Creative Europe, with a view of reaching out to members of marginalised communities, accompanied by regular monitoring of the success of that outreach, in order to break the cycle of poverty and marginalisation and to boost people?s professional skills and qualifications; |

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|  | 39. | Calls for the funds to be used to improve living conditions and to facilitate access for women in marginalised communities to high-quality, stable education, housing, health care, employment, childcare, social services, victim support services and legal systems; |

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|  | 40. | Underlines that representatives of marginalised communities need to be actively involved, and enabled to participate as full members, in monitoring arrangements; points out that considerable experience could have been gathered at local, regional, national and transnational level; underlines the need to disseminate and capitalise on best practices; calls on the Commission and Member States to analyse all existing best practices, including innovative ones related to the inclusion of marginalised groups and individuals into society, and to initiate networking activities, including among social, youth and community workers as well as among academics and researchers; stresses the need for a network platform at EU level facilitating the exchange of best practices and joint problem solving that could serve as well as an e-learning facility for capacity building; |

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|  | 41. | Invites the Commission to address cohesion policy and marginalised communities in its annual structured dialogue with civil society and organisations representing partners, while making sure that representatives of marginalised communities participate and facilitating a debate based on quantitative and qualitative analysis; |

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|  | 42. | Points out that awareness of structural and systemic inclusion is not only called for on the part of society as a whole but is especially essential for the work of decision-makers and stakeholders at all administrative levels and other public bodies involved; calls on all public stakeholders and training institutes to carry out a thorough analysis of the causes of discrimination and marginalisation, and to raise awareness of the fact that xenophobia and racism, and all types of marginalisation leading to systemic exclusion, including anti-Gypsyism, must be eliminated; calls on the Commission rigorously to enforce and monitor EU legislation on discrimination; calls on public employment services (PES) to provide high-quality, needs-based tailored services; |

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|  | 43. | Highlights the need for a dual approach to helping and integrating marginalised groups, which should be done directly in conjunction with those affected through the provision of education, including education facilities, training, vocational guidance and job opportunities, and in conjunction with the local community and authorities in order to improve and/or change public perceptions by raising awareness of the effects of prejudice, improving public services and adapting social systems; |

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|  | 44. | Stresses that education is a fundamental right enshrined in the Treaty on European Union; emphasises that ensuring equal access to high-quality education for all members of society is key to breaking the cycle of social exclusion; takes the view that formal, non-formal and informal education, characterised by education in diversity, is a first step towards the genuine political, economic and social inclusion of marginalised communities; underlines the need to implement programmes, projects and support activities for marginalised communities in order to provide for preschool education, to underpin the need for formal education, while also offering opportunities for other forms of education as well as lifelong learning, particularly in vocational skills and in ICT, and to improve access to the media, also with a view of empowering women and girls in marginalised communities; |

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|  | 45. | Calls on the Member States, and on regional and local authorities, to encourage the use of ERDF to support SMEs and social enterprises that involve and benefit marginalised communities; points to the need to support activities for marginalised communities in order to provide aid to, and create the conditions for, micro-scale entrepreneurship, thereby preserving different ways of doing business; |

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|  | 46. | Points out that many sectors will undergo a significant transformation in the near future, in part because of the wider use of online tools and solutions; points out that this will put both low- and medium-skilled workers under pressure, which will have a particular impact on members of marginalised communities, as at present it is they who usually find work in these sectors; highlights the importance of accessible and affordable training and services for all in the field of new technologies and sectors, with special regard to opportunities in the digital sector and the green economy, especially for the most disadvantaged groups; notes the importance of micro- and small businesses in helping to sustain jobs in ***rural*** areas, and calls, therefore, for increased emphasis on ensuring access to finance for these businesses; |

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|  | 47. | Points to the importance of empowering women within marginalised communities by encouraging women entrepreneurs and women?s participation in those communities; |

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|  | 48. | Highlights the important role that social entrepreneurship, cooperatives, mutual associations and alternative business can play in empowering women in marginalised communities; recommends that cohesion funds, particularly the ESF, support investments in this field that have a strong gender perspective; |

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|  | 49. | Invites the Commission to analyse the limitations of the current allocation key for determining support from cohesion policy funds based on GDP, making better use of available ***indicators*** ? such as Eurostat EU-SILC data on income and living conditions ? capable of identifying pockets of poverty and social fragility on the Union?s territory, in order to target EU support for marginalised communities in a better way; |

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|  | 50. | Stresses that in the EU political debate, marginalised communities are often exploited tendentiously for political ends, and that a detailed analysis of structural exclusion is required, both in partnership agreements and in the operational programmes concerned; calls on the Commission to provide coherent, consistent and clear guidance on the development, implementation and management of the EU-funded projects related to marginalised communities, including in-depth analyses, best practise examples and policy recommendations, to ensure that marginalised communities are included in EU funds also in view of the forthcoming programming period; |

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|  | 51. | Calls for a gender perspective and an intersectional analysis to be incorporated into all EU-funded integration and social inclusion initiatives, programmes, actions and funding arrangements, so that the specific needs of women in marginalised communities can be addressed ? and the variety of voices and perspectives of women in different structural positions and roles can be captured ? in a better way; believes that gender impact assessments and gender budgeting are useful in evaluating the impact on women of funding priorities, the allocation of financial resources and the specifications for funding programmes; emphasises the need for gender-disaggregated data to be collected systematically and analysed regularly; |

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|  | 52. | Invites the Member States to offer an award for exemplary dedication to the integration and inclusion of marginalised groups in implementing EU funds; suggests that such an award for outstanding work could be presented to municipalities or regions in the Member States; |

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|  | 53. | Invites the Member States to enable and encourage networking among municipalities and cities dealing with the integration of marginalised groups; suggests that the Covenant of Mayors on Climate Change could serve as an example for such a network; |

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|  | 54. | Instructs its President to forward this resolution to the Council and the Commission. |

(1)  OJ L 347, 20.12.2013, p. 320.

(2)  OJ L 347, 20.12.2013, p. 289.

(3)  OJ L 132, 29.5.2010, p. 1.

(4)  OJ L 347, 20.12.2013, p. 470.

(5)  OJ L 354, 28.12.2013, p. 62.

(6)  OJ L 72, 12.3.2014, p. 1.

(7)  OJ L 74, 14.3.2014, p. 1.

(8)  Texts adopted, P7\_TA(2014)0132.

(9)  Texts adopted, P7\_TA(2013)0594.

(10)  Texts adopted, P7\_TA(2013)0246.

(11)  OJ C 199 E, 7.7.2012, p. 112.

(12)  OJ C 161 E, 31.5.2011, p. 120.

(13)  OJ C 87 E, 1.4.2010, p. 60.

(14)  OJ C 378, 24.12.2013, p. 1.

(15)  OJ C 114, 15.4.2014, p. 73.

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**End of Document**



[***Asia-Pacific; ASIA-PACIFIC WINNERS THE BANKER AWARDS 2017***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RG4-BBV1-DY9P-N4GV-00000-00&context=1516831)

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**Body**

AFGHANISTAN Afghanistan International Bank Afghanistan International Bank (AIB) has won this year's Bank of the Year award for Afghanistan on the back of innovative initiatives, both in its home market and in foreign countries.

AIB opened an account with State Commercial Bank of Turkmenistan to make payments related to oil imports more efficient. This measure will help fuel imports meet Afghan and NATO military needs and support institutions including UN agencies and non-governmental organisations.

At home, AIB is working with the Afghan Credit Guarantee Foundation - a charity registered in Germany - to increase Afghan small and medium-sized enterprises' (SMEs') access to finance. The scheme provides SMEs with a partial credit guarantee. In the case of AIB loans, the maximum coverage is 72%. The German Federal Ministry for Economic Co-operation and Development and the US Agency for International Development provided the scheme's initial funding.

AIB is also in talks with the International Finance Corporation for the multilateral bank to take an equity stake in the lender of up to 15% in two tranches.

The award also recognises the bank's ability to navigate a tricky banking sector such as that in Afghanistan. "AIB has strived to apply world-class standards of governance and compliance in the very difficult business and security environment that exists in the country. Needless to say, many organisations and individuals have contributed to the success the bank has enjoyed; this is especially true of our shareholders who have been very supportive of the board of supervisors and management over the years," says Tony Barned, CEO at AIB.

"There is no doubt that more challenging situations lie ahead, but we are confident that the bank's inherent strengths will allow it to prosper and overcome any obstacles which may present themselves."

BANGLADESH Standard Chartered Bank Bangladesh This year, the Bank of the Year award for Bangladesh rewards Standard Chartered Bank Bangladesh's work in capital markets, trade finance and financial inclusion.

The lender was able to achieve these results despite strong pressure on margins at home and volatility in the global environment, according to Naser Ezaz Bijoy, CEO at Standard Chartered Bank Bangladesh. "Despite these challenges, our bank has remained focused on driving commerce and prosperity for Bangladesh, and we remain the leading international bank and one of the highest tax payers in the country's banking sector," he says.

"Our balance sheet momentum continues to be robust, and we remain the most profitable bank in Bangladesh. Further gains have been made in safeguarding the bank against financial crime compliance and antimoney laundering risks."

The bank is helping to boost financial inclusion by running a financial literacy programme and working with mobile payments company bKash to facilitate payments to corporate clients.

Supporting infrastructure and trade is also a priority. "We continue to play critical roles in the country's infrastructure development, facilitating foreign trade and payments through the China and Japan trade and investment corridor, while following through our strategy of driving cross-bank collaboration and referrals by banking the ecosystem of our clients," says Mr Bijoy. Standard Chartered is the first foreign bank in Bangladesh to launch a supply chain finance programme, which targets corporate clients' dealers and suppliers.

The lender is also expanding its network with two new business development offices in the export processing zones of Karnaphuli and Commila and a new flagship retail branch in Agrabad, Chittagong.

In the capital markets sphere, Standard Chartered printed Bangladesh's first zerocoupon bonds and interest rate derivatives.

BRUNEI Baiduri Bank Brunei's Baiduri Bank has been able to maintain strong ***performance*** ***indicators*** while offering new products in the capital markets sphere and for small and mediumsized enterprises (SMEs) in a market that was heavily hit by the latest drops in oil and gas prices.

"Brunei has for the past few years been facing a slow economy caused by the prolonged low oil and gas prices. The banking environment in 2016 and 2017 continued to be challenging due to reduced expenditure by the government and oil and gas industries," says Pierre Imhof, CEO of Baiduri Bank.

"Our conservative lending policy for both retail and corporate banking coupled with very strong recovery efforts have helped the bank to achieve a higher level of profitability with a much-reduced non-performing loan [NPL] ratio than the previous year." Indeed, the lender's NPL ratio dropped from 1.43% in 2015 to 0.24% in 2016.

Taking over HSBC's accounts in 2016 was a further milestone for Baiduri Bank. "Following our successful purchase of the retail banking portfolio of the Brunei branch of a Singapore bank in 2015, we actively targeted customers from an international bank after it announced its withdrawal from the market in April 2016. Our aggressive takeover of accounts helped the bank to grow our total assets by 31% in 2016 over the previous year," says Mr Imhof.

Baiduri's efforts to support local SMEs is also noteworthy. The bank launched micro accounts for micro-enterprises and SMEs as well as online payment platform Merchant-Suite to help SMEs issue invoices and receive payments.

Mr Imhof aims to continue taking advantage of the government's focus on local business development and economic diversification initiatives. "[They] present new opportunities for the banking sector," he says.

CAMBODIA Cambodian Public Bank In an increasingly competitive banking sector, Cambodian Public Bank stands out for its efforts in growing deposits, its new lending products, innovative fintech programmes and its network expansion. Despite lower interest rates on deposits, Campu Bank grew customer deposits by 16.5% year on year to $1.2bn in 2016 and low-cost current account deposits by 10.2% to $329.3m in the same period.

The bank also supported the government's efforts to reduce Cambodia's reliance on US dollars. In November 2016, Campu Bank launched small and medium-sized enterprise loans in Cambodian riel at competitive interest rates and with flexible repayment terms.

"The ongoing launch of new products and services, namely mobile banking, loans in the national currency and the collection of tax services, coupled with security enhancement against malware attacks, has positioned the bank to stay ahead of the competition," says Tan Sri Dato' Sri Dr Teh Hong Piow, chairman of Campu Bank. In June 2016, Campu Bank became the first foreign-owned bank to collect tax on behalf of the Cambodian government.

In the fintech space, Campu Bank launched a mobile app and a mobile top-up service allowing subscribers of telecommunications provider Smart Axiata to recharge their phones on the lender's internet banking platform. "In 2018, the bank is committed to launch more digital products and services such as an e-wallet and also tie-up with payment service providers to provide a wider range of products to our customers," says Mr Piow.

Campu Bank will also expand its network by opening at least three branches within Phnom Penh, taking its total number of branches to 30. Beyond Cambodia's borders, the bank wants to promote cross-border business referrals and the cross-selling of products through its parent bank's regional presence in Indo-China, according to Mr Piow.

CHINA China Citic Bank China Citic Bank, historically focused on investment and corporate banking, won the Bank of the Year award in China thanks to its notable pivot towards retail.

In 2016, the bank maintained a strong corporate banking business and reduced the cost of corporate deposits while expanding its retail business significantly. Retail banking now makes up more than a quarter of operating income and half of its intermediary business income.

Personal loans grew 43.9% during 2016, while credit cards now contribute 77% of bank profits. Beyond China, China Citic Bank now serves 1.4 million individuals and recorded Rmb233.6bn ($35.2bn) in assets under management. It also targeted high-end retail customers by providing managers of family wealth exclusive financial products.

In terms of international expansion, China Citic Bank acquired an administrative approval from the China Banking Regulatory Commission (CBRC) to upgrade its London representative office to a branch. The lender also set up a representative office in Sydney and prepared the establishment of its Hong Kong branch. China Citic Bank's memorandum of understanding with Kazakhstan's Halyk Bank is set to lead to the first acquisition of a Kazakh lender by a Chinese joint-stock bank.

In the technology area, China Citic Bank obtained CBRC approval to establish online bank AiBank together with Baidu, a Chinese search engine.

China Citic Bank's own digital transactions were also on the rise, and mobile banking customers and active mobile banking users grew 53.87% and 129.76%, respectively, year on year in 2016. Personal online banking users grew 28.1% in the same time period.

HONG KONG Bank of China (Hong Kong) Bank of China (BOC) (Hong Kong) posted strong ***performance*** ***indicators*** while continuing to offer new products as well as programmes targeting the more vulnerable segments of Hong Kong's population.

BOC (Hong Kong)'s net profit growth in 2016 was substantial. If profits from discontinued operations and gains from the disposal of equity instruments are included, the bank's profits grew 105.7% year on year to HK$55.5bn ($7.1bn). Meanwhile, Tier 1 capital grew 30.9% to HK$159.3bn in the same period.

At home, the lender is supporting Hong Kong's elderly with flexible retirement finance. BOC (Hong Kong) participates in Hong Kong Mortgage Corporation's reverse mortgage programme. The bank also offers a Senior Citizen Card Scheme involving preferential interest rates on time deposits and a fee waiver on gift certificates.

BOC (Hong Kong) has also grown its business beyond Hong Kong's borders.

"Our stellar ***performance*** was achieved by making remarkable progress in transforming BOC (Hong Kong) from a local bank into an internationalised regional bank through asset restructuring of Bank of China and BOC Hong Kong in the Association of South-east Asian Nations [Asean] region; and by deepening local market penetration through upgrading our branch service capabilities, driving innovation and fintech development, and enhancing business diversification," says Chen Siqing, chairman of BOC (Hong Kong).

Indeed, the lender's Asean-related loan portfolio doubled year on year to more than HK$50bn in 2016. BOC (Hong Kong) predicts double-digit growth in this space in 2017. BOC (Hong Kong)'s international push will be driving the bank's future strategy. "BOC (Hong Kong) sees great business opportunities ahead, especially those arising from the Belt and Road initiative, renminbi internationalisation, the Guangdong-Hong Kong-Macau Bay Area construction and mainland [China] enterprises going global," says Mr Chen.

INDIA Yes Bank Yes Bank registered strong financial results in the financial year 2016/17, while launching notable fintech initiatives. In that period, Yes Bank's net profits increased 31.1% year on year while Tier 1 capital and assets rose by 73.9% and 30.1%, respectively. Return on equity also improved, growing from 19.9% to 21.5%. Although the bank's non-performing loans ratio rose from 0.76% to 1.52%, this remains one of the lowest among both privately owned and stateowned banks in India.

The bank raised a total of $1.2bn in Tier 1 capital in 2016/17 via India's largest private sector, local currency-denominated qualified institutional placement and Basel IIIcompliant additional Tier 1 bonds.

The lender also demonstrated a willingness to diversify and derisk its lending portfolio by focusing on secured lending in retail and small and medium-sized enterprises. In March 2010, the bank's corporate portfolio accounted for 94.7% of total loans while in March 2017 this proportion was 32.3%.

On the digital front, Yes Bank became the first bank in India to launch a universal payments interface, a payments system operated by the National Payments Corporation of India, and pioneered a vendor financing product using blockchain technology for Indian consumer electrical equipment manufacturer Bajaj Electricals. Yes Bank also became the first Indian lender to launch an application programming interface (API). Today, it has more than 200 corporate clients on API banking.

The bank has boosted financial inclusion in India, with its flagship scheme, the Yes Livelihood Enhancement Action Programme, so far providing microfinance services to 1.8 million families across 19 Indian states.

INDONESIA Bank Central Asia Bank Central Asia has shown strong initiative in the fintech space while maintaining strong ***performance*** ***indicators*** and supporting infrastructure development in Indonesia. In 2016, the bank launched a pilot project for the Smart Branch mobile app, aimed at reducing the time spent opening bank accounts and, ultimately, the time customers spend in branches. Bank Central Asia also started developing its Digital Form app for customers to input data for deposit transactions independently, as well as CS Kiosks, a self-service system for debit card replacements and registration.

Bank Central Asia is not getting rid of its bricks-and-mortar branches, however. Instead, expansion of its physical network is focusing on smaller, more compact branches and kiosks supported by automated services.

The bank combined this technological development with increasing financial inclusion in Indonesia. It has developed branchless banking services that support financial literacy programmes launched by Indonesia's Financial Services Authority and central bank.

Meanwhile, the lender's 2016 ***performance*** ***indicators*** remained solid. Net profits grew 14.4% year on year to Rp20,606bn ($1.5bn). Tier 1 capital rose 25.8% to Rp110,246bn while assets increased by 13.9% to Rp676,739bn in the same time period. While the bank's non-performing loans ratio grew from 0.7% in 2015 to 1.3% in 2016, this proportion is low relative to the rest of Indonesia's banking sector.

In infrastructure, Bank Central Asia participated in the construction of several airports operated by state enterprise Angkasa Pura, as well as in the development of the State Electricity Corporation's transmission network in Sumatra. The bank also helped finance bridging funds for the Pandaan-Malang toll road.

JAPAN Mitsubishi UFJ Financial Group Mitsubishi UFJ Financial Group (MUFG) maintained a strong ***performance***, especially in the project finance space, while launching new technology schemes and modifying its business model.

The bank won the Bank of the Year award in a market that has become hard to navigate for banks. "The environment in which we operate is challenging. The introduction of negative interest rates in Japan and rapid digitisation means change is happening faster than expected, and in unexpected ways. In order for us to achieve sustainable growth, we must reimagine our business model," says Kanetsugu Mike, deputy chairman of MUFG.

Part of the change in MUFG's business model involved the creation of a new position - the chief digital transformation officer - who will be managing about Y200bn ($1.78bn) in digital investment. The bank, however, is already well placed when it comes to digital advancement. It employs artificial intelligence (AI) in its Virtual Assistant app to respond to customer queries.

Mr Mike says that integrating AI across the bank will be the most important initiative of the next 12 months. "We want to deliver solutions for our clients that put them first," he says.

Meanwhile, MUFG's international business also performed strongly. "In the past year, our international business has grown significantly, with more than 40% of MUFG's revenue coming from overseas. Given the challenging operational environment in Japan, I do feel that this has firmly cemented our position as a global organisation, and a peer of some of the world's biggest banks," says Mr Mike.

MUFG also maintained a strong position in the project finance sector. It ranked first globally in project finance for the fifth year running and sixth globally in syndicated lending.

KAZAKHSTAN ForteBank As in other countries in the Commonwealth of Independent States region, Kazakhstan saw its economy hit by the plunge in oil prices and the problems that have affected Russia in 2015 and 2016. In Kazakhstan, gross domestic product (GDP) growth slowed in this period, from 4.3% in 2014 to 1.2% and 1.08% in the following two years.

Despite this weak economic backdrop, ForteBank increased its profitability from Tg7.4bn ($22.2m) to Tg11.7bn in 2016 and grew its assets and capital levels to some Tg172bn.

Forecasts for Kazakhstan's economy for 2017 are promising, with GDP growth of 3.3% predicted by the International Monetary Fund, and ForteBank expects the year to bring some additional positive developments.

"This year is an important year for the bank," says Magzhan Auezov, ForteBank's chief executive. "We built on a solid foundation following the successful merger with Temir and Alliance and focused on clients and products," he says. "In a weak market, we managed to substantially grow revenues across all segments and moved many products to mobile platforms and online."

In the past year, ForteBank has seen a strong increase in its client base and the number of people using its mobile app - allowing the bank to grow its business without adding much cost. Within 12 months of launch the bank reached about 100,000 additional clients using its mobile banking app.

In the second quarter of 2017, ForteBank launched a service - a first in Kazakhstan - allowing private individuals to transfer money through social networks, while legal entities can make use of the new ForteX system for online foreign exchange transactions. Going forward, ForteBank aims to focus on further product development and online services, according to Mr Auezov. "We see growth potential across retail and small and medium-sized enterprise sectors and will focus our energy there," he says.

KYRGYZSTAN DemirKyrgyz International Bank CJSC Kyrgyzstan's economy was blessed with high growth rates of about 10% in 2013, but since then Kyrgyz banks have had to adapt to a reduction in gross domestic product growth to 4% and lower, and face increasing competition across the sector. But despite that, DemirKyrgyz International Bank has continued to invest in technology and the quality of its services, making it Bank of the Year in Kyrgyzstan.

In 2016, DemirKyrgyz improved its online banking operations. It was the first bank to accept tax payments of individuals through online banking - a project that was realised together with state tax service.

The bank further started testing real-time payments with several companies, and in 2017 DemirBank was aiming to open access to Swift payments to a wide range of customers.

To increase the availability of banking services to the majority of the population, DemirBank is permanently investing in the development of its wide network of branches, cashpoints and point-of-sale (POS) terminals all over the country, according to Sevki Sarilar, chairman of the management board and general manager of DemirKyrgyz International Bank. He adds that DemirBank has the "biggest market share for ATMs, POS terminals and card activity" in Kyrgyzstan, currently "more than 50%".

DemirKyrgyz is one of the European Bank for Reconstruction and Development's (EBRD's) partners under the EBRD Trade Facilitation Programme, and also works with the development bank in promoting loans for sustainable projects.

The lender further offers loans and other products to small and medium-sized enterprises and launched an affordable housing mortgage loan programme with the State Mortgage Company.

Going forward, DemirKyrgyz plans to "increase investments in the development of new digital banking products" and enhance its contribution in enlarging and promoting noncash payments in Kyrgyzstan, says Mr Sarilar.

MACAU ICBC Macau Technological advancements were at the core of ICBC Macau's positive ***performance*** in the past 12 months.

It is noteworthy that the bank was able to invest in and deliver a new internet finance strategy despite a recovery from a rocky ***performance*** in its home and neighbouring markets. "China's economy operated steadily in general with easing downturn pressure and Macau is on the way of recovery. In face of such complicated changes and challenges, the bank has managed to make progress while maintaining stability, implemented reform and innovation, and overcome difficulties," says Zhu Xiaoping, chairman of ICBC Macau.

On the technology front, the volume of transactions and traffic on ICBC Macau e-Mart - the first e-commerce platform to be launched by a Macau bank - has accelerated. The lender also aims to attract more customers from mainland China to develop online financing.

"The bank advanced the internet finance development strategy, namely e-ICBC 3.0, and upgraded and improved the architecture of internet finance with e-commerce platform 'ICBC Mall' as the main pillar. The sound e-banking service systems covering internet banking, mobile banking, telephone banking, SMS banking and [social media mobile application] WeChat banking provided all features of financial services, e-commerce and payments," says Mr Zhu.

ICBC Macau also promotes financial inclusion in its home market. It has built up a market share of more than 70% in mortgage loans to local residents buying public housing. In 2016, the lender also offered scholarships to universities including University of Macau, the Macau Polytechnic Institute and Macau University of Science and Technology.

In the future, the bank will be focusing on Macau's efforts to diversify its local economy and on cross-border initiatives such as the Belt and Road and the Big Bay Area projects, says Mr Zhu.

MALAYSIA CIMB CIMB maintained solid financial results while strengthening its international operations and developing new financial technology products at home and across south-east Asia.Net profits jumped up by 25.1% year on year in 2016, reaching RM3.56bn ($858m) after two consecutive years of negative growth in profits.

In 2016, CIMB Group posted its highest ever annual operating income. Tier 1 capital also increased, reaching RM21.38bn after a 5.2% year-on-year increase, while assets rose by 5.2% to RM485.77bn.

CIMB demonstrated its international operations were able to bounce back after resolving past asset quality issues in its Indonesia, Thailand and Singapore units. This was part of Target 2018, a strategy launched in early 2015.

In 2016, CIMB rolled out a digital transformation plan across its key markets of Malaysia, Indonesia, Singapore and Thailand, and CIMB Group implemented a new core banking system, 1Platform, across the entire region. Today, almost 95% of the group's banking transactions are carried out outside branches. CIMB revamped its online webpage while offering a mobile payments app, CIMB Pay, across south-east Asia. In Vietnam, CIMB introduced the use of robotics in the bank's internal processes to reduce faults and turnaround times.

On the corporate banking front, CIMB established the Regional Corporate Loan Management System, which shortens the approval process for corporate loans across all of the bank's markets.

Greater adoption of technology and the streamlining of less profitable businesses also led to CIMB Group's total staff numbers dropping to below 39,000 by the end of 2016, compared with about 40,500 the previous year.

MONGOLIA XacBank XacBank has demonstrated an ability to navigate a local market historically at the mercy of commodity price cycles while launching new programmes in the green, financial inclusion and payments fields.

"In [Mongolia's] difficult operational environment, XacBank's reputation as one of the best governed and safe local banks has been reinforced. For the past five years, the bank has maintained very strong capital adequacy and abundant liquidity positions at 18% and 40% on average, respectively. Our risk coverage ratio was far greater than 80%. A new risk management framework has been implemented to support robust growth in market share in the near future," says Bold Magvan, CEO of XacBank. The bank also launched a new core banking system, which has improved the management of customer transactions through its internet banking platform.

In 2016, XacBank became an accredited entity of the Green Climate Fund (GCF). The GCF has given XacBank $20m in concessionary loans to promote the use and production of efficient and renewable energy in the domestic market.

The International Financial Corporation extended a syndicated senior loan facility of $108.5m to XacBank, together with eight international financial institutions, arguably a further testament to the lender's strong and reliable position in the market.

XacBank is also very active in boosting financial inclusion in Mongolia. In 2016, the bank's social and financial education programmes for children were officially included in the national high school curriculum.

What is more, in 2016 XacBank became the first bank in Mongolia to offer ATM services free of charge and cut interest rates for all consumer and business loans. Now, all XacBank loans have a maximum interest rate of 2%.

MYANMAR KBZ Bank KBZ Bank operates in a difficult environment, with Myanmar's banking and financial markets still in the early stages of development. "Determining how to best help the nascent economic development of the country - when 80% of the population [is] still unbanked - while aggressively trying to address some of the lowest branch and ATM penetration rates in the world [was a challenge in the past 12 months]," says Mike DeNoma, CEO of KBZ Bank.

Notwithstanding these hurdles, the lender has grown its physical network aggressively. "To support the economic development of the country, we have increased our physical branch presence by 25%, growing by 100 units to 500 branches. We grew the ATM network by more than 350 machines to over 1000. On the digital side, we more than tripled the customers of our market-leading mobile offering," says Mr DeNoma.

KBZ Bank also became the first Myanmar bank to set up operations abroad when it set up three representative offices in Thailand, Singapore and Malaysia.

In the cards space, KBZ Bank launched the payWave credit card, the first contactless payment credit card issued in Myanmar. The contactless theme is also at the heart of KBZ Bank's new peer-to-peer service, which enables a KBZ customer to authorise a banked or unbanked person to withdraw a predetermined amount from any of the bank's ATMs using an authorisation code and PIN sent via text message.

Financial inclusion will remain at the heart of the bank's future strategy. "With only 20% of the adult population having a bank account (but 90% having a smartphone with dual SIM), our plan is to accelerate innovation along the digital and physical value chains, dramatically increasing participation in the financial system, helping Myanmar become a leading mobile first nation within five to 10 years," says Mr DeNoma.

NEPAL NMB Bank NMB Bank won the Bank of the Year award in Nepal because it was able to increase a foreign investor's stake and sustain a strong ***performance*** in a market that has suffered heavy blows in the past two years.

The biggest challenges involved "low economic growth, plummeting trade activities with a disruption of supplies due to [the 2015] Indian border blockade coupled with a deceleration in remittance inflows on the back of drops in oil prices in the Middle East and Malaysia, wherein most of our migrant population is concentrated," says Sunil KC, CEO of NMB Bank. Nonetheless, NMB Bank's net profits grew by a substantial 122.57%, year on year, in 2016.

Two key achievements for the bank are the Netherlands Development Finance Company (FMO) increasing its stake to 20% and NMB Bank becoming a member of the Global Alliance for Banking on Values (GABV).

"[Being associated] with FMO and GABV helped the bank differentiate itself from the competition," says Mr KC.

NMB Bank also benefited from merging with four local financial institutions in 2015. As a result, its branch network increased from 29 to 69 and in 2016, its Tier 1 capital increased year on year by 109.56%. The merger also helped the lender reach out to Nepal's remote areas through a microfinance subsidiary.

In the financial inclusion space, NMB Bank partnered with the United National Capital Development Fund to provide energy access to 25,000 households. The lender also partnered with UK-funded programme Sakchyam Access to Finance to provide financial access to victims of the 2015 Nepal earthquakes through branchless banking units.

NMB Bank is looking to expand its network further in light of Nepal fully implementing a federal government system after elections in December 2017, says Mr KC.

NEW ZEALAND ASB ASB won the Bank of the Year award in New Zealand thanks to a strong ***performance*** in the digital space, both in terms of transaction volumes and the introduction of innovative products.

"Over the past year, ASB has made a significant advancement in digital ***performance***, surpassing an ambitious goal set three years ago to have 50% of all sales generated via digital channels," says Barbara Chapman, CEO of ASB. "Importantly, we achieved this while maintaining our focus on delivering outstanding customer experiences across all of our channels, both digital and traditional."

Significantly, ASB was able to achieve this result despite facing difficulties in its home market. "Like all banks globally, ASB is facing the combined challenges of a changing market, rapidly evolving technology, heightened customer expectations and increased regulatory scrutiny," says Ms Chapman.

"Against this background, we continue to adapt our strategy and our business to ensure we make the right choices to enable a balanced set of outcomes for our people, customers and our shareholders."

Managing and satisfying customer expectations will remain a key focus for the bank. "A key part of our strategy is [based] around ensuring every experience a customer has with ASB is 'unbeatable', whether via our digital channels, or in person," says Ms Chapman.

To this end, ASB aims to make internal and customer-facing systems and processes simpler.

"At the same time, ASB continues to have a strong commitment to supporting financial literacy, with a particular focus on initiatives for children and youth," says Ms Chapman. Indeed, ASB's digital money box, Clever Kash, which works off of the bank's mobile app, has so far reached more than 37,000 children in New Zealand.

PAKISTAN Allied Bank Allied Bank's 2016 ***performance*** has stood out for its growth, both domestically and abroad, and for new initiatives in the payments and digital sectors.

"During the year the bank crossed the Rs1000bn [$9.5bn] and Rs100bn thresholds in total assets and equity, respectively, with a capital adequacy ratio of 20.84%. Achieving a 1:1 ratio in terms of 1150 branches along with 1150 ATMs was also a major milestone accomplished during the year. A dedicated Digital Banking Group was also formed during the year, which shall further augment the bank's transition into digital banking," says Tahir Hassan Qureshi, CEO of Allied Bank.

The Digital Banking Group will help the lender develop new digital financial products. One such product is the Payment Hub, which offers digital bulk payments and cash management services. In the digital space, Allied Bank has also launched PayPak debit cards, which have helped reduce dependency on international payment companies for domestic transactions while promoting financial inclusion. Mr Qureshi says the bank will continue to build a hybrid banking model of bricks-and-mortar branches and digital products to reach Pakistan's vastly unbanked population.

It is notable that Allied Bank has been able to achieve these results despite challenges in its home market. "Allied Bank has faced its main challenges from the external front, primarily driven by multi-faceted factors including stringent taxation laws promoting an undocumented economy, energy shortages and twin deficits, which constrained lending growth despite the easing out of monetary policy by the State Bank of Pakistan. Accordingly, the country has one of the lowest private sector credit-to-gross domestic product ratios in Asia," says Mr Qureshi.

Beyond Pakistan, Allied Bank acquired a licence to establish a representative office in China that will help it capture business opportunities associated with the China-Pakistan Economic Corridor.

PHILIPPINES BDO Unibank Capital markets transactions, the expansion of the bank's ***rural*** banking platform as well as posting strong financial results characterised BDO Unibank's positive ***performance*** in the Philippines in 2016.

"We invested in ***strategic*** initiatives for the bank's future growth. These include strengthening our life insurance business [BDO Life], launching our online stock trading services [BDO Nomura Securities],and expanding our ***rural*** banking platform," says Nestor Tan, CEO of BDO Unibank. In 2016, BDO opened 15 new branches in ***rural*** areas, taking the total number to 125.

Mr Tan is keen to continue expanding BDO's presence in the more financially excluded areas of the country. "We are looking to continue expanding in the provincial, underserved market to take advantage of growth opportunities in this sector. We are encouraged [by] the growth in this sector given the rapid growth and rising urbanisation in areas outside metropolitan Manila, the low banking penetration (about 70% of the population is still unbanked) and the country's favourable demographics," he says.

On the capital markets front, BDO reinforced its capital base via a chunky $1.2bn stock rights offer issued in January 2017. "[This was] recognised as the largest equity capital markets transaction by a Philippine bank to date," says Mr Tan.

This deal helped BDO face new market challenges. "I would say that the operating environment posed three challenges in 2017. [The] first was to comply with the increased global regulatory requirements and local macro-prudential directives intended to strengthen the banking industry. Second was the competition from the entry of foreign banks, directly or indirectly through local partners, and third was the uncertainties typically associated with any change in administration," says Mr Tan.

SINGAPORE DBS Technological development and innovation was at the centre of DBS's strong ***performance*** in Singapore, which helped the bank win the country's Bank of the Year award.

"In August, we launched Digibank in Indonesia, Asia's third most populous country. Digibank is a groundbreaking mobile-led bank that is paperless and signature-less, and brings together an entire suite of innovative technology to enable customers to enjoy a whole new way of banking. This launch follows the successful rollout of Digibank in India last year, and it has since acquired 1.6 million customers in 18 months," says Sim S Lim, Singapore country head at DBS.

In Singapore, the bank launched POSB Smart Buddy - the world's first tech savings and payments programme that teaches students about money management by tracking savings and spending digitally by using wearable technology such as watches. The programme was launched in 19 Singaporean schools and has 6000 participating students.

DBS also launched POSB Jolly, an app designed for low-income, foreign workers in Singapore. The app offers remittance services, phone top-ups and balance checking. POSB Jolly's simple design also helps overcome language barriers.

"We recently launched the world's largest banking application programming interface [API] developer platform, with more than 50 successful collaborations to date. By making available a wide array of APIs for other brands, corporates, fintechs and software developers to plug into, we see potential to significantly accelerate the bank's digital ambition and customer impact," says Mr Lim.

In the future, DBS will continue to grow its digital products as well as its international presence. "We recently received approval to establish a locally incorporated wholly owned subsidiary in India... We will be completing our acquisition of ANZ's retail and wealth business in Indonesia over the next year, enabling us to grow our business significantly," says Mr Lim.

SOUTH KOREA KEB Hana Bank The South Korean market posed a number of challenges to KEB Hana Bank in 2016. "As the low interest rate trend persisted, it became harder to recover net interest margins, while the prolonged economic slump raised the possibility of corporate insolvency in certain sectors, necessitating pre-emptive risk management. In addition, we needed to respond swiftly to changes in consumer behaviour and demands, as exemplified by Kakao Bank, the internet-only bank that is taking the market by storm, and the proliferation of fintech companies," says Ham Young-joo, president of KEB Hana Bank.

However, the lender still posted a yearon-year net profit increase of 26.8% in 2016, as well as a 9.9% growth in Tier 1 capital and a drop of 0.37 percentage points in its non-performing loan ratio in the same time period.

KEB Hana Bank's success was also down to it reinforcing its integrated synergies, according to Mr Ham. "The integration of IT systems and the cross-appointment of employees - policies enacted after the merger of KEB and Hana Bank in September 2015 to consolidate its internal base and create synergy - have begun to bear fruit over the past year. We believe that another of KEB Hana Bank's successes has been shaping a new organisational culture marked by collaboration and mutual respect, as well as a customer-oriented sales philosophy," he says.

The bank was equally successful abroad. As of the end of 2016, it operated a significant overseas network among South Korean banks. KEB Hana Bank's international achievements include converting its Mexico City office to a subsidiary and opening a branch in Gurgaon, India. The lender also made equity investments in a Singaporebased reinsurer and in a China-based asset management company, while acquiring a securities business licence in Hong Kong in April 2017.

SRI LANKA Hatton National Bank Hatton National Bank's (HNB's) strong financial results stood out among Sri Lankan banks in 2016. The lender registered a year-on-year net profit growth of 35.36% and a Tier 1 capital increase of 24.06% while cutting its non-performing loan ratio from 2.43% to 1.8% in the same time period.

"We experienced transformational growth, culminating with HNB ranking as the most profitable private sector banking group in Sri Lanka last year," says Jonathan Alles, managing director and CEO of HNB.

"Our ***strategic*** focus enabled us to record outstanding balance sheet growth and one of the highest net interest margins in the industry, while improving our operational efficiency as evidenced by a significant drop in our cost-to-income ratio to 42.5%, [a reduction of ] 340 basis points."

After centralising its retail and small and medium-sized enterprise (SME) credit processing, HNB set up a new central security repository and a new system for centralised disbursements. The lender also set up SME cells in its regional units, which contributed to a 25% growth in SME lending to SLRs161bn ($1.05bn).

On the digital front, HNB appointed a chief digital officer in 2016. A year later, the bank launched five digital branches. It also expanded the number of ATMs offering a number of digital banking services. Today, 60% of deposits are made through these ATMs and 76% of customer withdrawals are made through digital channels.

In the future, Mr Alles is keen to take advantage of Sri Lanka's developing economy. "As Sri Lanka progresses towards upper-middle-income status, we see enormous potential in the SME and retail segm e n t s a n d i n f u n d i ng la r g e -s c a l e development projects. We are well placed to capture the growth potential in the country," he says.

TAIWAN First Commercial Bank International expansion, programmes to improve financial inclusion both at home and abroad as well as strong support of small and medium-sized enterprises (SMEs) defined First Commercial Bank's (FCB's) strong ***performance*** in Taiwan in 2016.

"The bank remained Taiwan's number one and largest SME lender for the sixth consecutive year, which enhanced [our] net interest margin," says president Grace ML Jeng.

In March 2016, FCB became the first bank in Taiwan to set up a fintech company - Turn Cloud Technology - via a joint venture. "By combining technology and financial services, we are able to provide customers with fully integrated innovative financial service offerings," says Ms Jeng.

Beyond Taiwan, FCB opened subbranches in Phnom Penh and a branch in Manila. "The bank has been actively developing its overseas presence in recent years and has become one of the most internationalised banks. In [total], the bank has 35 overseas operating units. With the continuing expansion of our network, overseas operations [have] become [a major] revenue contributor. In 2016, the bank's consolidated pre-tax profit increased by 7.6% to a record high of $635m, about 30% of which was [generated from] overseas operations," says Ms Jeng.

FCB's overseas units also promote financial inclusion. In Cambodia, the bank has a mobile clinic programme providing local residents with general medical services, surgical procedures and dental care, among other offerings. So far, nearly 3000 people have benefited from this initiative.

International expansion will continue to shape FCB's strategy. "We will continuously expand our Asia-Pacific regional network and leverage electronic transaction capabilities to respond to changes and meet new challenges. Echoing the overseas expansion, we aim to create more cross-border business opportunities through seamless inter-branch collaboration worldwide," says Ms Jeng.

THAILAND Siam Commercial Bank New technology products and investments were at the core of Siam Commercial Bank's strong ***performance*** in Thailand in 2016. In the past year, the bank has transformed the entire institution, focusing on its internal processes, products or helping staff adapt to new technologies.

As part of its technological transformation, Siam Commercial Bank founded Digital Ventures with a $50m investment. Its main functions are corporate venture capital, the development of digital financial products and running an accelerator.

The first aspect involves investments in tech start-ups. Through Digital Ventures, Siam Commercial Bank made investments in Singapore-based Golden Gate Ventures Fund and in Ripple, a US blockchain payments system. This was the first time that a Thai financial institution invested in enterprise-level blockchain technology. The second aspect of Digital Ventures includes research and development of Siam Commercial Bank's own financial technology products, in areas such as blockchain and machine learning. Third, Digital Ventures' accelerator provides advisory services and funding for Thai and south-east Asian fintech start-ups.

The bank is also involved in promoting financial inclusion. It has renewed its focus on developing accessible financial services, including credit products for low-income customers or for small business entrepreneurs. Its network of more than 1000 branches and 9700 ATMs across Thailand helps Siam Commercial Bank reach out to the unbanked groups in the country.

Siam Commercial Bank reported strong financial results in 2016. Tier 1 capital grew 11% year on year to Bt294.6bn ($8.9bn) while assets grew 5% to Bt2913.02bn in the same period. The lender also managed to cut its non-performing loans ratio from 2.89% in 2015 to 2.67% in 2016.

TURKMENISTAN The State Bank for Foreign Economic Affairs of Turkmenistan With another year of profit growth and innovative products for its clients, the State Bank for Foreign Economic Affairs of Turkmenistan is Bank of the Year in the country. In 2016, State Bank recorded a 31.7% increase in assets due to an inflow of facilities to client accounts, as well as new lines. In the past year, State Bank started offering a range of services in co-operation with MasterCard, and since 1994 it has issued Visa cards - making it the only bank in the country to offer international cards.

The lender is introducing digital solutions and all of its corporate clients have taken up State Bank remote banking solutions. The bank further provides text message and email information services, for example, on money movements in customers' accounts and on the remaining account balance, while corporate clients have the option to track their transfers and get statements on balances through the internet. These services are a first in Turkmenistan.

To improve the service for its customers, State Bank has also opened two additional branches: one in the regions and one in the capital. Both branches are directed towards the development of retail business and the improvement of servicing State Bank's individual customers. By the end of 2017, the lender aims to open one more branch office in the country's new airport.

Going forward, State Bank wants to increase the number of access points for customers. Its information service is already working 24/7. Consultation services are delivered to customers through its branches, over the telephone and through email.

In accordance with the requirements of national legislation and recommendations of international organisations, State Bank is implementing anti-money laundering policies and has introduced the 'know your customer' concept.

UZBEKISTAN Asia Alliance Bank After years of economic growth about 8%, gross domestic product expansion dipped slightly to 7.8% in Uzbekistan in 2016, and is expected to slow further, to about 6%, in 2017 and the next few years, according t o fi g u r e s f r o m t h e In t e r n a t i o n a l Monetary Fund.

In this environment, Asia Alliance Bank enjoyed a growth in assets of 7.8% in 2016, and significant improvement in Tier 1 capital of about 25% to UZS193.4bn ($23.9m).

Asia Alliance Bank has shown an impressive ability to generate capital from internal sources, according to its chief executive Ikram Abdukakhorov. This, as well as its "stable level of funding" due to an increase in the deposit base and thanks to additional resources from international financial institutions, "enabled us not only to ensure a smooth transition to the new requirements of Basel III, but also to maintain strong capital stock and liquidity for further expansion of our activities," says Mr Abdukakhorov.

The lender further diversified its business and strengthened its franchise, while growing its loan book less aggressively - something rating agency Moody's saw as a positive when it upgraded the bank's rating from B3 to B2 in December 2016.

At the beginning of 2017, Asia Alliance Bank's loan portfolio made up about 62% of its assets, while the non-performing loan ratio was below 1% of gross loans.

"In the coming year, we will focus on further improving our financial stability and the implementation of measures to strengthen our capital and funding base," says Mr Abdukakhorov.

"We will also seek to expand the range and quality of our banking services through the extensive use of advanced information and communication technologies, as well as our e-banking system and cashless payments using plastic cards."

VIETNAM Saigon-Hanoi Bank Strong financial results, the acquisition of a consumer finance company and a significant contribution to improving financial inclusion in Vietnam defined Saigon-Hanoi Bank's notable ***performance*** in 2016.

The lender's net profits grew 13.7% year on year to VND1156bn ($50.4bn) in 2016, while Tier 1 capital and assets increased by 17.45% and 14.29%, reaching VND11,706bn and VND233,947bn, respectively. The bank managed to cut its cost-to-income ratio from 47% to 45% in the same time period.

Saigon-Hanoi Bank also increased its customer deposit base by almost 20% in 2016, at a time when the average growth in Vietnam's banking sector totalled 14%.

The acquisition of Vinaconex-Viettel Finance Company was one of 2016's most notable events for Saigon-Hanoi Bank, which set up a 100%-owned subsidiary consumer finance company as a result. Thanks to this deal, the lender's charter capital grew by VND1000bn, helping to increase its equity and capital adequacy ratios. This transaction was well timed for a market such as Vietnam, which has a youthful population of 90 million.

Saigon-Hanoi Bank also doubled its trade finance credit line with the Asian Development Bank to $50m. This will help the bank offer more trade finance products to corporate clients, especially small and medium-sized Vietnamese importers. The lender is one of 11 Vietnamese banks involved in the Asian Development Bank's trade finance programme.

Supporting financial inclusion was at the heart of Saigon-Hanoi Bank's work in 2016. As of March 2017, the ***agriculture*** sector accounted for 40% of the bank's total outstanding loans. It also offered subsidised loans to the Vietnam Food Association and loans to ***rural*** business households that are adopting new manufacturing models or using technology in ***agricultural*** production and exports.

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state Bank offers a range of serviCes in Co-operation with masterCard, and is the only Bank in the Country to offer international Cards

saigon-hanoi Bank is one of 11 vietnamese Banks involved in the asian development Bank's trade finanCe programme

**Graphic**

Tony Barned, CEO, Afghanistan International BankNaser Ezaz Bijoy, CEO, Standard Chartered Bank BangladeshPierre Imhof, CEO, Baiduri BankTan Sri Dato' Sri Dr Teh Hong Piow, chairman, Campu BankChen Siqing, chairman, BOC Hong KongMagzhan Auezov, chief executive, ForteBankKanetsugu Mike, deputy chairman, MUFGSevki Sarilar, general manager, DemirKyrgyz International BankZhu Xiaoping, chairman, ICBC MacauBold Magvan, CEO, XacBankSunil KC, CEO, NMB BankTahir Hassan Qureshi, CEO, Allied BankBarbara Chapman, CEO, ASBHam Youngjoo, president, KEB Hana BankSim S Lim, Singapore country head, DBSJonathan Alles, managing director and CEO, Hatton National BankGrace ML Jeng, president, FCBAsia Alliance Bank chief executive Ikram Abdukakhorov

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**Body**

These are crucial times for Saudi Arabia's power and water sectors as both move through a process of major reform. Privatisation is at a more advanced stage in water than in power, but the next few years should see substantial change in both markets, providing significant opportunities for investors.

Projects that use a wider range of energy sources are also in the planning and development stages, while efficiency in distribution and usage is being strongly promoted, alongside a further reduction in subsidies through reorganisation of the electricity tariff system.

Meanwhile, major desalination projects are under way, along with the roll out of new sewage and waste-water treatment plants, reservoirs, leakage reduction measures, transmission networks and groundwater conservation schemes. The Kingdom has set itself some ambitious short- and long-term goals for both sectors, with a shift towards a more market-oriented approach a key objective of the reforms.

**Water**

Saudi Arabia has historically relied on underground sources and reservoirs for its water, as it possesses no permanent running surface water and on average only experiences around 100 mm of rainfall a year. A system of wells and irrigation channels known as *falaj* supplied farms and settlements in the past, with the mining of fossil subsurface water accelerating as the country developed. Centre pivot irrigation, which uses water pumped from an underground aquifer, has since become more widespread.

Population and economic growth, however, have long outstripped the capacity of these ancient resources to meet demand. Thus, Saudi Arabia turned to desalination plants as early as the mid-1950s, and today the Kingdom has the largest number of these facilities of any country in the world, with 30 plants together responsible for 18% of global desalinated water output. Since 1965 they have been under the jurisdiction of the Saline Water Conversion Corporation (SWCC), which was initially under the mandate of the Ministry of ***Agriculture*** but became an independent entity in 1974. The SWCC is responsible for a proportion of power generation in the country as well as the distribution of desalinated water to various regions across the Kingdom.

Saudi Arabia's desalination plants use a wide range of technologies. Multi-stage flash (MSF) processes account for 64% of desalination capacity, reverse osmosis for 20% and multi-effect distillation 16%.

**Growing Demand**

Factors such as a rapidly expanding population, changing household habits in water usage, and higher demand from industry and services have resulted in the country's water consumption ranking as one of the highest in the world at more than 300 litres per person per day.

Until 1994 domestic water was provided free of charge to Saudi households, with costs remaining comparatively low thereafter. A cut in subsidies introduced at the end of 2015 changed this, however, bringing about an increase in consumer prices.

Historically, the supply of water has been the responsibility of the state, with the Ministry of Water and Electricity (MoWE), divided into regional water directorates, the overall sector authority until May 2016. The MoWE was then broken up and water authority transferred to the new Ministry of Environment, Water and ***Agriculture*** (MEWA), while responsibility for the electricity sector was passed to the Ministry of Energy, Industry and Mineral Resources (MEIMR). MEWA consists of the Directorate of Water Affairs and the Directorate of Water Services, both of which have a broad range of responsibilities, from the management of non-renewable and renewable underground water, to the organisation and management of reused and treated wastewater.

**Drive To Privatise**

MEWA also established a Privatisation and Investment Directorate to drive the eventual objective of privatising water services throughout the Kingdom. This came after a series of ***strategic*** decisions by the Saudi authorities, stretching back to 1997, to bring water utilities under private sector control, leaving the state with a purely regulatory role. To this end, in 2001 the government established the Electricity and Cogeneration Regulatory Authority (ECRA), to oversee the provision of power and desalinated water.

**IWPPS**

This was followed in 2002 with the establishment of the framework for private sector participation through build-own-operate and build-own-operate-transfer schemes, laying the groundwork for the development of independent water and power projects (IWPPs). The first IWPP, undertaken in 2007 just outside Jeddah, was the Shuaibah III power and desalination plant, while the 2700-MW-capacity Marafiq complex in Jubail, built in 2008, is now the world's largest IWPP. These IWPPs sell their water and power to the main buyer, the Water and Electricity Company (WEC), which then sells water on to the SWCC and electricity to Saudi Electricity Company (SEC).

In 2005 water sector privatisation was initiated by royal decree, while MoWE's five-year ***Strategic*** Transformation Plan - which aimed to encourage more private sector participation - was unveiled.

In 2008 royal approval was granted for the privatisation of the SWCC, with the National Water Company (NWC) - a fully state-owned, joint-stock company - established in the same year to provide drinking water and wastewater services. The NWC takes water from the SWCC and sells it on to consumers. In recent years it has done this for the largest cities - Riyadh, Jeddah, Makkah and Taif - in partnership with foreign operators. These include public-private partnerships with France's Veolia, Suez Group and Saur Group, as well as Saudi Arabia's Al Zamil. MEWA is still the direct provider in some ***rural*** areas.

**Desalination Targets**

Private sector engagement is also being sought in desalination, with MEWA aiming for private operators to increase their share of desalinated water production from 16% to 52% as part of the National Transformation Programme (NTP) 2020. The NTP was published in 2016 with the aim of helping to fulfil the aim of the country's longerterm development plan, Vision 2030, part of which looks to promote the optimal use of water resources, and increase desalinated and treated water output through ***strategic*** partners.

In 2016 the SWCC announced that it had plans to invest around $80bn by 2025 to boost desalinated water production to 8.5m cu metres per day from its current capacity of 3.6m cu metres.

One of the developments currently being pursued by the SWCC is the third phase of the $1.37bn Yanbu plant, a reverse osmosis seawater desalination plant, which will supply 550,000 cu metres of water per day to the city of Medina, along with 2500 MW of power once the plant is in operation. Another major project is Jeddah IV, which will add a further 400,000 cu metres per day to the city's water supply. According to MEWA, the SWCC will only be a distributor, while the WEC will remain the principal buyer and it is likely that ECRA will have its regulatory powers extended over downstream as well as upstream processes.

Downstream, the first stage of the strategy involves clustering regional companies into five or six entities, though the NWC will continue the single leadership structure for the downstream too. The firm has invested $6.7bn in more than 300 projects in water infrastructure development and treatment in Makkah, Jeddah, Riyadh and Taif in recent years.

**Treatment**

MEWA has increased its investment in sewerage, initiating some 75 new schemes in 2015 alone. In 2016 it followed these actions up by awarding contracts for a number of sewerage projects, which were valued at $142.4m in total. These investments have also provided a boost to water production, with treated sewage effluent (TSE) becoming more widely available for use in non-potable applications. The NWC set up a TSE business unit to commercially market the product, achieving remarkable success before being spun off as a separate unit in 2012. Contracts to supply TSE on a long-term basis to outfits including SEC, Saudi Tabreed and Bariq Mining were signed before the unit became a separate entity.

TSE and grey water - non-toilet wastewater from homes and office buildings - may have more uses, too. For example, the NTP states that the proportion of water used in ***agriculture*** relative to the amount of water available from renewable sources is 416%. In line with the Kingdom's developmental goals established in Vision 2030, the NTP aims to reduce this to 191% by 2020, while increasing the proportion of renewable water used in ***agriculture*** from 13% to 35%.

The NTP has set some other important targets for the privatisation of the water sector. These include boosting the percentage of desalinated water produced by ***strategic*** partners from 16% to 52%, and raising its contribution to the country's total output of treated water from 0% to 20%. The NTP also targets expanding the NWC's coverage from 42% of cities with water and sewerage services to 70%.

**Electricity**

As with water, the regulator for electricity is ECRA. The sector is also moving towards privatisation, with ECRA launching an Electricity Industry Restructuring Plan in 2009. This involves the unbundling of SEC, creating an open generation and distribution market, establishing a transmission company and a parallel market where large consumers can buy power from the producer of their choice. Although slow to start, progress has been made, with the creation of the National Grid in 2012, and a memorandum of understanding signed between ECRA and SEC in 2013 outlining both parties' commitments and actions that will be taken as part of the restructuring.

The NTP also includes a series of key ***performance*** ***indicators*** for electricity. These target several areas in efficiency, coverage and also guidelines regarding sector presence of ***strategic***, private sector partners.

Alongside broader market reforms, in December 2017 ECRA announced a reorganisation of its electricity tariff system for low-consumption residential and commercial customers. Coming into effect on January 1, 2018, the system is an attempt to gradually raise electricity prices, with the lowest residential category being increased from 5 halalas ($0.01) to 18 halalas ($0.05) per KWh. The savings will be used to support low- and middle-income families through the Citizen's Account welfare programme, the authority said in a press release. The measures are, in part, a move to bring national electricity tariffs in line with international standards, in accordance with the Kingdom's Fiscal Balance Programme 2020, but will not affect tariffs for the industrial sector, in order not to impact the pursuit of non-oil growth.

The MEIMR's goals under the medium-term development plan include raising fuel efficiency in electricity production from 33% to 40% and increasing the share of total electricity output generated by private partners from 27% to 100%. In other words, a radical change in the energy mix and in generation capacity are part of the proposed restructuring. In terms of transmission and distribution, the objectives include reducing the annual number of outages that last more than five minutes from 6.36 to three, lowering the average duration of an outage from 262 minutes to 120 minutes, boosting the reserve generation capacity from 10% to 12% and increasing overall grid coverage from 99% to 99.5%.

**Challenges**

As is the case with water, the electricity sector faces challenges in terms of demographics and economic growth, with demand rising fast, and in recent years energy consumption has grown rapidly. Oil and gas have traditionally been the main energy sources used in electricity generation, with Saudi Arabia one of the few countries still burning oil to generate a significant proportion of its power.

According to the "BP Statistical Review of World Energy 2017", the country generated 330.5 TWh of electricity in 2016, up from 328.1 TWh in 2015. Growth in output over the previous 10 years had averaged 6.4% per year, which was below nominal GDP growth over the period between 2006 and 2016, but considerably higher than real GDP growth. While electricity demand continues to rise faster than either, the 2017 summer peak was lower than that of 2016, suggesting consumers may be curbing usage in anticipation of forthcoming tariff changes.

Looking ahead, forecasts also vary, with Business Monitor International anticipating demand doubling by 2030, and BP reporting yearly growth of 5.1% from 2005 until 2015. This represents both a major challenge and a clear opportunity for investors.

The largest organisation in the field currently is SEC, which was formed in 2000 after a merger of several regional companies and the General Electricity Corporation. Since then SEC has undergone periodic restructurings, creating National Grid - a spin-off transmission company - in 2012. In 2014 Energy Trading and New Ventures, another subsidiary, was created to handle SEC's commercial relations with electrical power producers and customers, and will have a key role in establishing links with the ***strategic*** partners mentioned in the NTP.

**Capacities**

In 2016 SEC had a total generation capacity of some 74.3 GW and sold 287,692 GWh, slightly up from the 285,674 GWh it sold in 2015, registering a compound annual growth rate (CAGR) in sales of 5.5% in the 2011-16 period.

Approximately 50% of GW sold in 2016 went to residential customers, 16% went to commercial consumers, 16% to industrial, 14% to the government and 4% to others. The company had 8.5m customers in 2016, up from 8.1m the year before, giving it a five-year CAGR of 6.3% in number of customers. SEC also managed to boost its installed capacity in 2016 by 9.4%, adding a further 4.7 GW.

This additional capacity was spread across the company's four geographical zones - Central, Eastern, Western and Southern. The Central Zone contains Power Plant 10 and Power Plant 12. Power Plant 10 benefitted from the addition of seven steam generation units, a total added capacity of 806 MW, while Power Plant 12 had two steam generation units installed, adding 682 MW in total.

The Eastern Zone saw the addition of two 77-MW gas generation units at the Al Qurayyat Power Plant, and one 70-MW gas generation unit at the Rafha Power Plant, while the Western Zone had four 72-MW steam generation units at the South Jeddah plant and two 20-MW mobile gas generation units at the Tabouk 2 plant. Lastly, with a total added capacity of 93 MW, four gas generation mobile units were added to the Southern Zone's Jazan Power Plant.

In addition to SEC, both the SWCC and Saudi Aramco produce electricity. The SWCC's MSF desalination plants are dual purpose, with the electricity generated being used in part to power the desalination process, with the surplus exported to SEC. Likewise, Saudi Aramco generates power for and from its own facilities, while selling surplus to the grid. Moreover, two co-generation plants operated by IWPPs produce electricity. These are the Jubail Water and Electricity Company's 2.9-GW-capacity plant, and the Shuaibah Water and Electricity Company's 1.2-GW facility.

Under the Kingdom's strategy to boost private sector involvement in generation, there are a number of independent power station projects that are either currently being developed or have recently been completed. Beginning commercial operations in 2016, the 3927-MW Qurayyah-1 plant was the largest of its kind in the world when launched. Others include the natural gas, combined-cycle 2060-MW Rabigh-2 in Makkah; the 1505-MW Al Fadhili Plant, a joint venture (JV) with Saudi Aramco, which is expected to be completed in 2019; and the 3800-MW Jazan Plant Project, another JV with Saudi Aramco.

National Grid's 110-380-KV transmission network reached 65,186 km in 2015, while at the distribution end the year saw 502,000 new SEC customers as 150 new communities were supplied with electricity. The transmission network has been regularly expanded over the years, with 5161 km of overhead networks and ground cables being added in 2016, along with 65 new transmission substations.

**Meeting Demand**

With demand for electricity expanding at a rapid rate, the Kingdom needs to add around 4 GW of generation capacity per year to match recent growth. At the same time, using fuel oil for so much of its power generation has been expensive, even during periods of lower oil prices, and means that Saudi Arabia is using up non-renewable resources at home that could be generating export income. In order to curb domestic energy consumption, on January 1, 2018 the MEIMR implemented fuel price increases, which saw Octane 91 fuel rising from SR0.75 ($0.20) per litre to SR1.37 ($0.37) per litre - an 82% increase - and Octane 95 from SR0.90 ($0.24) to SR2.04 ($0.54), up 126%, with diesel prices for transport unaffected. In recent times there have also been moves to widen the energy mix to include solar (see analysis) and potentially nuclear power, while new, more fuel-efficient systems have been put in place at existing power stations and are a requirement in the construction of new facilities. Meanwhile, a major campaign to manage demand has begun, ranging from smart grid applications to encouraging people to conserve and value energy.

On the generation side, Saudi Arabia has been pursuing a nuclear strategy for some years. In 2010 the King Abdullah City for Atomic and Renewable Energy (KACARE) was established to lead the Kingdom's nuclear programme development. In January 2016 KACARE signed an agreement with China Nuclear Engineering Corporation to build a high-temperature reactor in Saudi Arabia, signing a further cooperation agreement in March 2017. That month also saw the Saudi Geological Survey sign an exploration agreement with the China National Nuclear Corporation to explore nine potential uranium-bearing sites around the Kingdom over the following two years. Saudi Arabia has also signed feasibility study agreements with other nuclear producers, such as South Korea.

**Efficiency**

SEC has been upgrading its stations for some years, with the aim of increasing efficiency. Many began operations more than 25 years ago, so moves are being made to convert open-cycle stations to combined-cycle, which should boost plant efficiency from 33% to over 45%. In 2016 SEC produced 24.6% of its total power via the combined-cycle method, up from just 8.3% in 2010.

The establishment of the Saudi Energy Efficiency Centre in 2010 is also boosting efficiencies at the consumer level. In 2012 it began working on the Saudi Energy Efficiency Programme (SEEP) focusing on industry, transportation and buildings - the sectors responsible for some 90% of energy consumption. Under the SEEP, 12 teams and 84 initiatives have since been launched, with the aim of developing and implementing new standards in electrical motors, and producing new fuel economy software.

Meanwhile, SEC is also pursuing the objective of achieving 100% smart meter penetration by 2025. "There are opportunities for Saudi-made technologies to compete in niche markets domestically and abroad," Abdullah Alkhorayef, CEO of Alkhorayef Commercial Group, told OBG. "Power solutions for ***agricultural***, residential and industrial customers are in high demand in the region."

**Outlook**

These are busy times for the power and water sectors, with full privatisation on the agenda. While the water industry has advanced further down this road, the year ahead will likely see a greater role for private companies in power too. Meanwhile, efforts to widen the energy mix and manage demand are creating further opportunities, alongside smart metering and other ICT-based systems, hard infrastructure construction, and power and water project financing. Demand for both resources continues to increase, and this is expected to remain the case.

**Load-Date:** March 12, 2020

**End of Document**



[***Public and private facilities find their place in providing quality health care and services to residents in Sri Lanka***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5WS6-C4X1-DXYV-72R8-00000-00&context=1516831)

Oxford Business Group: Articles

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**Body**

Despite spending only a small percentage of its GDP on health, Sri Lanka is seen as a relative success story in South Asia. It has successfully tackled a raft of infectious diseases - from malaria to filariasis and rabies - that once ravaged its population, and created a public health system that provides inexpensive and quality care to all. Free universal health care is enshrined in the country's constitution and the government runs the majority of the nation's hospitals.

Like many developing nations, more sedentary lifestyles and changing diets have created a new burden for health services with a rising incidence of diabetes, heart disease and cancer. An ageing population is another issue - around 30% of the population is expected to be elderly by the year 2030. Furthermore, rising incomes mean higher expectations. Citizens are likely to demand improvements to public services as Sri Lanka moves from a low- to middle-income country.

"Although the model of extensive public provision has served Sri Lanka well, the country now finds itself at a crossroads," the World Bank wrote in its Country Snapshot in October 2016. "Servicing the needs of the elderly, as well as treating and managing NCDs [Non-Communicable Diseases] requires longer-term and more expensive services relative to maternal and child health, and infectious diseases ***interventions***."

**Sector Oversight**

The Ministry of Health, Nutrition and Indigenous Medicine (MoHNIM) is responsible for disease control, preventive medicine - including family health, mental health and NCDs - curative medicine (the provision of hospitals) as well as other areas including oral health and the development of the country's private health sector.

The Department of Ayurveda is dedicated to Sri Lanka's 3000-year-old practice of indigenous medicine, with four specialisations: *Ayurveda*(the balance between mind, body and spirit for health and wellness), *Unani*(traditional medicine based on the four humours)*, Siddha* (Tamil traditional medicine where the functions of the body are a combination of seven elements), and *Paramparika*(the name for traditional physicians who have had no formal institutional training). More than 3m patients each year opt for indigenous treatments.

**A Successful Record**

Key statistics underline the successes of Sri Lanka's health system. In 2015 the country ranked 73rd out of 188 countries in the UN's Human Development Index, with a score of 0.766. Life expectancy at birth rose to 74.9 years in 2015 compared to 74.1 years in 2010, according to organisation data. The infant mortality rate declined to 8.2 per 1000 births compared to 9.4 just five years earlier. As estimated 89.7% of the population has access to safe drinking water - with 44.9% enjoying piped water - helping to reduce the risk of water-borne diseases.

The island was certified malaria-free by the World Health Organisation (WHO) in September 2016, having been among the most affected countries in the world in the mid-20th century. Dr Poonam Khetrapal Singh, regional director at the WHO, noted Sri Lanka's targeted approach of prompt and effective treatment, coupled with mosquito eradication efforts and the involvement of local communities for its success in tackling the mosquito-borne disease. No locally transmitted cases have been reported for nearly four years.

Sri Lanka has also worked diligently to reduce the incidence of rabies in the country, becoming the first country in the South-east Asia region to develop a national strategy for the elimination of a disease that is carried mainly by dogs and is almost always fatal without a prompt response. It has made post-exposure treatment available in government health facilities free of charge and is targeting zero rabies deaths by 2020, compared to a global target of 2030. The country recorded 12 deaths in the first nine months of 2016, compared to 24 in the whole of 2015 and 377 in 1970. "Political will and leadership have been the main drivers for success in the Sri Lankan effort to reduce the burden of disease attributable to rabies," says a research paper published in the WHO South-east Asia Journal of Public Health in September 2016.

**By The Numbers**

At the end of 2015 Sri Lanka had 610 public hospitals and 217 private hospitals, up from 568 and 172, respectively, in 2010. All together the country's hospitals provide around 76,800 beds. Doctors totalled approximately 21,800 in 2015, up from 16,500 in 2010, while the number of nurses and midwives were around 32,300 and 8300, respectively. According to the World Bank, Sri Lankans are, on average, within 1.4 km of a basic health clinic and within 4.8 km of a state-run, western-style facility.

As much as 70% of Sri Lanka's ***rural*** population use indigenous medicine such as Ayurveda, with dedicated hospitals and clinics and a total of 1400 staff recruited under the Department of Ayurveda. There are more than 8000 traditional medical practitioners, three Ayurveda teaching hospitals, three research hospitals and 56 provincial hospitals. In addition, the sector has its own regulatory body - the Sri Lanka Ayurveda Medical Council.

The industry is built on a rich tradition related not only to curing disease, but also to religion and culture. The government is keen to draw on the island's status as a biological hotspot to expand the sector further, as Sri Lanka is home to some 1500 species of the world's 8000 known medicinal plants. Over the past decade the government has been following the Health Sector Master Plan that was launched in 2007 and structured around the UN's Millennium Development Goals. The plan is characterised by increased investment in infrastructure and more equitable development, with a focus on under-served regions and improving the delivery of public services.

The 2017 budget plans for health show that 49% of the estimated total capital expenditure of LKR40.4bn ($275.6m) is targeted for hospital development projects and 16% for hospital rehabilitation works. Among the largest investments is an 850-bed maternity facility at the Helmut Kohl Maternity Hospital in Karapitiya, as well as improvement works to the hospitals in Jaffna, Anuradhapura and Kurunegala. Work is also under way on specialised cancer and cardiology centres so that Sri Lankans do not have to travel overseas for such treatments. Many health infrastructure improvement projects are undertaken with the assistance of foreign governments including China, the Netherlands and India.

**War Effects**

Sri Lanka is also seeking to address the legacy of its long years of conflict and colonialism, which have created large disparities in the availability of care in former war zones of the north and east, as well as for residents of ***agricultural*** estates, many of whom are ethnic Tamils encouraged to settle on plantations by the British when they controlled Sri Lanka.

Such communities had limited health care provision until the mid-1970s, at which time the government began gradually assuming more responsibility over care in those areas. In 1997 the Estate and Urban Health Unit was established under the Ministry of Health. The unit now operates 37 hospitals across the country's plantations.

Direct ***intervention*** has helped reduce infant mortality rates, but its incidence remains considerably higher in these plantations than in the country's other ***rural*** and urban areas. Additionally, the children of plantation workers are more likely to suffer from stunted height and low birth weight.

In the former conflict zones, health facilities - some of which became targets in the war - are being rebuilt, and families displaced by the fighting have returned. However, in places such as Mullaitivu, the site of ferocious battles in the last weeks of the war, the maternal mortality rate is 110 per 1000 live births, compared with 8.7 per 1000 live births in the capital. Decades of war affected the provision of essential health services, creating "poverty pockets" where access to medical assistance remains poor, says Thiloma Munasinghe, a consultant community physician who spoke with SciDev.Net, a website that analyses and publishes news on global development.

The war has also left a legacy of mental scars and trauma among combatants and civilians. The suicide rate on the island is the eighth highest in the world, according to the WHO, which has worked with the MoHNIM to develop mental health services. Around a quarter of the population suffers from some form of mental illness, according to the National Institute of Mental Health, which operates the country's largest hospital for those suffering from psychiatric disorders. Nevertheless, Sri Lanka has only 90 consultant psychiatrists and 55 specialised psychiatric nurses.

The government has developed the Medical Officer of Mental Health programme to provide qualified doctors with additional psychiatric training so they can provide more specialised mental health care, but it is likely to be some time before there is an adequate staff to population ratio in this area. The programme has trained some 200 medical officers through 2016.

**Space For The Private Sector**

Private health offerings took off in Sri Lanka in the 1980s, shortly after the government allowed public sector physicians to operate in private practice and then relaxed a long-held aversion to the provision of vital services by for-profit companies. A mid-2014 review by the World Bank found the private health sector in Sri Lanka to be a "growing force", one that reflected rising levels of investment as well as greater demand from a local population whose incomes are increasing. The economy grew at an average of 6.4% per year between 2010 and 2015, lifting per capita income to $3924 in 2015, according to the organisation.

Private health is dominated by locally-owned firms: Lanka Hospitals Corporation, in which state-owned Sri Lanka Insurance has a 54.6% stake; Nawaloka Hospitals; Durdans Hospitals (owned by Ceylon Hospitals); and Asiri Hospital Holdings, which is controlled by the Softlogic Group, a company listed on the Colombo Stock Exchange. Public-private partnerships (PPP) are rare, with most private firms operating independently. Ravi Karunanayake, then-minister of finance and current minister of foreign affairs, suggested in the 2016 budget speech that the government might sell some of its business interests, increasing speculation that the Sri Lanka Insurance Corporation may sell its majority stake in Lanka Hospitals.

Private care is currently concentrated in the wealthier western province, Colombo and other main urban centres where people tend to have higher incomes. Private operators focus on curative medicine and outpatient services, and attract patients who want to get treatment more quickly or enjoy more privacy, says Dr Wimal Karandagoda of Durdans Hospital, which was established in 1945 in Colombo.

The majority of patients pay for treatment out of their own pockets, with few subsidies from the government or payments from insurance companies. Private health expenditure, mostly covering doctor fees, is more than half of total health expenditure, according to the World Bank. Private health care revenues are expected to record a compound annual growth rate of 8.3% from 2013-20, with revenue reaching $2.1bn by 2020. The government's decision to suspend the 15% value-added tax (VAT) that was imposed on health care services in May 2016 was welcomed by the industry. Operators such as Softlogic Group said the tax made private sector treatment too costly for some patients, adversely affecting their business.

**Private Growth**

Expansion in the private sector has also been supported by patients who travel from countries such as the Maldives for treatment in Sri Lanka. The government identified medical tourism as a potential source of income and economic growth in 2014 when it launched the 2015-20 National Masterplan Initiative on Medical Tourism in conjunction with the Private Hospitals Association. Some hospitals are seeking international accreditation as a way to make themselves more marketable, particularly internationally where Sri Lanka is competing with established medical tourism providers such as Malaysia and Thailand. Durdans Hospital was the first to be accredited with the Gold Seal of Approval from Joint Commission International in 2014, a US-based accreditation scheme. Meanwhile, in 2016 Lanka Hospitals became the first in the country to secure accreditation with the US-based Medical Travel Quality Alliance. The former operates a 350-bed tertiary hospital and has its own international patient care centre to cater to the needs of patients who have travelled from overseas.

The expansion of the private sector, however, is putting pressure on staffing requirements because many doctors work in both the public and private sectors, and both rely on the same universities and institutions to train staff. While doctors are allowed to work fluidly between both sectors, that is not the case for all medical professionals, such as nurses. "There is a lack of standardisation between public and private hospitals which creates rigidity in the sector. Public hospitals don't recognise the certificates of qualifications that nurses obtain from private hospitals," Ajith Tudawe, chairman at Durdans Hospital, told OBG. Private sector operators told the World Bank that a lack of qualified medical personnel was the biggest barrier to their success, followed by limited access to finance and land, and competition from providers.

The government is trying to address the staffing issue through a number of initiatives. With its eye on international patients, it is streamlining the process for appointing foreign specialists to temporary contracts. The 2017 budget also includes a youth training programme for the health care sector, with the state providing trainees with a monthly stipend of LKR10,000 ($68.20) over the three-month initiative, and a job upon completion. It also set aside LKR200m ($1.4m) to upgrade training schools for nurses.

**Regulating The Industry**

Sri Lanka's health care sector is regulated by the MoHNIM, which leads all policy-making and implementation, assisted by ministries across the country's nine provinces and, below them, 25 ministries at district level.

The operations of the private sector fall under the Private Health Services Regulatory Council (PHSRC), which was formed as part of the Private Medical Institutions (Registration) Act No. 21 of 2006, and is headed by the director-general of health services. All private providers are supposed to register with the PHSRC, but research by the World Bank in June 2014 found that the system was "not functioning optimally" because a significant percentage of privately-operated facilities were providing medical services without being registered by the relevant authorities. The report also questioned the independence of the regulator, whose members include the private providers that the body is supposed to oversee.

In addition to the regulatory council, the Sri Lanka Medical Council (SLMC) enforces standards and discipline. It includes representatives from the profession as well as from the medical faculties of the country's public universities, with the aim of protecting patients. Under the Medical (Amendment) Act No. 30 of 1987, the SLMC can enter training institutions to check standards and recommend the withdrawal of recognition for those who fail to make the grade. The Postgraduate Institute of Medicine, which is affiliated with the University of Colombo, is responsible for the specialist training of doctors at the postgraduate level. The University Grants Commission, which oversees tertiary education, also has a say in the training of medical professionals, including doctors and nurses.

When it comes to drugs and other potentially dangerous substances, key regulatory agencies include the National Authority on Tobacco and Alcohol, and the National Medicines Regulatory Authority (NMRA). The NMRA which was established in 2015 with a goal "to ensure [the] availability of medical drugs and devices at affordable prices".

A separate regulatory body oversees indigenous medicine. The government announced in its 2017 budget that all pharmacies in the country would be required to register with the NMRA with immediate effect to tackle the large number of unqualified pharmacists and unregulated chemists in the country.

Greater regulation of the private sector is expected under the government's development plans for health care. International consultancy PwC warns that while the private sector market in Sri Lanka could be worth over $2bn by 2020, there are also likely to be substantial risks associated with compliance. "Navigating the complex landscape of agencies and regulations while planning for the future adoption of global best practice regulations can be challenging," it noted in its June 2014 report "The Health Sector of Sri Lanka".

**Shifting Focus**

Trends under way in the health sector reflect the country's evolving needs and the necessity to address not only rising levels of NCDs, but also an ageing population. Approximately 30% of Sri Lankans are expected to be over the age of 65 by 2030, while some 65% of all deaths are now the result of conditions such as heart disease, diabetes and cancer. Such illnesses typically demand longer stays in the hospital and specialised treatment.

Sri Lanka recognised the need to address NCDs back in 2009 with the National Policy and ***Strategic*** Framework for Prevention and Control of Chronic and Non-Communicable Diseases. An analysis of standardised data covering 1991-2001 showed that mortality from chronic NCDs was 20-30% higher in Sri Lanka than in many developed nations.

The Health Sector Master Plan 2007-16 also prioritises the prevention and control of NCDs, recognising that "these diseases lower the quality of life, impair the economic growth of the country, and place a heavy and rising demand on families and national budgets". The plan aims to reduce premature death due to chronic illnesses by 2% annually up to 2019 through a variety of policies, including the expansion of evidence-based curative services, the use of preventive screening programmes, and the promotion of healthy living initiatives at the national and community levels.

Sri Lanka has been working with the World Bank and WHO to meet its NCD goals and was the eighth country in the world to join the UN Interagency Task Force on the Prevention and Control of NCDs.

According to the country's NCD progress monitor which covers 10 ***indicators***, Sri Lanka has had some success in setting national targets and ***indicators*** for NCDs, introducing measures for the control of alcohol and tobacco, and raising public awareness around diet and exercise. The country was found to be less successful in imposing diet-related restrictions, marketing to children, and providing drug therapy and counselling for high-risk people.

In the 2017 budget Karunanayake announced a renewed focus on the needs of children, with a plan to ensure that the health authorities visit every primary school in the country once per term. A health insurance policy is also being offered to all children aged five to 19, with the government paying the premium for each policy - worth LKR200,000 ($1360). The insurance covers both outpatient and inpatient services. "NCDs are on the rise not only among adults, but among children as well, with diabetes, asthma and cancer being the main NCDs," Karunanayake told Parliament in his speech. "Most NCDs can be prevented, cured or controlled if diagnosed at the right time."

Statistics show that of 138,000 deaths in 2014, 40% were the result of cardiovascular diseases, 10% from cancers, 7% from diabetes and 8% from chronic respiratory diseases. At the same time, 16.2% of men and 28.4% of women were found to have a body mass index of 25 or more - indicating that one is overweight - while 21.6% of men and 20.8% of women had raised blood pressure. Some 30.2% of women were also not getting sufficient exercise. In an attempt to decrease the 30,000 deaths per year attributed to tobacco, in September 2106 the Cabinet agreed to impose a 15% VAT on the sale of cigarettes and increase the production tax per cigarette by LKR5 ($0.03). The government estimates the annual cost of treating tobacco-related illnesses at approximately LKR72bn ($491m).

**Technological Shift**

The government is also leveraging technology as a way to reduce costs, improve data collection and raise efficiency within the health sector. The National eHealth Guidelines and Standards for Sri Lanka were released in March 2016 to ensure connectivity and maintain security across the health system in both the public and private sector. "Health care is an information intense field," the report noted in the introduction. "Relevant, accurate and timely information is the key for evidence-based management in health care. ... The paper-based record system is inadequate to meet the needs of [the] rapidly evolving present day health care system."

Adoption of technology has been quite slow so far with the e-health initiative expanding from 12 hospitals in mid-2015 to 40 in October 2016. Rajitha Senaratne, the minister of health, now plans to extend the programme to a further 150 hospitals.

In the long-run, officials want to introduce a national health ID number for all citizens, improve hospital management of health records and create a national database of medical data. There is hope that technology can help improve diagnostics and patient care - especially in ***rural*** areas - and ensure that the supply of medicine is more efficient.

**Encouraging Foreign Investment**

Senaratne indicated to Qatar in October 2016 that the Sri Lankan government would be open to foreign investors in the area of e-health, as well as in the pharmaceutical sector, noting that the island's free trade agreement (FTA) with India ensured a guaranteed market for medicine made under the FTA.

The Board of Investment of Sri Lanka has made pharmaceutical manufacturing a priority as part of the country's attempt to reduce its import dependence. India provides the majority of Sri Lanka's pharmaceutical imports, followed by Switzerland, Pakistan and the UK, but generics have been taking over an increasing share of the total market. In 2015-16 India exported medicine worth $205m to Sri Lanka.

The government in Colombo wants to encourage foreign manufacturers to establish factories in the country by setting up special economic zones that would offer preferential rates and tariffs to manufacturers based there. The State Pharmaceuticals Manufacturing Corporation of Sri Lanka, which provides medicine to public health services across the country, currently dominates the market, producing almost half of the drugs manufactured domestically.

**Outlook**

Sri Lanka is keen to build on its success in public health, with the government also showing a willingness to cooperate with the private sector. Some of the improvements to government hospitals are being undertaken through PPP agreements, while the most recent budget includes plans to establish paying wards within government hospitals in partnership with private operators. How these initiatives will pan out in a country where the government is expected to take a lead and ensure equity of access remains to be seen, however, as privatisation continues to attract considerable political and societal resistance.

**Load-Date:** March 12, 2020

**End of Document**



[***Bangalore Electricity Supply Company Limited: Issuer rating reaffirmed at [ICRA]BBB+ (Stable)***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RTW-PD11-F19S-P1N0-00000-00&context=1516831)

SeeNews Debt

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**Body**

Bangalore Electricity Supply Company Limited

March 08, 2018

Summary of rated instruments Instrument Previous Rated Amount (Rs. crore) Current Rated Amount (Rs. crore) Rating Action Issuer Rating - - [ICRA]BBB+ (Stable); Reaffirmed

Rating action

ICRA has reaffirmed the issuer rating at [ICRA]BBB+1 (pronounced ICRA triple B plus) for Bangalore Electricity Supply Company Limited (BESCOM). The outlook on the issuer rating remains Stable.

Rationale

ICRA's rating reaffirmation factors in the 100% ownership of BESCOM by the Government of Karnataka (GoK), ***strategic*** importance of the company to the state power sector and the regulated nature of the business supported by cost-plus tariff-based principles. The rating continues to draw strength from the favourable customer profile in the license area of BESCOM for electricity distribution, which has allowed it to achieve healthy operating efficiencies as reflected by the relatively low distribution loss level of 13.2% in FY2017 against 13.5%2 in FY2016. The rating is also supported by the established regulatory process in the state, which is reflected by the presence of the multi-year tariff (MYT) regime, regular issuance of tariff orders with upward tariff revisions and annual true-up of the actual ***performance*** of the distribution companies (discoms). Further, the rating draws comfort from the considerable cash inflows for BESCOM from consumer contribution and grants towards capital assets, equity infusion from the GoK and security deposits from consumers. Moreover, the dependence on subsidy as a proportion of total revenue is lower for BESCOM than other discoms in the state. Also, ICRA has taken note that the GoK, in the state budget for FY2018, has approved the clearing of electricity bill arrears of gram panchayats amounting to Rs. 3,766.81 crore up to March 31, 2015 to the state discoms. This in turn will be used to clear the power purchase dues of the discoms. Once completed, this would allow BESCOM to lower its receivable and payable position by about Rs. 1,760 crore.

The rating, however, is constrained by the high receivable position of BESCOM which, along with the support extended to weaker discoms in the state through inter-discom energy balancing dues, has made the company dependent on short-term borrowings. This, coupled with the debt-funded capex over the years, has resulted in relatively high gearing level at 2.51 times as on March 31, 2017 and modest debt-coverage ***indicators***. Nonetheless, the gearing level declined from 2.84 times as on March 31, 2016 supported by equity infusion of Rs. 218.68 crore in FY2017 by GoK. The rating is also constrained by the vulnerability of power purchase costs (PPC) of BESCOM to availability of power supply from long-term sources, mainly from Karnataka Power Corporation Limited (KPCL), with any shortfall in availability leading to a dependence on high cost power as seen in the past. The actual per unit PPC for BESCOM is 6% higher than the cost approved by the Karnataka Electricity Regulatory Commission (KERC) for FY2017. This is further accentuated by the inability of the company to pass on the increase in PPCs to consumers under the fuel cost adjustment (FCA) framework. The FCA framework approved by KERC does not allow the pass-through of variation in PPCs from sources other than 1 With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details

2 Revised from 12.0% reported earlier following revision in consumption by ***agriculture*** consumers

2

KPCL. The variation in PPC is approved during the annual true-up process, which happens with a lag. Nonetheless, the cost coverage ratio3 of the company remained reasonable at 0.97 times in FY2017 supported by high collection efficiency and favourable customer profile. ICRA further takes note of the high level of cross-subsidisation with higher tariffs charged to commercial and industrial consumers, compensating for the lower rates for domestic and ***agriculture*** users. This, however, resulted in the loss of industrial consumers for BESCOM in FY2016 and FY2017. The rating also factors in the sizeable capital expenditure plans by BESCOM related to system improvements that are be funded through a mix of long-term debt, capital receipts such as consumer contribution and government grants and equity from the GoK.

Going forward, BESCOM's ability to recover the outstanding receivables, including subsidy and inter-discom dues, remains crucial for the improvement of its financial profile. Further, the adequacy of the tariff revision by KERC in relation to the cost of supply for BESCOM and timeliness in receipt of subsidy from the GoK remain the key rating sensitivities.

Outlook: Stable

ICRA believes that BESCOM will continue to benefit from the cost-plus tariff-based operations in its distribution licensee area along with the support received from GoK in the form of equity and grants. The outlook may be revised to Positive in case of a significant improvement in cost-coverage ratio, strengthening the financial risk profile and reducing dependence on short-term borrowings. The outlook may be revised to Negative in case of significant increase in dependence on short-term borrowings or in case of considerable deterioration in cost coverage ratio due to inadequate tariffs in relation to cost of supply or loss of high-paying consumers.

Key rating drivers

Credit strengths

State-owned power distribution company with regulated nature of business - BESCOM is a GoK-owned power distribution utility that supplies electricity to consumers in eight districts of Karnataka. The utility receives regular support from GoK in the form of equity and subsidy grants. The regulated nature of the business with cost-plus tariff principles allows the utility to pass on the variations in cost structure to consumers.

Established regulatory processes in Karnataka - The operations of BESCOM are supported by well-established regulatory processes in Karnataka with presence of MYT regulations along with regular and timely issuance of tariff orders by KERC, including annual true-up in the past years. The tariff order for FY2018 was issued on April 11, 2017 with an average tariff hike of 8.1%.

Favourable customer profile in its license area has allowed BESCOM to achieve healthy operating efficiency - BESCOM's customer profile comprises a high proportion of industrial and commercial consumers, which allows it to achieve healthy operating efficiencies as reflected by the relatively low distribution loss level of 13.2% in FY2017 against 13.5% in FY2016.

Financial profile supported by cash inflows in the form of consumer contribution, subsidy grants, equity from GoK and security deposits from customers - The financial profile of BESCOM is supported by considerable cash inflows from

3 Ratio of revenue realised based on cash collections and the overall costs incurred by the company towards electricity distribution

3

consumer contribution and subsidy grants towards capital assets (Rs. 355 crore in FY2017), security deposits from consumers (Rs. 308 crore in FY2017) and equity infusion from GoK (Rs. 219 crore in FY2017).

Liquidation of past electricity dues from village panchayats to improve the receivable position - The GoK in the budget for FY2018 has announced liquidation of electricity dues of Rs. 3,766.81 crore, pending from village panchayats to the discoms of Karnataka. This is expected to reduce the receivable and payable position for BESCOM by Rs. 1,760 crore by the end of FY2018.

Credit challenges

Financial profile of BESCOM is constrained by high receivable position - The financial profile of BESCOM is constrained by high receivable position, mainly from Government departments and subsidy receipts from the GoK and energy balancing dues from other discoms, resulting in high dependence on short-term borrowings. This, along with long-term debt availed for capex investments, has led to high gearing and moderate debt-coverage metrics for the utility.

Power purchase costs for BESCOM remain exposed to availability of supply from KPCL - The PPCs for BESCOM is exposed to availability of power supply from long-term sources, mainly KPCL. Any shortfall in availability may lead to a dependence on high cost power, as seen in the past. This is further accentuated by the inability of the company to pass on the increase in PPCs to the consumers under the existing quarterly FCA framework. The FCA framework approved by KERC does not allow the pass-through of variation in PPCs from sources other than KPCL. The variation in PPCs is approved during the annual true-up process, which happens with a lag.

Build-up of subsidy dues because of inadequate subsidy payments from GoK in the past - The free power supply policy for ***agriculture*** consumers in Karnataka has resulted in high subsidy dependence for the discoms. However, the track record of inadequate subsidy payments from the GoK has resulted in subsidy build-up of Rs. 1946.72 crore as on March 2017 for BESCOM.

Tariff cross-subsidisation remains high in view of the rising PPCs and subsidised supply to ***agriculture*** and domestic consumers - The cross-subsidisation requirement with higher tariff rates for commercial and industrial consumers to compensate for the lower rates charged for domestic and ***agriculture*** users persists, in view of the rising PPCs, has resulted in loss of industrial consumers for BESCOM over the past two years given the availability of cheaper power in the open-access market.

Large capital expenditure plans for BESCOM - The company has significant capital expenditure plans with respect to investments for infrastructure improvement, feeder separation program, village and household electrification etc., which will be funded through a mix of debt, equity, consumer contribution and capital grants

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Power Distribution Utilities

About the company

BESCOM, incorporated in 2002, is one of the five state-owned distribution utilities in Karnataka that are licensed to supply electricity in the five designated areas of the state. It is licensed to distribute electricity in eight districts of Karnataka, namely Bangalore Urban and Bangalore ***Rural***, Ramanagara, Kolar, Chikkaballapura, Tumkur, Chitradurga, and Davanagere covering an area of 41,092 Sq. Kms with total consumers of 10.69 million at the end of March, 2017. The other distribution utilities in Karnataka are Gulbarga Electricity Supply Company Limited (GESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Chamundeshwari Electricity Supply Corporation Limited (CESC). The transmission function in Karnataka is under state-owned Karnataka Power Transmission Corporation Limited (KPTCL), while the state-owned power generation assets are under KPCL.

In FY2017, the company reported a net profit (including prior period changes) of Rs. 84.77 crore on an operating income (OI) of Rs. 16297.06 crore compared with a net profit of Rs. 100.14 crore on an OI of Rs. 14846.28 crore in the previous year.

Key Financial ***Indicators*** (Audited) FY2016 FY2017

Operating Income (Rs. crore)

14846.28

16297.06 PAT (Rs. crore)\* 100.14 84.77

OPBDIT/OI (%)

7.57%

7.97% RoCE (%) 12.11% 10.60%

Total Debt/TNW (times) 2.84 2.51

Total Debt/OPBDIT (times)

6.26

6.06 Interest Coverage (times) 1.58 1.45

NWC/OI (%)

36%

36%

\*Including prior period changes

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years Instrument Current Rating (FY2018) Chronology of Rating History for the past 3 years Type Amount Rated (Rs. crore) Amount Outstanding (Rs. crore) Date & Rating Date & Rating in FY2017 Date & Rating in FY2016 Date & Rating in FY2015 March 2018 February 2017 February 2016 February 2015 1 Issuer Rating Long Term - - [ICRA]BBB+ (Stable) [ICRA]BBB+ (Stable) [ICRA]BBB+ (Stable) [ICRA]BBB+ (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [*www.icra.in*](http://www.icra.in)

Annexure-1: Instrument Details

Not applicable

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**ABSTRACT**

Early childhood education (ECE) is not new in Indonesia. However, in the past decade, it has received more attention, as shown by the growing number of ECE centres in both urban and ***rural*** areas. This growth is accompanied by policy development that corresponds to the global agenda of ECE. Policy development is inevitably linked with the support of international organisations (such as UNICEF and the World Bank) at both national and local levels, through loans and grass-roots pilot projects. Such neo-liberal policies have been seen as contributing to inequality in educational access in developing countries. What is lacking is an understanding of how policies, caught up in the interwoven nature of global discourse and social problems, are being implemented at the local level. Such understanding is especially important in the changing social and political context of post-Reform Indonesia. Using a critical approach, this article examines the discourse around ECE policies and practice through critical engagement with policy documents and relevant reports. Because policy processes are messy and in many ways relative, this perspective enables the dominant discourse, within which ECE operates, to be challenged. This article concludes by suggesting the integration of ECE and health services at the practice level in order to bridge the current gap between ECE policy and practice.

**FULL TEXT**

**Introduction**

The global agenda on education has shifted from seeing education as a means for economic advancement to promoting education as a universal human right (Robertson et al., 2007). Consequently, improving education accessibility and early years education for disadvantaged communities are becoming strategies for universal education. In Indonesia, the Reformation Era in 1998 also brought reformation in the education system (Newberry, 2010). However, the first years of this new era were marred by the continuation of economic crises and political upheaval. There was a great fear that Indonesia would have a ‘lost generation’ as children were forced to drop out of school in order to work (Badan Pusat Statistik, 2000, 2001; Hartiningsih, 2000).

At an international level, since 1990, early childhood education (ECE) has been promoted as a means to achieve the ‘Education for All’ goals (World Bank, 1999). Dahlberg and Moss, as cited in Newberry (2010), argue that there is a growing awareness of ECE across the globe, as demonstrated by a rapid increase in initiatives. Indonesia has been receptive to ECE global initiatives through the works of international organisations, such as the World Bank, the United Nations Children’s Fund (UNICEF), and the United Nations Organization for Education, Science and Culture (UNESCO). In Indonesia, ECE is called PAUD (*Pendidikan Anak Usia Dini*); its direct translation is ‘early childhood education’. For the sake of consistency, this article will use the term ECE.

ECE is not new in Indonesia (Newberry, 2010; PAUDNI, 2011; Thomas, 1988). In fact, early practices of ECE in the 1920s were put in place to counter the Dutch colonial education system. As opposed to the Dutch schools, local ECE initiatives emphasised nationalism, religion, and norms in order to promote a national movement (Newberry, 2010; PAUDNI, 2011). In recent years, ECE development in Indonesia has seen the influence of international organisations in local areas. As decentralisation creates regional autonomy there are opportunities and challenges for national and local governments. In relation to ECE, they need to ensure that children and families are able to benefit from the projects, funds, and other resources that the two governments and international organisations have invested in.

**Method**

This article examines Indonesia’s ECE policy documents, relevant World Bank and other international organisations’ reports and briefing papers. The documents were in the public domain and include documents that we accessed from the Ministry of Education and Culture (MoEC) in Indonesia. Thirty such documents were critically analysed to challenge the dominant ECE discourse as found in reports from international agencies (e.g. World Bank and UNICEF).

As this article wishes to bridge the gap between knowledge and practical changes, we looked at the multiple perspectives of ECE policymaking players (i.e. local facilitators/teachers, local government, central government, international organisations). It is important to note that due to difficulties in accessing the documents, the multiple perspectives discussed in this article do not take into account the number of documents that each perspective represents.

We used critical analysis of the documents by ways of examining how ECE in Indonesia is perceived and being envisioned within the texts. For instance, we argue that concepts such as ‘quality’ and ‘outcomes’ are contested, especially when we looked at other documents that describe no correlation between teacher’s qualifications and children’s outcomes. Our approach is similar to ‘critical policy analysis’ in that we place emphasis on criticality and take into account social and historical conditions in examining ECE policy, as well as proposing a solution to the policy problem (see Joo and Kwon, 2010: 224–225).

The article has three parts. The first part provides an overview of ECE development in Indonesia before quickly moving on to situating the development in a changing political landscape post-Reformation. Following that, the article shines a light on the dominant discourse of ECE development in Indonesia by giving examples from the international agencies’ reports. The examples are presented to show how local context is overlooked, while the national policy response to the international perspective asserts the global agenda. The last part of the article expands the argument about the overlooked diversity of local ECE practices before concluding.

**Contextualising ECE in Indonesia**

**A paradigm shift and a structural change**

Education in Indonesia aims to mould humans into resources, an investment in the nation’s development, preparing them for the local and global world (Musthafa, 2007; PAUDNI, 2011). Thus, education creates human capital. Adriany and Saefullah (2015) argue that human capital discourse is problematic because it preserves inequality and obstructs alternative conceptualisations of childhood from existing by imposing internationally standardised measurements and neglecting diversities. Indonesia’s education system has been scrutinised with studies pointing out the problems of unequal access, the low quality of teachers, and bad infrastructure (Karwati, 2010; Wahab, 2007); elements which human-capital-influenced policies sought to improve. This article will not repeat the extensive discussion on how human capital discourse has framed Indonesia’s national education policies, as these are discussed elsewhere (see Adriany and Saefullah, 2015; Formen and Nuttall, 2014). Instead, we focus on understanding how local ECE practices shed light on the challenges and opportunities for the future of ECE policy in Indonesia.

Indonesia’s national education system had its beginning during the colonial era in the first decades of the 20th century. Ki Hadjar Dewantara, Indonesia’s ‘father of national education’ set the direction of education as guidance, not a determinant factor, for a child’s life and development. Education must free children, spiritually and physically, from oppressive rulers and inhibiting social norms.

What Ki Hadjar proposed was an amalgamation of tradition and education within all aspects of society; the cultural-national approach as it was called. Following Indonesian independence, he proposed that the nation’s culture need not reject foreign materials; instead, it should use those which could develop, enrich, and bring the nation closer to equality (Tamansiswa, 2013). In so doing, the government’s role is to ensure this link between education and culture is taking place. For example, in 1968 the Indonesian government, with the support of UNICEF, undertook a comparative study of ECE development in the US and New Zealand. The government claims that this resulted in the modernisation of ECE in Indonesia (PAUDNI, 2011).

ECE was officially recognised in the country’s national education system in 1950 (PAUDNI, 2011; Thomas, 1988). From then until 2001, and with the establishment of a directorate in the Ministry of National Education (now the MoEC) that deals with ECE (*Dirjen PADU*), ECE in Indonesia was only in the form of kindergarten (*taman kanak-kanak*) and play groups (informal ECE centres). During that time, ECE was for children between the ages of 3 and 6 (Thomas, 1988), and its development depended on private institutions (women groups or religious-based organisations). Although the Indonesian government began to support the development of ECE post-1950, its progress was slow as the government’s priority was primary and secondary education (Newberry, 2010). Problems, such as poor teacher quality, unequal access and a low number of ECE centres, began to surface (Newberry, 2010; Thomas, 1988), and still persist (PAUDNI, 2011; UNICEF, 2012; World Bank, 2012a). Thomas (1988) argues that ever since the first kindergartens were built, they were exclusive to middle- and upper-class society and could only be found in cities, and not in ***rural*** areas.

In 2004, UNESCO and the Organisation for Economic Co-operation and Development (OECD) supported a review of ECE in Indonesia (UNESCO, 2005). The review resulted in a merger of the Directorate of Early Childhood Education in 2010, which was responsible for non-formal early childhood services, and the Directorate of Kindergarten and Primary Education for the formal services. The Directorate General of Early Childhood, Non-Formal and Informal Education (*PAUDNI*) was formed. The World Bank sees this as one of the major milestones in the country’s ECE development (World Bank, 2012b). In reality, formal ECE (Taman Kanak-kanak) and non-formal ECE (*PAUD*) are still two different entities. This paper focuses on non-formal ECE and its relevant policies.

In recent years, non-formal ECE centres can be found as part of *Posyandu*. Posyandu is part of community-based health promotion providing minimal standards of health service at the village/community (*desa/kelurahan*) level. The initiative originated in the 1970s when community cadres conducted door-to-door services, weighing children and promoting family planning and nutrition. The activity was part of a family welfare and empowerment program – *Pemberdayaan dan Kesejahteraan Keluarga* – that stemmed from an initiative for civil servants’ wives under the auspice of the Ministry of Internal Affairs. In 1984 a joint Ministerial Decree formally launched Posyandu (Ministry of Health, 2011). Since 2006, the Ministry of Health, with local governments (district/municipality level) acting as the spearheads, has attempted to promote greater coverage of Posyandu, although it is still only available in slightly more than 50% of the 75.410 villages/communities in Indonesia. The main tasks of Posyandu are promoting and providing for mother and child health, family planning, immunisation, nutrition and diarrhoea handling. Cadres are recruited from the community itself; they are mostly women who are willing to take part in the activity as volunteers, regardless of their educational background so long as they are literate. Training is provided and it is hoped that the objective of enabling these (female) cadres to achieve self-actualisation by serving their own community, is reached.

Nowadays, with the central government moving towards village empowerment, Posyandu is boosted to include aging care, under-fives family development and non-formal ECE. Such Posyandu is called *Posyandu Terintegrasi* (Integrated Posyandu) (Ministry of Health, 2011, 2012). This movement provides an opportunity to place ECE centres (as part of Posyandu) at the heart of the community.

The most recent ECE policy initiative in Indonesia is the MoEC’s grand design of ECE development (*Kerangka Besar Pembangunan PAUD*) for 2011–2025. Meeting international standards of ECE is one of the aims of this new design (PAUDNI, 2011). The design sets out the direction of ECE development: to increase accessibility, expand services and provide reliable facilities. These aims resemble those set out by ‘supranational’ organisations (e.g. UNESCO, 2005; World Bank, 1999) and, together with international commitments, act as a driving factor for ECE development. Global achievement of ECE is an inspiration for ECE development in Indonesia (PAUDNI, 2011). Inevitably, the dominant discourse in ECE national policies adheres to the global discourse set by international organisations.

Penn (2002) sees such organisations (e.g. World Bank, OECD) as promoters of inequality. She argues that if ECE policy is viewed as a panacea for addressing inequality, it becomes a tool for imposing a global agenda at the local level. She adds that UNICEF and UNESCO’s promotion of a global agenda for education is in tune with the World Bank’s proposed strategy to fight poverty – that of educating parents and enhancing education services for children. Penn (2002) argues that this ‘standard’ guideline for ECE was constructed from studies in developed countries where the conceptualisation of childhood is likely to be different from that in developing countries.

The global discourse on ECE, as promoted by international organisations, has permeated Indonesia’s policy on ECE and the standards that come with it have streamlined outcomes for ECE practices. Nevertheless, the practice of ECE in Indonesia relies on the community. As the country is embracing regional autonomy, local policy processes are inevitably influencing how global or national policies are being implemented at the local level. This article takes into account the impact of decentralisation on policies and the practice of ECE at both national and local levels.

**Decentralising the education sector: potentials at the local level**

The goal of Indonesia’s national education system is summed up in three indivisible aspects: intellectual, physical and moral (Soedijarto, 2009). These principles are rooted in Ki Hadjar’s work (Kelch, 2014); education should not only be about measuring intellectual abilities or physical capacities. Unfortunately, studies that focus on these aspects are predominant. Only some studies have found deficiencies in the country’s education quality (Suryadarma and Jones, 2013), and people’s learning ability (Buchori, 2004). These deficiencies have been attributed to the changing political and social context of the nation (e.g. Bjork, 2013; Kristiansen and Pratikno, 2006).

The decade after the Reformation in 1998 was a period of learning about democracy for Indonesia’s political system (Choi, 2009). A system of decentralisation was in place, but there was scepticism about the country’s readiness for such dramatic change (e.g. Colongon Jr, 2003; Malley, 2003; Rohdewohld, 2003). One clear consequence of decentralisation is its effects on how national policies are implemented at the local level. Local government has more power to decide their priorities and, therefore, which areas of development should be funded. There is a complex relationship between national- and local-level government in Indonesia, post-Reformation. Arguably, decentralisation changes policy processes in Indonesia and makes apparent the diversities in regions in terms of their autonomy (Green, 2005).

The country reformed its national education system by enacting a new law on the national education system in 2003 (*Sisdiknas*). This reformation took the form of an increased education budget, accessibility for all and a decentralised education system. While decentralisation gives more authority to local government to make important policy and administrative decisions on education, the central government still holds the responsibilities for setting standards, accreditation and curriculum development (Directorate MoEC, 2004). As the National Education System Law suggests, decentralisation grants more power to local authorities to oversee educational management and also promotes a greater role for community involvement in education practices (Musthafa, 2007); thus, education strategy can benefit from decentralisation (Robertson et al., 2007).

Problems with decentralisation extend to education access at the local level. Kristiansen and Pratikno (2006) found that local government spending is becoming less transparent and accountable; there is a lower school participation rate in remote areas where ***agriculture*** is the main source of income; and household contribution to education is increasing. For ECE, the World Bank agrees that household contribution is higher than in other levels of education services, but maintains that decentralisation would provide more opportunity for local governments to support the development of ECE through policies, budgets and innovations in practice (Denboba et al., 2015). With this in mind, the following two sections discuss examples, from policy documents and relevant reports, to explicate the overlooked potentials, challenges and initiatives for developing ECE at the local level.

**Investing for the future**

Inequalities in education, including in ECE, have been well documented (Adriany and Saefullah, 2015). Looking at the statistics for ECE centres at the lowest administrative level in villages (*Desa*), for example, show that 69.70% of villages in Indonesia have ECE centres, but the number is not equally distributed across provinces. This condition is similar to statistics regarding ECE service users (MoEC, 2014). When comparing the aforementioned statistics with those on the health of children (Ministry of Health, 2015), lower health rates can be found in areas that have fewer ECE centres and a lower number of ECE service users. Inequalities may take a while to tackle, especially in the era of regional autonomy. Indeed, amidst such conditions, it is logical that ECE endeavours should be integrated and holistic. This is particularly pertinent in ***rural*** areas and areas serving marginalised communities. Community development needs to be at the heart of this approach. Thus, good community facilitators and sufficient village funds are essential for making this possible.

The World Bank argues that in 2009 local (district) governments spent more on ECE services than provincial or national governments, and that their spending was greater on these services than on higher levels of education provision (Denboba et al., 2015). Although this sounds promising for ECE development at the local level, the problems that come with decentralisation, as mentioned before, suggest a need for the further exploration of ECE sector funding in post-Reform Indonesia. Meanwhile, the World Bank also found that success for ECE depends on the implementation of a combined children and families’ policy which includes: maternal health, birth registration and health insurance. However, this finding should be treated with caution as our analysis also found that inter-coordination among agencies is problematic. Nevertheless, the findings show promise for integrated services (such as *Posyandu*) as an entry point for ECE delivery.

As we have mentioned earlier, the integrated health centre or *Posyandu* has been around since the 1970s as a well-established service provider for babies, toddlers and mothers, and was used by UNESCO and UNICEF to promote ECE. In 2001, these agencies integrated the Smart Toddler Program into *Posyandu* (World Bank, 2012b), and now *Posyandu* runs the non-formal ECE services. The World Bank has supported the development of ECE in Indonesia since 1998 (World Bank, 2003), targeting poor areas through the use of loans and grants. At the grass-roots level, both UNICEF and the World Bank have facilitated the establishment of ECE centres, trained tutors and provided community facilitators to increase awareness of the importance of ECE (World Bank, 2012a, 2012c).

However, as the recent World Bank report on ECE development in Indonesia suggests, the endeavours of these organisations are based on the idea that investing in ECE services will give high returns (World Bank, 2016). The report has the premise that increasing access to preschool services improves school readiness and later educational ***performance***. The report asserts that a project, which was launched in 2009 in cooperation with the Netherlands, has been successful in expanding ECE services in ***rural*** areas. The project was deemed to be a worthwhile investment with an estimated cost of approximately US$30 per child and every dollar spent generating 1.3 dollars in benefits (World Bank, 2016). Despite local governments being the higher spenders for ECE development, too much policy response is still taking place at the national level.

At national policy level, Indonesia is not lacking in extensive documentary guidance to improve ECE. For example, the MoEC (2015, 2016) has published conceptual and technical guidance for implementing ECE as well as a set of guidance for ECE educators based on the national curriculum. However, these are mostly theoretically based guidance. Moreover, there are contradictions in these documents. For example, the *Apa, Mengapa dan Bagaimana* (What, Why and How) about ECE suggests that ECE is: (a) systematically organised as a crucial stage in children’s education; and (b) adopting ‘western’ guidelines for what the ECE curriculum should be, and yet asks for localities to diversify the implementation of the curriculum. Although diversification is encouraged in the decentralisation context, there are problems when implementation is being evaluated. Evaluation tends to overlook the ‘diversification’ effect. What is measured is either school readiness (e.g. World Bank, 2016) or participation statistics (MoEC, 2014). The old education principle of engaging in international discourse and using such engagement for benefit whilst maintaining local consciousness (i.e. uniqueness), is dwarfed and becomes the ‘philosophical’ base of the curriculum (MoEC, 2015), which is of little practical use.

**Overlooking diversity and resourcefulness**

As investment in ECE aims to alleviate poverty, it needs to be specific; that is, via improved teacher quality. But teacher quality is not the same as teacher qualification. Indonesia’s national development planning agency, BAPPENAS (2014), has found no direct correlation between ECE teachers’ formal educational background and the quality of interaction between teachers and pupils. It goes on to suggest that local and community-based, teachers or facilitators who were supported by civil organisations had more potential for development and ensuring sustainability of ECE service. Meanwhile, one of the major national educational policies is on improving teacher’s formal qualifications. With the ECE global discourse heavy in influencing national policies – as the country’s national policies concur – local potentials are being overlooked, and there is a worry that investing in the future is losing the ‘here and now’.

Seeing ECE as a local affair with practice meeting local needs and contexts is not the narrative of World Bank reports. One report recognises that local government (district or *Kabupaten*) spends more on ECE services than provincial or national government (Denboba et al., 2015). Another report talks about the importance of ECE for poor children (Hasan et al., 2013). However, these reports did not elaborate the differences between ECE approaches for poor families and those for other families. The World Bank’s experiences of their projects assumed that the importance of ECE was embraced by all families at different socio-economic levels, yet its insistence on improving access and further enrolment in schools has overlooked the diversity of ECE practices.

As Indonesia’s National Mid-term Development Planning 2015–2019 looks to improve the quality of life for people in ***rural*** areas, there is an opportunity for ECE to progress in villages with funding being disbursed by central government (Ministry of ***Rural***, ***Rural*** Development and Transmigration, 2016). However, some studies of ECE policies conducted by Indonesian government agencies (e.g. MoEC, 2010, 2011) suggest caution. The studies found that prior to this development planning, the national government’s funding for ECE was insufficient, and therefore required local governments to meet the gap. This is echoed in a World Bank report (Hasan et al., 2013). Unfortunately, the MoEC studies suggest that many local governments would not prioritise education, let alone allocate budgeting for ECE. The studies also suggest that the funding from central government had not been dispersed appropriately and disbursement was marred by ‘dodgy’ processes (MoEC, 2011). Also, education and training for educators has been found lacking in ***rural*** areas. Funds were mostly spent to cover tutors’ or teachers’ fees and not for the daily operation of centres. Hence, many ECE centres had to use educational tools made from recycled materials (MoEC, 2010). Interestingly, the report notes the use of recycled materials as a limitation rather than resourcefulness.

Global discourse on ECE is promoting services to achieve certain standards (Denboba et al., 2015), and the national curriculum embraces these standards (MoEC, 2015). BAPPENAS (2014) has found that integrated ECE approaches have meaningful outcomes, despite being very different from the standard competencies set in the curriculum. The fact that in most areas ECE services are being implemented as integral to other services (i.e. in *Posyandu* or schools) demands ECE policies that promote such integration. Although the implementation of policies differs from one area to another, a nationally integrated framework that reflects workable local practices would provide pertinent guidance. Such guidance, for it to be meaningful, needs to be constructed in consultation with the people working directly in ECE settings and with the community. It is also important to work with the ‘left-behind’ community (e.g. local facilitators and poor families) to discover their knowledge and resourcefulness and build on existing practices.

**Final thoughts**

ECE discourses in policies and foreign-initiated projects have been about creating more chances for children from poor families, or living in ***rural*** areas, to attain better academic achievement from formal schooling. However, the narratives in policy documents and relevant reports are conflicting. ECE has been perceived as promoting a child’s holistic development, including diversity, but the documents also perpetuate ECE as a means of standardising competencies. The differing accounts of local government funding for ECE require further analysis.

The global consensus on ECE is that it paves a way to alleviating poverty. In Indonesia, this idea has been infused by the human capital paradigm (Adriany and Saefullah, 2015) through the interweaving of global forces. ECE services have been perceived as an investment for the future, and national-level policies and government priorities have embraced the idea. However, as the country is undergoing social and political changes due to decentralisation, this dominant discourse overlooks an opportunity to make use of local diversities and specific investments, particularly in villages. For example, existing studies that suggest the importance of a teacher’s role have missed an opportunity to direct policy attention towards supporting local teachers. Focus on improving teacher qualifications overlooks the creativity of teachers working with limited resources.

Decentralisation has changed Indonesia’s local governance. However, decentralisation is arguably new to Indonesia, and the country is still discovering ways to navigate changes in politics and public life. This situation provides opportunities for the development of policies to integrate public participation with existing administrative structures in local areas (i.e. villages). As *Posyandu* (see previous explanation) has been found to be effective in generating public participation in their health programmes (The Asia Foundation, 2004), the Indonesian government is aiming to develop *Posyandu* in every village. The involvement of *kader* (cadres) could be extended to facilitating seminars and training that encompass mother and children’s lives. With the regional autonomy that decentralisation brings, there is more freedom for local government to tailor *Posyandu* services to meet local needs.

As an integrated service, *Posyandu* may provide an alternative to the limitations of funding and resources in the local area. Without dismissing the challenges that integrated services may pose for practitioners, such as unclear responsibilities, shared funding and unequal allocation (Hudson, 2007), the sustainable nature of *Posyandu* and its commitment to educating parents and children should be the appeal and benefit of ECE. Indeed, collaboration with the health sector is a promising alternative rather than that of creating one ECE for each village under the sole coordination of the MoEC.

The past 60 years of Indonesia’s education policy has taken stock of western influences. Following economic crises and political upheaval, the country has resorted to burgeoning foreign initiatives, and ECE is no exception. Now, ECE is waiting to progress. This article proposes that any national or local policy approach in the future needs to take into account the complexities of ECE in practice and the influences of decentralisation and the dominant global discourse of ECE. The authors of this paper urge future approaches to the provision of ECE to consider two key factors: the diversity of local ECE practices and teacher resourcefulness, including themselves as a resource. As national policies on ECE insist that public involvement is a crucial part of ECE, ensuring meaningful public participation is essential for the development of ECE services.

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[***Register of Commission documents: European Parliament resolution of 6 July 2017 on EU action for sustainability (2017/2009(INI)) Document date: 2017-07-06 P8\_TA-PROV(2017)0315 Texts adopted (provisional edition)***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5P97-J9Y1-JDG9-Y0M5-00000-00&context=1516831)

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**Body**

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European Parliament 2014-2019 TEXTS ADOPTED Provisional edition P8\_TA-PROV(2017)0315 EU action for sustainability European Parliament resolution of 6 July 2017 on EU action for sustainability (2017/2009(INI)) The European Parliament, – having regard to the United Nations resolution on ‘Transforming our World: The 2030 Agenda for Sustainable Development’, adopted at the UN Sustainable Development Summit on 25 September 2015 in New York1, – having regard to the Agreement adopted at the 21st Conference of Parties (COP21) in Paris on 12 December 2015 (the Paris Agreement), – having regard to Article 3(3) and (5) of the Treaty on European Union (TEU), – having regard to Article 7 of the Treaty on the Functioning of the European Union (TFEU), which reaffirms that the EU ‘shall ensure consistency between its policies and activities, taking all of its objectives into account’, and to Article 11 of TFEU, – having regard to the Commission communication of 22 November 2016, ‘Next steps for a sustainable European future – European action for sustainability’ (COM(2016)0739), – having regard to the UN Convention on the Rights of Persons with Disabilities, ratified by the EU in January 2011, – having regard to the General Union Environment Action Programme to 2020 entitled ‘Living well, within the limits of our planet’2, – having regard to the European Environment Agency (EEA) Report No 30/2016: the Environmental ***indicator*** report 2016, – having regard to its resolution of 12 May 2016 on the follow-up to and review of the 2030 Agenda3, 1 A/RES/70/1. 2 Decision No 1386/2013/EU of the European Parliament and of the Council of 20 November 2013 (OJ L 354, 28.12.2013, p. 171). 3 Texts adopted, P8\_TA(2016)0224. – having regard to the ***Strategic*** Note of the Commission’s European Political Strategy Centre of 20 July 2016 entitled ‘Sustainability Now!

A European Voice for Sustainability’1, – having regard to the EU Biodiversity Strategy to 20202, to its mid-term review3 and to the European Parliament resolution of 2 February 2016 on the mid-term review4, – having regard to the reports of the UN Environment Programme (UNEP) International Resource Panel entitled: ‘Policy Coherence of the Sustainable Development Goals’ (2015), ‘Global Material Flows and Resource Productivity’ (2016) and ‘Resource Efficiency: Potential and Economic Implications’ (2017), – having regard to the Joint communication from the Commission and the High Representative of the Union for Foreign Affairs and Security Policy of 10 November 2016 on ‘International ocean governance: an agenda for the future of our oceans’ (JOIN(2016)0049), – having regard to the Habitat III New Urban Agenda Agreement adopted in Quito on 20 October 2016, – having regard to Rule 52 of its Rules of Procedure, – having regard to the report of the Committee on the Environment, Public Health and Food Safety and the opinions of the Committee on Development, the Committee on ***Agriculture*** and ***Rural*** Development and the Committee on Culture and Education (A8-0239/2017), A. whereas the EU and its Member States have adopted the 2030 Agenda for Sustainable Development (hereinafter ‘the 2030 Agenda’), including the Sustainable Development Goals (SDGs); B. whereas the UN’s 17 Sustainable Development Goals (SDGs) represent a blueprint for a better society and world, deliverable through practical and measurable action and covering a number of issues including achieving better and more equal health outcomes, greater wellbeing and education of citizens, higher overall prosperity, action against climate change and the conservation of the environment for future generations, and as such must always be considered horizontally across all areas of the Union’s work; C. whereas future economic growth will only be possible by fully respecting the planetary boundaries in order to ensure a life of dignity for all; D. whereas the 2030 Agenda has a transformational potential and sets out universal, ambitious, comprehensive, indivisible and interlinked goals, aimed at eradicating poverty, fighting discrimination, and promoting prosperity, environmental responsibility, social inclusion and respect for human rights, and strengthening peace 1 [*https://ec.europa.eu/epsc/sites/epsc/files/****strategic****\_note\_issue\_18.pdf*](https://ec.europa.eu/epsc/sites/epsc/files/strategic_note_issue_18.pdf) 2 Commission communication of 3 May 2011 entitled ‘Our life insurance, our natural capital: an EU biodiversity strategy to 2020’ (COM(2011)0244). 3 Commission report of 2 October 2015 on the mid-term review of the EU biodiversity strategy to 2020 (COM(2015)0478). 4 Texts adopted, P8\_TA(2016)0034. and security; whereas these goals require immediate action with a view to full and effective implementation; E. whereas the Commission has not yet established a comprehensive strategy to implement the 2030 Agenda encompassing internal and external policy areas with a detailed timeline up to 2030, as requested by the European Parliament in its resolution of 12 May 2016 on the follow-up to and review of the agenda, and has not fully taken up a general coordination role for the actions taken at national level; whereas an effective implementation strategy and a monitoring and review mechanism are essential in order to achieve the SDGs; F. whereas the 17 SDGs and 169 underlying targets touch on all aspects of the Union’s policy; G. whereas many of the SDGs directly concern the powers of the EU in addition to the national, regional and local authorities and their implementation therefore requires a true multi-level governance approach with an active and broad-based civil society engagement; H. whereas climate change is not a stand-alone environmental issue but presents, according to the UN1, one of the greatest challenges of our time and poses a serious threat to sustainable development, and its widespread, unprecedented impacts place a disproportionate burden on the poorest and most vulnerable and increase inequality between and within countries; whereas urgent action to combat climate change is integral to the successful implementation of the SDGs; I. Whereas the Europe 2020 climate change and energy sustainability targets are: to reduce greenhouse gas emissions (GHGs) by 20 %, to meet 20 % of EU energy demand with renewables, and to increase energy efficiency by 20 %; whereas the EU is committed to a reduction in domestic GHG emissions of at least 40 % by 2030 compared to 2005 levels, subject to a ratchet-up mechanism under the Paris Agreement; whereas Parliament has called for a binding 2030 energy efficiency target of 40 % and a binding renewable energy sources (RES) target of at least 30 %, and stresses that such targets should be implemented by means of individual national targets; J. Whereas the EU and its Member States are all signatories to the Paris Agreement, and as such are committed to working with other countries to limit the increase in global warming to well below 2 °C, and to pursue efforts to further limit it to 1,5 °C and therefore to attempt to limit the worst risks of climate change, which undermine the ability to achieve sustainable development; K. whereas healthy seas and oceans are essential to support abundant biodiversity, and provide food security and sustainable livelihoods; L. whereas the Commission is required, under the 7th Environment Action Programme (EAP), to assess the environmental impact, in a global context, of Union consumption of food and non-food commodities; M. whereas any appraisal of the current and future effectiveness of the SDG agenda in 1   [*https://unstats.un.org/sdgs/report/2016/goal-13/*](https://unstats.un.org/sdgs/report/2016/goal-13/) Europe should not only speak to the current successes, but also look to future efforts and schemes, and should also be based on a thorough assessment of the gaps between the EU’s policies and the SDGs, including areas where the EU does not meet the SDG targets, weak implementation of current policies and potential contradictions between policy areas; N. whereas, according to the EEA, it is highly likely that 11 of the 30 priority objectives of the EAP will not be achieved by the 2020 deadline; O. whereas the financing of the SDGs poses an enormous challenge which demands a strong and global partnership and the use of all forms of financing (from domestic, international, public, private and innovative sources), as well as non-financial means; whereas private financing can complement, but not substitute public funding; P. whereas effective mobilisation of domestic resources is an indispensable factor in achieving the objectives of the 2030 Agenda; whereas developing countries are particularly affected by corporate tax evasion and tax avoidance; Q. whereas promoting sustainable development requires resilience, which should be fostered by means of a multifaceted approach to the EU’s external action and by upholding the principle of policy coherence for development; whereas the Member States’ and EU’s policies have both intended and unintended effects on developing countries, and the SDGs constitute a unique opportunity to achieve more coherence and fairer policies towards developing countries; R. whereas international trade can be a powerful driver of development and economic growth and a large share of EU imports comes from developing countries; whereas the 2030 Agenda acknowledges trade as a means of achieving the SDGs; S. whereas addressing the challenge of migration and the demands of an increasing global population is essential for achieving sustainable development; whereas the 2030 Agenda emphasises the role of migration as a potential driver of development; whereas Article 208 of TFEU establishes the eradication of poverty as the primary objective of EU development policies; 1. Takes note of the Commission communication on European action for sustainability, which maps existing policy initiatives and instruments at European level and serves as a reaction to the 2030 Agenda; stresses, however, the necessity of a comprehensive assessment, including policy gaps and trends, inconsistencies and implementation deficiencies as well as the potential co-benefits and synergies, of all existing EU policies and legislation in all sectors; underlines the need for coordinated action for this assessment at both European and Member State levels; calls, therefore, on the Commission, on the Council, in all its formations, and on the EU agencies and bodies, to pursue this work without delay; 2. Highlights that the aim of the 2030 Agenda is to achieve greater well-being for all and that the three equal pillars of sustainable development, namely social, environmental and economic development, are essential for achieving the SDGs; underlines the fact that sustainable development is a fundamental objective of the Union as laid down in Article 3(3) of TEU and should play a central role in the debate on the future of Europe; 3. Welcomes the Commission’s commitment to mainstreaming SDGs into all EU policies and initiatives, based on the principles of universality and integration; calls on the Commission to develop, without delay, a comprehensive short-, medium-, and long-term coherent, coordinated and overarching framework strategy on the implementation of the 17 SDGs and their 169 targets in the EU, recognising the inter-linkages and parity of the different SDGs by taking a multi-level governance and cross-sectoral approach; underlines, furthermore, the necessity of integrating all aspects of the 2030 Agenda into the European Semester and of ensuring Parliament’s complete involvement in the process; calls on the First Vice-President, who has cross-cutting responsibility for sustainable development, to take a lead on this; stresses the fact that the EU and its Member States have made a commitment to fully implementing all SDGs and targets, both in practice and in spirit; 4. Recalls the importance of the underlying principle of the 2030 Agenda of ‘leaving no one behind’; asks the Commission and the Member States to take strong action in addressing inequalities within and between countries, as these magnify the impact of other global challenges and hinder progress on sustainable development; asks the Commission and the Member States to promote research and data disaggregation in their policies in order to ensure that the most vulnerable and marginalised are included and prioritised; 5. Welcomes the Commission’s commitment to mainstreaming the SDGs into its Better Regulation agenda and underlines the potential of using the Better Regulation tools strategically in order to evaluate EU policy coherence with regard to the 2030 Agenda; calls on the Commission to establish an SDG check of all new policies and legislation and to ensure full policy coherence in the implementation of the SDGs, while promoting synergies, gaining co-benefits and avoiding trade-offs, both at European and Member State levels; underlines the need to include sustainable development as an integrated part of the overarching framework of impact assessments, not as a separate impact assessment as is currently the case according to the Commission’s Better Regulation toolbox; calls for the tools designed to measure and quantify medium- and long-term environmental outcomes in impact assessments to be improved; calls on the Commission, furthermore, to ensure that evaluations and fitness checks carried out within the framework of the Regulatory Fitness and ***Performance*** (REFIT) programme assess whether certain policies or legislation contribute to the ambitious implementation of the SDGs or actually hinder it; calls for the clear identification and differentiation of the governance level at which the targets should be implemented, while stressing that the principle of subsidiarity should be respected; calls for the establishment of clear and coherent sustainable development pathways at national and, if necessary, subnational or local levels for those Member States which have not done so already; stresses that the Commission should provide guidance for this process in order to ensure a harmonised format; 6. Underlines that the 7th EAP is, in itself, a key instrument for the implementation of the SDGs, although action taken in some sectors is still not enough to ensure that the SDGs will be met; calls on the Commission and the Member States to take all the necessary steps to fully implement the 7th EAP, to incorporate in the evaluation of the 7th EAP an assessment of the extent to which its goals correspond to the SDGs and, by taking these outcomes into account, to come up with a recommendation for the successor programme; calls on the Commission to propose in a timely manner a Union Environmental Action Programme for the period after 2020, as required by Article 192(3) of TFEU, as such a programme will contribute to achieving the SDGs in Europe; 7. Strongly urges the Commission to adhere to the governance agenda agreed upon in the Rio Declaration and in the 2030 Agenda, as well as in the 2002 Johannesburg Plan of Implementation (JPOI) and Rio+20 Outcome Document of the 2012 UN Conference on Sustainable Development; 8. Considers that the Commission should encourage the Member States to promote the establishment or enhancement of sustainable development councils at national level, including at local level; and to enhance the participation and effective engagement of civil society and other relevant stakeholders in the relevant international forums and, in this regard, promote transparency and broad public participation and partnerships to implement sustainable development; 9. Recognises that in order to meet the SDGs, multi-stakeholder engagement will be required from the EU, Member States’ local and regional authorities, civil society, citizens, business and third partners; calls on the Commission to ensure that the multi-stakeholder platform announced in its communication becomes a model of best practice for facilitating the planning, implementation, monitoring and review of the 2030 Agenda; stresses that the platform should mobilise the expertise of different key sectors, promote innovation and contribute to ensuring effective links with stakeholders, encouraging the bottom-up promotion of sustainable development; stresses, moreover, that the platform should be much broader in scope than a peer-learning platform and allow for a real engagement of stakeholders in the planning and monitoring of the implementation of the SDGs; calls on the Commission to promote synergies with other related platforms such as the REFIT platform, the Circular Economy Platform, the High Level Working Group on Competitiveness and Growth and the High Level Expert Group on Sustainable Finance, and to report to Parliament and the Council on how the recommendations of the platform will be followed up; 10. Calls on the Commission to step up efforts to facilitate the governance of the SDGs to ensure the following: (i) Multi-sector: by setting up a national co-ordination structure responsible for the follow-up of Agenda 21 which would benefit from the expertise of NGOs; (ii) Multi-level: by establishing an effective institutional framework for sustainable development at all levels; (iii) Multi-actor: by facilitating and encouraging public awareness and participation by making information widely available; (iv) A focus on improving the science-policy interface; (v) Establishing a clear timetable that combines short-term and long-term thinking. Asks the Commission, therefore, to ensure that the multi-stakeholder platform results not only in pooling, but also in the dissemination of working knowledge on SDGs, and to ensure that the platform influences the policy agenda. As such, requests that the Commission, with input from Parliament and the Council, create a multi-stakeholder platform that engages actors from across a range of sectors. Business and industry, consumer groups, trade unions, social NGOs, environment and climate NGOs, development cooperation NGOs and local government and city representatives should all be represented in a forum of no less than 30 stakeholders. The meetings should be open to as many actors as possible and designed to be expanded if interest increases over time. The platform should, in its quarterly meetings, identify issues which present impediments to delivering on the SDGs. Parliament should consider the establishment of a working group on the SDGs so as to ensure horizontal working within Parliament on the topic. This forum should consist of MEPs representing as many of the Committees as possible. The Commission and Parliament should both be active in the meetings of the multi-stakeholder platform meetings. The Commission should produce an update to the platform each year on its future plans to help with SDG implementation, as well as a document that would be accessible at all levels in all Member States about best practice in implementing SDGs ahead of the UN SDG high level meetings in June/July. The Committee of Regions should act as a bridge between local actors and national actors; 11. Welcomes the increasing amount of institutional and private capital allocated to financing the SDGs and invites the Commission and the Member States to develop sustainable development criteria for EU institutional spending, to identify potential regulatory barriers and incentives to SDG investment and to explore opportunities for convergence and cooperation between public and private investments; 12. Welcomes the potential contribution of the Environmental Implementation Review to the achievement of the SDGs through the improved implementation of the acquis in the Member States; warns, however, that this review should not be considered a replacement for other tools such as infringement procedures; 13. Urges the Commission to develop effective monitoring, tracking and review mechanisms for implementing and mainstreaming the SDGs and the 2030 Agenda and calls on the Commission, in cooperation with Eurostat, to establish a set of specific progress ***indicators*** for the internal application of the SDGs in the EU; calls for the Commission to carry out annual reporting on the EU’s progress in SDG implementation; stresses that the Member States should be supported by the Commission in their coherent reporting; calls for Parliament to become a partner in the process, particularly in the second work stream post-2020, and calls for annual dialogue and reporting between Parliament, the Council and the Commission, culminating in the production of a report; urges that the results should be both transparent and easily understandable and communicable for a wide range of audiences; highlights the importance of transparency and democratic accountability when monitoring the 2030 Agenda and therefore underlines the role of the co-legislators in this process; considers that the conclusion of a binding interinstitutional agreement under Article 295 of TFEU would provide an appropriate arrangement for cooperation in this regard; 14. Recalls that Member States are required to report to the UN on their ***performance*** with respect to the SDGs; emphasises that these Member State reports should be developed in cooperation with competent local and regional authorities; underlines that in Member States with federal or devolved levels of government it is necessary to detail the specific challenges and obligations of these delegated levels of government in achieving the SDGs; 15. Calls on the Commission to promote sustainable global value chains with the introduction of due diligence systems for companies, with a focus on their entire supply chain, which would encourage businesses to invest more responsibly and stimulate a more effective implementation of sustainability chapters in free trade agreements, including in the areas of anticorruption, transparency, anti-tax avoidance and responsible business conduct; 16. Considers that any future vision of Europe must embrace the SDGs as a key principle, and that in doing so Member States should be moving towards sustainable economic models, and the role of the EU in achieving sustainable development should therefore be at the heart of the reflections launched by the Commission’s White Paper of 1 March 2017 on the Future of Europe (COM(2017)2025), where a stronger dimension of sustainability in the context of economic growth is needed; considers that achieving the SDGs and 2030 Agenda is crucial for the EU and that achieving the SDGs should be Europe’s legacy to future generations; recognises that the 2030 Agenda is in line with the principles and values of the Union and that achieving the SDGs therefore naturally follows the European Union’s plans to create a better, healthier and more sustainable future for Europe; 17. Calls on the Commission and the Member States to build capacities for integrated assessment, technological and institutional innovation and financial mobilisation for the achievement of the SDGs; 18. Recognises that most European countries, both EU and non-EU, are signatories to the SDG agreement; considers that, in the context of the debate on the future of Europe, consideration should be given to the development of a pan-European framework for the achievement of the SDGs among Member States of the EU and EEA, signatories to EU association agreements, EU candidate countries and, following its withdrawal, the United Kingdom; 19. Stresses the role of the High-Level Political Forum in the follow-up and review of the SDGs, and calls on the Commission and Council to honour the EU’s leading role in designing and implementing the 2030 Agenda by agreeing joint EU positions and joined-up EU reporting, based on coordinated reporting from the Member States and the EU institutions, ahead of the High-Level Political Forum under the auspices of the General Assembly; invites the Commission to take stock of existing actions during the upcoming High-Level Political Forum and the specific SDGs that will be under review; 20. Considers that the EU should be the global frontrunner of the transition to a low-carbon economy and a sustainable production-consumption system; invites the Commission to orient its science, technology and innovation (STI) policies towards the SDGs and calls on it to devise a communication on STI for sustainable development (‘STI4SD’), as recommended by the Commission Expert Group on the ‘Follow-up to Rio+20, notably the SDGs’, in order to formulate and support long-term policy coordination and cohesion; 21. Stresses that science, technology and innovation are particularly important tools for implementing the SDGs; emphasises the need for Horizon 2020 and future framework programmes for research to integrate better the concept of sustainable development and societal challenges; 22. Recalls that, as set out in its 12 May 2016 resolution, Parliament should have a clear role in the EU’s implementation of the 2030 Agenda; 23. Welcomes recent initiatives to promote resource efficiency, inter alia through the promotion of waste prevention, reuse and recycling, limiting energy recovery to non-recyclable materials and phasing out landfilling of recyclable or recoverable waste, as put forward in the Circular Economy Action Plan and the proposal for new, ambitious EU waste targets, which will, inter alia, contribute to SDG 12 and the reduction of marine litter; recognises that achieving the SDGs and meeting the climate change targets in a cost-effective manner will require increases in resource efficiency and will, by 2050, reduce annual global GHG emissions by 19 % and the GHG emissions of the G7 nations by up to 25 % alone; points to the fact that 12 out of the 17 SDGs are dependent on the sustainable use of natural resources; highlights the importance of sustainable consumption and production by increasing efficiency and by reducing pollution, resource demand and waste; stresses the need to decouple growth, resource use and environmental impacts; calls on the Commission to draft a regular report on the state of the Circular economy that details its state and trends and enables existing policies to be modified on the basis of objective, reliable and comparable information; calls on the Commission, furthermore, to ensure that the circular economy delivers a significant drop in the use of virgin materials, a reduction in materials waste, longer lasting products, and the use of manufacturing by-products and excess materials previously considered waste streams; calls on the Commission to come up with an ambitious and comprehensive strategy on plastics while also adhering to the 2020 target for the environmentally sound management of chemicals, taking into account the objective on non-toxic materials cycles as laid down in the 7th EAP; considers that coordinated action at European level against food waste is crucial to SDG 2; underlines the EU target of reducing food waste by 50 % by 2030; 24. Stresses that Decision No 1386/2013/EU indicates that the current systems of production and consumption in the global economy generate a large amount of waste which, combined with a growing demand for goods and services to the point of resource exhaustion, are contributing to the rise in price of essential raw materials, minerals and energy, while generating even more pollution and waste, increasing global greenhouse gas emissions, and accelerating soil degradation and deforestation; consequently, efforts need to be made on the part of the EU and its Member States to ensure the life-cycle assessment (LCA) of products and services so as to evaluate their real impact with regard to sustainability; 25. Recalls that decoupling economic growth from resource consumption is essential for limiting environmental impacts and for improving Europe’s competitiveness and reducing its resource dependency; 26. Stresses that in order for the EU to meet the goals of the 2030 Agenda it is essential that these are comprehensively reflected in the European Semester, including by addressing green jobs, resource efficiency, and sustainable investments and innovation; notes that a resource-efficient economy has great potential for job creation and economic growth, as by 2050 it would add an extra USD 2 trillion to the global economy and generate an extra USD 600 billion in the GDP of G7 countries; 27. Calls on the Commission to emphasise to all stakeholders, including investors, trade unions and citizens, the benefits of transforming unsustainable productions into activities that make it possible to implement the sustainable development goals and the benefits of permanent retraining of the workforce with a view to green, clean, high-quality employment; 28. Stresses the importance of meeting SDG 2 on sustainable ***agriculture*** and the SDGs on preventing pollution and the overuse of water (6.3 & 6.4), on improving soil quality (2.4 & 15.3), and on halting biodiversity loss (15) at EU level; 29. Calls on the Commission and the Member States to address the significant delays in achieving good water status under the Water Framework Directive, and to ensure the attainment of SDG 6; notes the EEA’s assessment that more than half of the river and lake water bodies in Europe have an ecological status that is classified as less than good and that water ecosystems are still experiencing the most significant deterioration and biodiversity decline; calls on the Commission to support innovative approaches to sustainable water management, including by unlocking the full potential of waste water, and applying the principles of circular economy in water management, by implementing measures to promote the safe reuse of waste water in ***agriculture*** and in the industrial and municipal sectors; emphasises that around 70 million Europeans experience water stress during the summer months; recalls, moreover, that approximately 2 % of the total population of the EU does not have full access to drinking water, which disproportionally affects vulnerable, marginalised groups; recalls, furthermore, that there are 10 deaths a day in Europe as a result of unsafe water and poor sanitation and hygiene; 30. Welcomes the Commission’s joint communication for the future of our oceans, which proposes 50 actions for safe, secure, clean and sustainably managed oceans in Europe and around the world in order to meet SDG 14 – an urgent goal given the need for rapid recovery of European seas and global oceans; 31. Stresses the environmental significance and socio-economic benefits of biodiversity and notes that according to the latest ‘Planetary boundaries’ report, current values of biodiversity loss have crossed the planetary boundary, while biosphere integrity is considered a core boundary which when significantly altered brings the earth system into a new state; notes with concern that the targets of the EU 2020 Biodiversity Strategy and of the Convention on Biological Diversity will not be met without substantial additional efforts; recalls that around 60 % of animal species and 77 % of protected habitats are in less than optimal conditions1; calls on the Commission and the Member States to step up their efforts in order to achieve these targets, by, inter alia, fully implementing the Nature Directives and recognising the added value of the ecosystems and biodiversity of the European environment by allocating sufficient resources, including in future budgets for biodiversity conservation, in particular to the Natura 2000 network and the LIFE programme; reiterates the necessity for a common tracking methodology that takes into account all direct and indirect spending on biodiversity and the efficiency of that spending, while stressing that overall EU spending must have no negative impact on biodiversity and should support the achievement of Europe’s biodiversity targets; 32. Stresses that the full implementation, enforcement and adequate financing of the Nature Directives is a vital prerequisite for ensuring the success of the biodiversity strategy as a whole and meeting its headline target; welcomes the Commission’s decision not to 1 EEA Report No 30/2016, Environmental ***indicator*** report 2016 — In support to the monitoring of the 7th Environment Action Programme:   [*https://www.eea.europa.eu/publications/environmental-i*](https://www.eea.europa.eu/publications/environmental-i)

ndicator-report-2016. revise the Nature Directives; 33. Urges the Commission and the Member States to quickly complete and bolster the Natura 2000 ecological network, while stepping up efforts to ensure that a sufficient number of special areas of conservation (SACs) are designated as such in accordance with the Habitats Directive and that a designation of that kind is combined with effective measures to protect biodiversity in Europe; 34. Notes that research shows that unsustainable ***agriculture*** is a key driver of loss of soil organic carbon and soil biodiversity; calls on the EU to promote methods that build soil quality, such as rotations including legumes and livestock, thereby enabling the EU to meet SDGs 2.4 and 15.3; 35. Considers that the EU must do much more to achieve SDG 15; urges the Commission, in particular, to prioritise the topic of environmental decontamination by proposing harmonised standards against the use and degradation of soil and by presenting as soon as possible the action plan against deforestation and forest degradation that has been announced several times and the time schedule for its implementation; 36. Recognises that changes in soil biodiversity and soil organic carbon are mostly driven by land management practices and land use change as well as climate change, which has a severe, negative impact on entire ecosystems and society; calls on the Commission, therefore, to devote particular attention to soil-related issues in the forthcoming 8th EAP; 37. Stresses that EU imports of soybean meal for animal nutrition contribute to deforestation in South America, thereby undermining the SDGs on deforestation, climate change and biodiversity; 38. Calls on the Commission to step up efforts as a global player in protecting the important ecology and environment of the Arctic; strongly urges the Commission not to allow any policies which incentivise the exploitation of the Arctic for fossil fuels; 39. Welcomes the focus on biodiversity, natural resources and ecosystems, and the acknowledged link between these elements and human health and well-being; stresses the need for a ‘One Health’ approach encompassing human, animal and environmental health, and recalls that investment in research and innovation aimed at developing new health technologies is an essential precondition for achieving the SDGs; urges the Commission to undertake an analysis very swiftly in order to respond to the OECD EU Health at a Glance publication, which shows that life expectancy has not risen in many EU Member States; notes that equitable access to high-quality healthcare is the key to sustainable health systems as it has the potential to reduce inequalities; stresses that more efforts are needed in order to address the multi-dimensional barriers to access at individual, provider and health system levels – and to continue to invest in innovation and medical research and the European Centre for Disease Prevention and Control (ECDC) with a view to developing health solutions that are accessible, sustainable and geared towards combating the global scourge of HIV/AIDS, tuberculosis meningitis, Hepatitis C and other neglected infectious diseases, which are often tied to poverty; points out that investing in global medical research and development is crucial for addressing emerging health challenges such as epidemics and resistance to antibiotics; 40. Underlines the fact that the oceans economy, or ‘blue economy’, offers important opportunities for the sustainable use and conservation of marine resources, and that suitable capacity-building support for developing and implementing planning tools and management systems can enable developing countries to seize these opportunities; underlines the major role that the European Union must play in this regard; 41. Recognises the nexus between the extraction of fisheries resources and conservation and trade; recognises, furthermore, that the opportunity cost of not acting to address harmful fishing subsidies is extremely high, as without action resources will be depleted, food insecurity will result and those sources of employment that were sought to be preserved will be destroyed; 42. Recalls that the EU and its Member States are all signatories to the Paris Agreement, and are therefore committed to its objectives, which require global action; underlines the need to integrate the long-term decarbonisation objective to limit global warming to well below 2 °C, and to pursue efforts to further limit this increase to 1,5 °C; 43. Recalls that the Commission proposal for the 2030 climate and energy framework sets three key targets for 2030: a reduction in GHG emissions of at least 40 %, at least 27 % of EU energy demand to be met with renewables and an improvement in energy efficiency of at least 30 %; recalls the positions taken by Parliament on these targets; underlines the need to keep these targets under review and to prepare a mid-century zero emissions strategy for the EU, providing a cost-efficient pathway, by taking into account the regional and national specificities within the EU, towards reaching the net zero emissions goals of the Paris Agreement; 44. Calls for the EU and the Member States to effectively mainstream climate change mitigation and adaptation in development policies; highlights the need to encourage technology transfers for energy efficiency and clean technologies, and to support investments in small-scale, off-grid and decentralised renewable energy projects; calls for the EU to scale up its assistance to sustainable ***agriculture*** in order to cope with climate change, by means of targeted support for small-scale farmers, crop diversification, agro-forestry and agro-ecological practices; 45. Notes that environmental degradation and climate change pose significant risks to establishing and maintaining peace and justice; recognises the need for a higher profile of the part that climate change and environmental degradation are playing in driving global migration, as well as poverty and hunger; calls for the EU and the Member States to maintain climate change as a ***strategic*** priority in diplomatic dialogues at global level, including in high-level bilateral and bi-regional dialogues with the G7, the G20, at the UN and with partner countries such as China in order to continue a positive and active dialogue that speeds up the global clean energy transition and avoids dangerous climate change; 46. Recognises the work of the US-based Center for Climate and Security in identifying flashpoints between climate change and international security, which refers to climate change as a ‘threat multiplier’ which could demand greater humanitarian or military ***intervention*** and lead to more severe storms that threaten cities and military bases; 47. Underlines the fact that energy poverty, which is often defined as a situation whereby individuals or households are not able to adequately heat or provide other required energy services in their homes at an affordable cost, is a problem across many Member States; stresses that energy poverty is due to rising energy prices, the recessionary impact on national and regional economies and poor energy efficient homes; recalls that according to the EU Statistics on Income and Living Conditions (EU-SILC), it is estimated that 54 million European citizens (10,8 % of the EU’s population) were unable to keep their home adequately warm in 2012, with similar numbers being reported with regard to the late payment of utility bills or presence of poor housing conditions; calls on the Member States to recognise and address this problem, as guaranteeing basic energy services is critical for ensuring that communities do not suffer negative health impacts, do not become further entrenched in poverty and can maintain a good quality of life, as well as for ensuring the financial outlay to assist households that require support does not become too burdensome; stresses that modern energy services are crucial to human well-being and to a country’s economic development; and yet globally 1,2 billion people are without access to electricity and more than 2,7 billion people are without clean cooking facilities; recalls, furthermore, that more than 95 % of these people live either in sub-Saharan African or developing Asia, and around 80 % live in ***rural*** areas; stresses that energy is central to nearly every major challenge and opportunity the world faces today; stresses that, be it for jobs, security, climate change, food production or increasing incomes, access to energy for all is essential, and that sustainable energy represents opportunity – it transforms lives, economies and the planet; 48. Recommends a full integration of climate action across the EU budget (climate action mainstreaming), ensuring that measures to reduce greenhouse gas emissions are integrated into all investment decisions in Europe; 49. Calls on the Commission to produce a report every five years, starting within six months of the 2018 facilitative dialogue under the UNFCCC, on the EU’s climate legislation, including the Effort Sharing Regulation and the ETS Directive, in order to ascertain that this legislation is effective in making the expected contribution to EU GHG reduction efforts and to establish whether the current trajectory for reductions will be enough to meet the SDGs and the goals of the Paris Agreement; further requests that the Commission revise and scale up the 2030 climate and energy framework and the EU’s nationally determined contribution by 2020 at the latest, so that they are sufficiently aligned with the long-term objectives of the Paris Agreement and the SDGs; calls for the Commission to incentivise the potential for GHG absorption by encouraging the development of policies that support afforestation with proper forest management practices, in view of the fact that the EU has, under the 2030 Agenda, committed to promoting the implementation of sustainable forest management, to halting deforestation, restoring degraded forests and increasing afforestation and reforestation globally by 2020; 50. Underlines the fact that efforts to mitigate global warming are not an obstacle to economic growth and employment and that, on the contrary, the decarbonisation of the economy should be seen as a key source for new and sustainable economic growth and employment; acknowledges, nevertheless, that in moving towards any new economic and social model, communities centred around traditional industries are likely to face challenges; underlines the importance of support in this transition and calls on the Commission and Member States to stream funding from sources such as the EU Emissions Trading Scheme (ETS) in order to finance modernisation and a just transition to help such communities and to promote the adoption of the best technology and production practices to ensure the best environmental standards and safe, stable and sustainable work; 51. Notes that continuous biodiversity loss, the negative effects of deforestation and climate change can lead to growing competition for resources such as food and energy, to increased poverty, global political instability, and population displacements and new global migration patterns; insists that the Commission, the European External Action Service (EEAS) and the Member States should consider these in all aspects of external relations and international diplomacy while ensuring a substantial increase in Official Development Assistance (ODA) financing; asks that the Commission, the EEAS and the Member States pursue, in all actions and interactions with third countries, efforts to reduce emissions by promoting renewable energy sources, resource efficiency biodiversity and forest protection, and by promoting climate change mitigation and adaptation; 52. Calls on the Commission to ensure that EU external policies are compatible with the SDGs, and to identify areas where further action or implementation is needed to ensure that EU external policies support effective implementation of the SDGs and do not conflict with SDGs and their implementation in other regions, especially developing countries; calls on the Commission, to this end, to set in motion a reliable process starting with a foresight/early warning method for new initiatives and proposals, including the revision of existing legislation, and to come forward with a proposal for an overarching external Sustainable Development Strategy; emphasises the available tools and forums such as the European Fund for Sustainable Development (EFSD), the UNECE Regional Forum on Sustainable Development (RFSD) the High-Level Political Forum, and the UN central platform; calls for a voluntary review at the High-Level Political Forum in line with the 2030 Agenda, which encourages Member States to ‘conduct regular and inclusive reviews of progress’; emphasises the role of regular and adequate ex-ante impact assessments in this regard; recalls the Treaty obligation to take into account the objectives of development cooperation in all policies which are likely to affect developing countries; 53. Underlines the importance of ODA as a key instrument for achieving the 2030 Agenda, for eradicating poverty in all its forms and fighting inequalities, while reiterating that development aid alone is not sufficient to lift developing countries out of poverty; stresses the need to promote instruments which encourage greater accountability, such as budget support; calls for the EU and its Member States to reconfirm their commitment without delay to the 0,7 % of the gross national income target and to submit detailed timeline proposals for gradually increasing ODA in order to achieve it; recalls the EU’s commitment to allocate at least 20 % of its ODA to human development and social inclusion and asks for a renewed commitment to this end; calls on the Commission to achieve the OECD Development Assistance Committee’s (DAC) recommendation of reaching an annual average grant element of total ODA commitments of 86 %; calls for ODA to be protected from diversion and for the internationally agreed development effectiveness principles to be respected, by retaining the fundamental ODA objective of poverty eradication, with a particular focus on least developed countries (LDCs) and fragile contexts; recalls the need to go beyond the donor/beneficiary relationship in a broader development agenda; 54. Stresses that ensuring tax justice and transparency, fighting tax dodging, eradicating illicit financial flows and tax havens, together with improved public finance management, sustainable economic growth and increasing Domestic Resources Mobilisation, is crucial for financing the 2030 Agenda; calls for the EU to create a funding programme (DEVETAX2030) to specifically assist the establishment of tax structures in emerging market economies and to help developing countries to create new regional tax authority offices; reiterates its calls for a global financial transaction tax in order to tackle the global challenges of poverty, for an investigation into the spill-over impact on developing countries of all national and EU tax policies, and for the principle of PCD to be upheld when legislating in this field; 55. Calls on the Commission and the Member States to re-adjust their approach to migration with a view to developing a migration policy in line with SDG 10 and a fact-based perception of migrants and asylum-seekers and with countering xenophobia and discrimination against migrants, as well as with a view to investing in key drivers for human development; reiterates its concerns that the new policies and financial instruments to address the root causes of irregular and forced migration may be implemented to the detriment of development objectives, and asks for the European Parliament to be given a stronger scrutinising role in this regard so as to ensure that the new funding tools are compatible with the legal basis, principles and commitments of the EU, especially the 2030 Agenda; recalls that the primary objective of development cooperation is the eradication of poverty and economic and social long-term development; 56. Welcomes the emphasis placed on investing in young people as the main implementers of the SDGs; stresses the need to harness the demographic dividend of developing countries by means of appropriate public policies and investment in youth education and health, including sexual and reproductive health and education; stresses the opportunity to finally advance gender equality and women’s empowerment as an essential element of PCD and urges the EU to mainstream these across all external action areas; recognises that these key enablers for human development and human capital need to be prioritised in order to guarantee sustainable development; 57. Calls for the EU and its Member States to commit the necessary resources and political focus to ensure that the principle of gender equality and women’s and girls’ empowerment is at the core of the implementation of the 2030 Agenda; 58. Presses the Commission and the Member States to ensure that public budgets do not conflict with the SDGs; considers that significant acceleration of green investment, innovation and growth in the EU is needed for the timely and successful implementation of the 2030 Agenda and recognises that new financing tools and different approaches to current investment policy, such as the phasing out of environmentally harmful subsidies and high-emission projects, are necessary; calls for a strategy for the integration of environmental, social and governance (ESG) factors by multinationals and businesses in their corporate business models and by institutional investors in their investment strategies in order to shift funds to sustainable finance and divest from fossil fuels; 59. Calls for the post-2020 MFF to reorient the Union’s budget towards the implementation of the 2030 Agenda for Sustainable Development, ensuring that sufficient funding is allocated to effectively achieving the SDGs; calls for enhanced mainstreaming of sustainable development in all funding mechanisms and budgetary lines, reiterating that long-term policy coherence plays an important role in cost minimisation; highlights the significance of cohesion policy as the main investment policy of the EU, and recalls that a horizontal application of sustainability criteria and ***performance***-based objectives for all EU structural and investment funds, including the European Fund for ***Strategic*** Investments, is needed in order to achieve a comprehensive transition to sustainable and inclusive economic growth; 60. Calls on the European Investment Bank (EIB) to ensure that it lives up to the values of Europe in implementing strong sustainability criteria in its lending, and in particular that lending to the energy and transport sectors is targeted at low-carbon and sustainable projects; 61. Calls on the EIB to commit 40 % of its lending portfolio to low-carbon and climate-resilient growth by 2030; 62. Asks the EIB to allocate more funds to the ELENA initiative to provide grants for technical assistance focused on the implementation of energy efficiency, distributed renewable energy and urban transport projects and programmes; 63. Recognises that resilient and sustainable infrastructure is a key principle of achieving a low-carbon sustainable future and brings a number of co-benefits such as durability and improved protection from fire and flooding; considers that a transition to a sustainable society can be achieved by adhering to the principle of ‘energy efficiency first’ and continuing to improve the efficiency of appliances, power grids and buildings while developing storage systems; recognises that the greatest potential for energy efficiency lies in buildings and asks the EU to commit to a 2050 goal of an entirely sustainable, decarbonised, energy-efficient building stock that has nearly zero energy demand and where any residual demand is supplied from a wide range of renewable sources; calls for an accelerated increase in the share of renewable energy in the EU energy mix; warns against the lock-in of unsustainable infrastructure and calls on the Commission to propose measures for an orderly transition to a sustainable low-carbon economy and a fundamental reorientation of infrastructure development in order to mitigate the systemic economic risks associated with high-carbon financial assets; 64. Calls on the Commission and its Member States to prioritise sustainable mobility by improving local public transport systems in line with the specific characteristics of every country and on the basis of the real needs of its citizens; considers that EU financial support for the development of the transport sector and infrastructures should pursue objectives that bring real added value to the Member States; 65. Underlines that corruption has a serious impact on the environment, and that trafficking in endangered species of wildlife, minerals and precious stones, as well as forest products such as timber, are also inextricably linked to corruption; underlines further that trafficking in wildlife can further threaten endangered species, while illegal logging can lead to a loss of biodiversity and increase carbon emissions, which contribute to climate change; stresses that for organised criminal groups the profits are good and come with little risk, as forest crimes are rarely prosecuted and the sanctions often do not match the gravity of the crime; recalls that the United Nations Convention against Corruption, with its comprehensive focus on corruption prevention, effective law enforcement, international cooperation and asset recovery, can be an effective tool for combating corruption in the environmental sector; calls on the Member States to integrate anti-corruption strategies such as transparency and accountability into environmental legislation and policies and to enhance democracy and good governance; stresses that tackling corruption in the environmental sector will help create equitable access to essential resources such as water and a clean environment and is essential for protecting our environment and ensuring sustainable development; 66. Recognises the importance of culture and cultural participation to delivering on the SDG agenda, as well as the role played by culture in external relations and development policy; calls for proper support for cultural institutions and organisations in delivering on the SDG agenda as well as further deepening links between research, science, innovation and the arts; 67. Recalls that cultural participation improves physical and mental health and well-being, positively impacts school and professional ***performance***, helps people most at risk of social exclusion to enter the labour market, and thus contributes greatly to the achievement of many SDGs; 68. Is deeply concerned at the differences in the ***performance*** of education systems in Member States, as shown by the latest PISA reports; stresses that properly resourced public education and training systems, accessible to all, are essential for equality and social inclusion and for meeting the targets set by SDG 4, and that quality education has the ability to empower vulnerable people, minorities, people with special needs and women and girls; regrets the persistent problem of high youth unemployment; notes that education is key to developing self-sustaining societies; calls for the EU to link quality education, technical and vocational training and cooperation with industry as an essential precondition for youth employability and access to qualified jobs; 69. Calls for the EU and its Member States to protect regional, minority and lesser-used languages and linguistic diversity and to ensure that linguistic discrimination is not tolerated when integrating the SDGs into the European policy framework and current and future Commission priorities; 70. Believes that cultural diversity and the protection of natural heritage should be promoted across the European policy framework, including through education; 71. Calls on the Member States to prioritise the environmental and economic reconversion of industrial sites that in many areas of Europe cause high levels of pollution in environmental media and expose locals to serious health risks; 72. Underlines the role that the EU Urban Agenda will play in implementing the global ‘New Urban Agenda’, and welcomes policy developments that empower cities and regions to make synergistic green investments; welcomes also initiatives such as the Green Leaf Award and the Global Covenant of Mayors for Climate and Energy, and further emphasises the indispensable importance that cities and regions have in delivering on the SDGs, as sustainability requires collaborative and long-term approaches from all levels of governance and all sectors; 73. Recalls that the 2030 Agenda recognises that we can no longer look at food, livelihoods and the management of natural resources separately; underlines that a focus on ***rural*** development and investment in ***agriculture*** – crops, livestock, forestry, fisheries and aquaculture – are powerful tools for ending poverty and hunger, and bringing about sustainable development; notes that ***agriculture*** has a major role to play in combating climate change; stresses that the great ambition of the SDGs can only be achieved through cooperation – North-South, South-South and triangular – and global partnerships between multiple actors and across a broad range of areas; 74. Welcomes the intention to mainstream trade and investment policy which integrates sustainable development, and calls for the impacts of sourcing commodities and natural resources within and outside the EU to be better addressed in EU policy-making, within and beyond the EU’s borders; calls for a rethink of the investment policy and for the broad use of innovative financing tools for the achievement of the SDGs; calls on the Commission to ensure that sustainable development checks on future trade agreements are transparent; 75. Calls on the Commission to design, with the involvement of relevant stakeholders, and provide, specific, tailored support for marginalised, low-income households and groups such as Roma people to ensure healthy lives and access to basic services and safe, clean natural resources such as air, water, affordable and modern energy and healthy nutrition, which would also contribute to attaining SDGs 1, 10 and 15 on ending poverty, reducing inequality and promoting peaceful and inclusive societies; 76. Acknowledges, as in the 2030 Agenda for Sustainable Development, that persons with disabilities are at very high risk of living in poverty, with inadequate access to basic rights such as education, health and employment; 77. Considers that EU initiatives geared towards creating a sustainable future cannot disregard the wider debate on the role of animals as sentient beings and their well-being, which is often neglected in the prevailing production and consumption systems; stresses that the EU needs to overcome the current political and legislative shortcomings with regard to animal welfare, as demanded by an increasing number of European citizens; 78. Calls on the Commission to scale up efforts and funding for awareness raising, targeted education campaigns and enhancing citizens’ commitments and action for sustainable development; 79. Calls on the Commission and the Member States to end by 2020 incentives for palm-oil- and soy-based biofuels that lead to deforestation and peatland damage; calls furthermore for the introduction of a single certification scheme for palm oil entering the EU market that certifies the socially responsible origin of the product; 80. Strongly urges the Commission to continue stepping up action on effective measures to tackle poor air quality, which is responsible for over 430 000 premature deaths in the EU every year; urges the Commission to ensure that new and existing legislation is enforced to speed up legal actions against Member States failing to comply with air pollution laws, and to propose new, effective legislation, including sector-specific legislation, to tackle poor ambient air quality and the various sources of pollution while also addressing methane emissions; underlines the fact that the EU is still far from achieving the air quality levels set for the EU, which are much less stringent than those recommended by the WHO; 81. Notes that the Commission has addressed the problem of poor air quality by launching a number of infringement procedures, in particular against those continuously exceeding the NO2 limit values laid down in Directive 2008/50/EC; 82. Points out that a reduction in noise pollution is one of the quality parameters that will not be achieved by 2020; stresses that, in the EU, exposure to noise contributes to at least 10 000 premature deaths per year related to coronary heart disease and stroke, and that in 2012 approximately a quarter of the EU population was exposed to noise louder than the limit values; calls on the Member States to prioritise monitoring noise levels and to ensure that the limit values for external and internal environments are respected; calls furthermore for measures to address noise pollution; 83. Stresses that Commission data shows that over 50 % of EU cereals are used to feed animals; notes that the UN Food and ***Agriculture*** Organisation has warned that further use of cereals as animal feed could threaten food security by reducing the grain available for human consumption; 84. Stresses the contribution that the livestock sector makes to the EU economy and to sustainable ***agriculture***, particularly when integrated into arable production systems; draws attention to the potential of active nutrient cycle management in the livestock sector to reduce the environmental impact of CO2, ammonia and nitrate emissions; draws attention, furthermore, to the potential of integrated farming to contribute to a better functioning ***agricultural*** ecosystem and a climate-friendly farming sector; 85. Notes that women working in farming in developing countries could increase farm yields by 20-30 % if they had the same access to resources as men; stresses that this level of yield could reduce the number of people who go hungry around the world by 12-17 %; 86. Stresses, in particular, the fundamental role of women as members of family farms, which constitute the main socioeconomic cell of ***rural*** areas, in caring for food production, preservation of traditional knowledge and skills, cultural identity and protection of the environment, bearing in mind that women in ***rural*** areas are also affected by wage and pension gaps; 87. Recalls that, under the 7th Environment Action Programme, the Commission is required to assess the environmental impact, in a global context, of Union consumption; stresses the positive impact that sustainable lifestyles can have on human health and reducing greenhouse gas emissions; reminds the Commission that SDG 12.8 requires that the public have information and awareness regarding sustainable development and lifestyles; accordingly, urges the Commission and the Member States to develop programmes to increase public awareness of the implications of different types of consumption for human health, the environment, food security and climate change; calls on the Commission to publish the communication on a sustainable European food system without delay; 88. Notes that SDG 12.8 requires governments to ensure that people everywhere have the relevant information and awareness as regards sustainable development and lifestyle in harmony with nature; urges the Commission and the Member States, accordingly, to develop programmes to increase public awareness of the implications of consumption levels for human health, the environment, food security and climate change; 89. Calls on the Commission and the Member States to develop a comprehensive EU Policy Framework addressing global health challenges such as HIV/AIDS, Tuberculosis, Hepatitis C and antimicrobial resistance, bearing in mind the different situations and specific challenges of EU Member States and their neighbouring countries where the burden of HIV and MDR-TB is highest; calls on the Commission and the Council to play a strong political role in the dialogue with high-disease burden countries, including neighbouring countries in Africa, Eastern Europe and Central Asia, ensuring that plans for sustainable transition to domestic funding are in place, so that HIV and TB programmes will be effective, continued and scaled up after the withdrawal of international donors’ support and to continue to work closely with those countries in ensuring they take the responsibility and ownership of HIV and TB responses; 90. Recognises the effectiveness in making available ‘PREP’ medication for preventing HIV/AIDS; further calls on the Commission and the European Centre for Disease Prevention and Control (ECDC) to recognise that for HIV/AIDS treatment is also preventative; 91. Recognises that sexual reproductive health and rights (SRHR) are a key driver with transformative potential for multi-dimensional poverty eradication, and should be always recognised as a pre-condition for both healthy lives and gender equality; stresses, in this context, that greater attention must be paid to SRHR, which are unfortunately still treated as a niche issue, despite being of utmost importance for gender equality, youth empowerment and human development, and ultimately poverty eradication; underlines that this represents little progress from previous EU approaches, and that the recognition of SRHR as key drivers for sustainable development is still missing; notes that the EU position has been incoherent on this front, as shown in this package: the Commission recognises EU action in this domain only under ‘health’ in its communication on the 2030 Agenda, but only under ‘gender equality’ in the communication on the Consensus; calls on the Commission and the Member States therefore to continue to request that the United States rethink its stance on the so-called ‘global gag rule’; 92. Stresses the need to continue promoting health research to develop new and improved accessible, affordable and suitable medical solutions to HIV/AIDS, TB and other poverty-related and neglected diseases, emerging epidemics and antimicrobial resistance; 93. Points out that the EU farming sector is already making a contribution to sustainability; notes, however, that the common ***agricultural*** policy (CAP) must be enabled to better respond to current and future challenges; calls on the Commission to examine how the CAP and sustainable farming systems can best contribute to the SDGs in order to guarantee stable, safe and nutritious food as well as protecting and enhancing natural resources while tackling climate change; asks the Commission, in the framework of the upcoming communication on the post-2020 CAP, to come forward with proposals to further improve the efficiency of greening measures and to ensure the attainment of SDGs 2, 3, 6, 12, 13, 14 & 15; calls on the Commission also to promote locally and ecologically produced food with a low carbon, land and water footprint; highlights the importance of agro-ecosystems and sustainable forest management and of providing incentives for the sustainable restoration of disused ***agricultural*** areas; underlines the need to ensure that all EU policies effectively achieve the set objectives through strict compliance and through greater coherence across policy areas; stresses that this is of particular relevance with regard to the sustainable management of natural resources and the instruments dedicated to this under the CAP; 94. Calls on the Commission and the Member States to promote this agro-ecological transition, while minimising the use of pesticides that are detrimental to health and the environment and developing measures to protect and support organic and biodynamic ***agriculture*** within the scope of the CAP; 95. Calls on the Commission and the Member States to reform the EU rules on the approval of pesticides as soon as possible, and to establish binding objectives to reduce their use; 96. Points out that the EU farming sector provides jobs for millions of people in ***rural*** areas in ***agriculture*** and in other sectors, guaranteeing food supplies and food security and attracting people to ***rural*** areas as a place in which to live, work and relax; points out, furthermore, that landscapes with a high biodiversity and high nature value attract people to the countryside, bringing added value to ***rural*** areas; notes the great value of ***rural*** development policy in building viable, robust and vibrant ***rural*** communities and economies; points out that better access for farmers to resources is essential in order to achieve this; 97. Calls for farming to be developed by focusing on family holdings, with the aid of a better use of European funds such as the European Fund for ***Strategic*** Invesments (EFSI), and by paying special attention to small- and medium-sized holdings, by sharing and transferring expertise and by exploiting the advantages of local and regional value and production chains and regional employment, with greater emphasis on peri-urban links and direct sales, which have been a successful model in many parts of the EU; takes the view that the ability of farmers to generate fair remuneration from their labour is a prerequisite for the sustainability of European ***agriculture*** and a guarantee of farmers’ welfare; 98. Recalls that it is important to guarantee proper public services, notably care for children and the elderly, given that such services are particularly important for women, since they have traditionally played a major role in looking after young and elderly family members; 99. Points out the important role of traditional knowledge and foodstuffs, especially in outermost regions, mountain areas and disadvantaged areas of the EU, as well as the economic contribution that European quality schemes such as Protected Geographical Indication (PGI) bring to local areas; recalls Parliament’s unanimous support for extending such protection to a wider range of regionally produced goods; stresses, in this connection moreover, the role of EU quality schemes (PDO/PGI/TSG) in offering and maintaining livelihoods in those areas; recognises that these schemes are more widely known only in some Member States and calls for awareness to be raised across the Union on their advantages; 100. Stresses the contribution of the Mediterranean forest and the dehesa agroforestry system – which seamlessly combines sustained, extensive livestock farming with farming and forestry activities – to the objectives of conserving and ensuring the sustainability of biodiversity, for the purposes of recognition and support under the CAP; 101. Stresses the importance of bioenergy to farms and the bioeconomy, and of installations, for the generation, storage, distribution and on-farm use of renewable energy, as they help to secure farmers’ incomes by offering them an additional product to sell, and both create and preserve high-quality jobs in ***rural*** areas; stresses that the development of bioenergy must be pursued sustainably and must not hamper the production of food and feed; stresses that energy needs should instead be met by encouraging the use of waste and by-products that are not useful in any other process; 102. Notes that growing leguminous crops in arable rotation can deliver a win-win situation for farmers, animals, biodiversity and climate needs; calls on the Commission to come forward with a protein plan that includes leguminous crops in rotation; 103. Regards further progress in precision farming, digitalisation, the rational use of energy, plant and animal breeding and the mainstreaming of integrated pest management as necessary, because increased efficiency based on SDGs and biodiversity will help to reduce both the land requirement and the environmental impact of farming; considers that getting biodiversity to work for farmers could help to improve income, soil health and ***performance***, and help with pest control and improving pollination; highlights, therefore, the importance of an improved regulatory framework so as to ensure timely, efficient and effective decision-making procedures; highlights that these ‘smart’ solutions should incentivise and support initiatives tailored to the needs of smallholdings without economies of scale to benefit from new technologies; 104. Considers it essential to maintain and develop the ***performance*** of traditional and local breeds, given their ability to adapt to the characteristics of their native environment, and for the right of farmers to breed plants autonomously and to store and exchange seeds of different species and varieties to be respected, in order to ensure the genetic diversity of ***agriculture***; rejects attempts of any kind to patent life, plants and animals, genetic material, or essential biological processes, especially where native strains, varieties and characteristics are concerned; 105. Calls on the Commission to come forward with an action plan and to set up an expert group in order to work towards a more sustainable integrated plant protection management system; highlights the need for a pest management system that improves the interaction between plant breeding efforts, natural combat systems and pesticide use; 106. Believes it necessary to promote broadband availability and improve transport services in ***rural*** areas, so as to contribute not only to the achievement of environmental sustainability objectives but also to the promotion of growth in ***rural*** areas that is fully sustainable in environmental, economic and social terms; 107. Stresses that it is necessary to make culture an integral part of the Commission’s action for sustainability, clearly highlighting the role it plays in economic development, job creation, promoting democracy, social justice and solidarity, fostering cohesion, fighting social exclusion, poverty and generational and demographic disparities; calls on the Commission to mainstream culture in the objectives, definitions, tools and evaluation criteria of its strategy for the SDGs; 108. Instructs its President to forward this resolution to the Council and the Commission.

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**Body**

Brussels: Public Register European Parliament has issued the following document:

[1] EN This action is funded by the European Union ANNEX of the Commission Decision on the Special Measure for 'Addressing migration and forced displacement challenges in Asia and the Middle East: a comprehensive regional EU Response' Action Document for 'Addressing migration and forced displacement challenges in Asia and the Middle East: a comprehensive regional EU Response' INFORMATION FOR POTENTIAL GRANT APPLICANTS WORK PROGRAMME FOR GRANTS This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1 Grants. 1. Title/basic act/ CRIS number Addressing migration and forced displacement challenges in Asia and the Middle East: a comprehensive regional EU Response CRIS: ACA/2017/040575, ACA/2017/040576, ACA/2017/040577, ACA/2017/040578, ACA/2017/040580, MIGR/2017/040581, MIGR/2017/040582, MIGR/2017/040584 financed under Development Cooperation Instrument (DCI) 2. Zone benefiting from the action/location Islamic Republic of Afghanistan People's Republic of Bangladesh Islamic Republic of Iran Republic of Iraq Islamic Republic of Pakistan The activities will be carried out all over the countries, with a specific focus on regions of high migration / return / protracted forced displacement.

3. Programming document Regional Programme for Asia 2014-20201 (i.e Aid to Uprooted People programme – Afghanistan – 2017-2020, EUR 20 million); Special 1 C(2014) 6112 of 03.09.2014 and C(2014) 9382 of 11.12.2014 [2] measure for 'Addressing migration and forced displacement challenges in Asia: a comprehensive regional EU Response'2 (EUR 175.7 million) 4. Sector of concentration/ thematic area Migration, Forced displacement DEV. Aid: YES 5. Amounts concerned Total estimated cost: EUR 195.7 million Total amount of EU budget contribution: EUR 195.7 million, of which EUR 90 million are financed under the DCI Global Public Good and Challenges - Migration and Asylum budget line (21.020705), EUR 40 million under the DCI Cooperation with Asia budget line (21.020200) and the remaining EUR 65.7 million under the DCI Cooperation with Afghanistan budget line (21.020500). The contribution is for an amount of EUR 165.7 million from the general budget of the European Union for 2017 and for an amount of EUR 30 million from the general budget of the European Union for 2018, subject to the availability of appropriations following the adoption of the relevant budget. 6. Aid modality(ies) and implementation modality(ies) Project Modality Direct management: grants (calls for proposals in Afghanistan, Iran, Iraq) Indirect management with: Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ (Pakistan), International Centre for Migration Policy Development – ICMPD (multi-country), International Labour Organization – ILO (Bangladesh), International Organization for Migration – IOM (multi-country), United Nations Educational, Scientific and Cultural Organization – UNESCO (Afghanistan), United Nations High Commissioner for Refugees – UNHCR (multi-country), United Nations Human Settlements Programme – UN-HABITAT (Afghanistan), United Nations Children's Fund – UNICEF and World Health Organization – WHO (multi-country), United Nations Office on Drugs and Crime – UNODC (multi-country), World Bank – WB (Afghanistan) 7 a) DAC code(s) 13010 (Population policy and administrative management) for the capacity building and policy-making component; 11330 (Vocational training); 16020 (employment policy) for the component that relates to capacity building and job creation. b) Main Delivery Channel IOM, UNHCR and World Bank; others (e.g EU Member State agencies, ICMPD, ILO, Non-governmental organisations (NGOs), UNESCO, UN-HABITAT, UNICEF and WHO, UNODC, etc.) 2 C(2017) 6190 of 18.09.2017 [3] 8. Markers (from CRIS DAC form) General policy objective Not targeted Significant objective Main objective Participation development/good governance ☐ ☐ x Aid to environment x ☐ ☐ Gender equality (including Women In Development) ☐ x ☐ Trade Development x ☐ ☐ Reproductive, Maternal, New born and child health x ☐ ☐ RIO Convention markers Not targeted Significant objective Main objective Biological diversity x ☐ ☐ Combat desertification x ☐ ☐ Climate change mitigation x ☐ ☐ Climate change adaptation x ☐ ☐ 9. Global Public Goods and Challenges (GPGC) thematic flagships  Human development;  Migration and asylum 10. SDGs3 SDG target 10.7 SUMMARY Afghanistan, Bangladesh and Pakistan are listed as the EU's priority countries on migration with regard to origin and transit in Asia (Communication on establishing a new Partnership Framework with third countries under the European Agenda on Migration4 & HR/VP Federica Mogherini letter to all EU Ministers of Foreign Affairs (3 August 2016). Together with Iraq and Iran, these are also countries of great relevance to regionally address protracted forced displacement from a development perspective (Communication on Forced Displacement and Development5 and Foreign Affairs Council Conclusions6 (12 May 2016). Development responses to the root causes of irregular migration and protracted forced displacement in the region are central and essential to the goal of supporting countries to boost shared prosperity and resilience and promote stability and self-reliance – in line with the international commitment to reach first those who are furthest behind. 3 Sustainable Development Goals. 4 COM(2016) 385 of 07.06.2016 5 COM(2016) 234 of 26.04.2016 6 [*http://www.consilium.europa.eu/en/press/press-releases/2016/05/12/conclusions-on-afghanistan/*](http://www.consilium.europa.eu/en/press/press-releases/2016/05/12/conclusions-on-afghanistan/). [4] First and foremost solutions have to be found to tackle the drivers of forced displacement and curb the prospects of increasing irregular migration from these countries. To a great extent these two issues are interlinked, a key requirement for success being improved security and socio-economic conditions in hosting countries and countries of origin, which includes improved international protection, access to basic services (including education and health), realistic, decent and viable employment, livelihoods and income generation opportunities. Second, sustainable long-term solutions to facilitate orderly, safe and dignified returns and reintegration of forcibly displaced populations and irregular migrants to their countries of origin should be identified and implemented. However, where such return and reintegration is not directly feasible, forcibly displaced populations and their host communities should be assisted to foster local inclusion and social cohesion. As such, this action aims to address the short, medium and long-term challenges posed by protracted forced displacement and migration, in host, transit and countries of origin and tackle the need to develop sustainable solutions for the return, reintegration and inclusion of displaced populations in Afghanistan and neighbouring countries. The action foresees a series of multi-sector and multi-stakeholder measures focusing on policy dialogue and financial support for reintegration, international protection and local inclusion. The ***interventions*** will focus on enhanced access to services (including education and health); land allocation as a foundation for integration; livelihood support services for forcibly displaced populations returnees and host communities; strengthening of capacity of local authorities to deliver integrated services; technical and vocational education and training ( TVET)/skills development and job creation for forcibly displaced populations, returnees and host communities; financial assistance to the small and medium-sized enterprises (SMEs); improvement of migration and asylum management systems and policies; protection of migrants. The action is designed to strengthen the nexus between humanitarian and development assistance and thereby ensure a sustainable interplay between relief and development. By improving service delivery for the displaced and host communities and sharing of livelihood assets and conflict management mechanisms, inter-communal relations and development outcomes should improve. International partners such as UNHCR, IOM, UN-HABITAT, UNICEF and WHO, UNODC, ILO, ICMPD, World Bank, UNESCO, specialised NGOs and EU Member States agencies who have a presence in the field in the regions of high concentrations of forcibly displaced populations, areas of return and or in the border/transit areas represent an essential knowledge to build upon and will be the primary implementation partners for the action. [5] 1. CONTEXT 1.1 Regional context Forced displacement in Afghanistan and neighbouring countries (mainly Pakistan and Iran) represent a protracted caseload. According to UNHCR and IOM, 2.7 million documented Afghan refugees and up to 3 million undocumented Afghans remained in Pakistan and Iran in 20167. The continued conflict and insecurity in around half of Afghanistan hamper the smooth and sustainable return of Afghans to their country/region of origin. Around 6.5 million Afghan refugees voluntarily returned to Afghanistan since 2001 and in 2016, Afghanistan witnessed a sharp increase in returns – more than 1 million persons – of both documented and undocumented Afghan refugees, mainly from Pakistan. From Iran, a high number of returns were also witnessed, yet the movements appear to be more circular patterns of recently arrived persons. For 2017, it was estimated that around 1.7 million Afghans will be on the move, including due to conflict-induced internal forced displacement. This will create significant challenges for the Afghan government in managing the absorption and successful reintegration of returnees,. It could also generate significant humanitarian needs and expose the affected (vulnerable) population to radicalisation. Bangladesh is one the most overpopulated, climate-vulnerable and disaster-prone countries in the region, with a sizeable part of the population living and working abroad, estimated by IOM at 8.6 million people. As such, remittances from Bangladeshis working abroad constitute important revenue flows for the Government, about 11% of the gross domestic product (GDP). Despite high rates of economic growth and significant gains in poverty reduction, Bangladesh remains one of the poorest countries in the world. Poor ***rural*** households are particularly vulnerable to economic shocks and unemployment among youth is a significant challenge. In addition, large numbers of people have been internally displaced in Bangladesh due to natural disasters and conflict. Many of those affected resort to migration as a coping mechanism and the described push factors are likely to increase in the future. Bangladeshi nationals are now the second on the list of irregular migrant disembarkations in the Central Mediterranean route to Europe and their numbers are rising. Bangladesh is also experiencing increased socio-economic pressure from the continued influx of Rohingya refugees, due to the deteriorating situation across the border in the Rakhine State of Myanmar. At present, close to 32,000 officially recognised refugees and 300,000-500,000 undocumented Rohingya reside in Bangladesh. In Iran, documented and undocumented Afghans refugees have been hosted in large numbers for several decades. According to UNHCR, in May 2015, 951 142 Afghan refugees, 28 268 Iraqi refugees, 620 000 Afghans holders of Iranian visas and around 1.5-2 million undocumented Afghans resided in the country, with limited access to public services8. Access to basic services for Afghan refugees, specifically in health care and education, has recently improved for different categories of undocumented Afghans. The Iranian authorities have also recently conducted a civil documentation process for certain categories of undocumented 7 The reference to 'Afghan refugees' in this Action document includes both documented and undocumented Afghans, and recognises their differentiated vulnerabilities and needs. 8 According to UNHCR and 'Amayesh IX' statistics from the Government of Iran (May 2015). [6] Afghans, which is another positive step. At the same time, challenges remain in terms of access to services and as regards conditions of return to Afghanistan. In early 2017, according to IOM, 109 966 undocumented Afghans returned to Afghanistan. Ensuring dignified, safe return and adequate protection, especially of vulnerable groups, is therefore a priority. In Iraq, in early 2017, 3.1 million people were internally displaced, due to past and more recent conflicts, and 250,000 Syrian refugees resided in the country, due to the conflict in Syria. Since the advent of the Mosul operation in October 2016, the country has seen large waves of forced displacement from the areas of the military ***intervention***. At present, one third of the Iraqi population – 11 million people – is in need of humanitarian aid, yet only the most vulnerable 6.2 million receive international humanitarian assistance. The country saw a peak in emigration between 2014 and 2015. In 2016, patterns of returns, mainly from Europe, increased. Still, the increasing numbers of internally displaced persons (IDPs), coupled with delayed returns to liberated areas and the volatile political and economic situation further increase the risk of forced displacement and secondary movements, both within and outside Iraq. Pakistan is a country of origin, transit, and destination of migration flows, both regular and irregular, and plays an important role as a host country for refugees, especially from Afghanistan and Bangladesh. According to UNHCR and IOM, Pakistan is currently hosting around 1.5 million Afghan refugees and an estimated 1 million undocumented Afghans. Only in 2016, over 790,000 undocumented Afghans returned to their home country due to diverse push factors, including deteriorating protection space in Pakistan. The Pakistani government estimates that another 500,000 Afghans will return in 2017. Pakistan is also affected by internal forced displacement, with approx. 750,000 registered IDPs in Khyber Pakhtunkhwa (KPK) and Federally Administered Tribal Areas (FATA). Annually, around 1 million Pakistanis leave their country for overseas employment. Labour migration plays a significant role in the local economy and contributes greatly to poverty reduction. In 2016, remittances amounted to EUR 18 billion, representing around 7-8% of GDP. Legal channels for labour migration from Pakistan are limited to the six countries that are members of the Gulf Cooperation Council (GCC), where around 4 million Pakistanis are living. The lack of legal avenues to emigrate and the bureaucracy associated with migration contribute to irregular migration, trafficking and exploitation of workers during recruitment and employment overseas. The migrant smuggling market is reported to be rapidly expanding: Pakistan nationals are in the top 10 of encountered suspects linked to organised crime groups responsible for migrant smuggling into and within Europe. 1.1.1 Public Policy Assessment and EU Policy Framework The EU has an advanced policy framework for external relations and development cooperation on migration. The Agenda for Change9 recognises strengthening positive synergies between migration and development as a priority issue for external cooperation and the EU's Global Approach to Migration and Mobility10 underlines the importance of setting up mutually 9 COM(2011) 637 of 13.10.2011 10 COM(2011) 743 of 18.11.2011 [7] beneficial partnerships with non-EU countries, including migration and development as one of its four priority areas. The EU Policy Coherence for Development agenda11 furthermore recognises migration as a priority area where enhanced action is needed. The Communication on ‘Maximising the Development Impact of Migration’12 (2013) stressed the role of effective migration governance in maximising the positive and limiting the negative impacts of migration on development, and underlined the need for a broader and more ambitious approach in this area. The December 2014 Council conclusions on ‘Migration in EU Development Cooperation’13 further supported the inclusion of migration in the post-2015 agenda and called for greater ambition in the area of migration and development at EU level. The EU is fully committed to the Agenda 2030, specifically its aim to ‘leave no one behind’. Sustainable Development Goal 10, on reducing inequality, focuses on the need to facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed policies. The Agenda also underlines the right of migrants to return to their country of citizenship, and recalls that States must ensure their returning nationals are duly received. At the UN level, the process towards the adoption of the Global Compact on Migration is ongoing and the discussions ahead of the Compacts will cover a range of issues, including addressing drivers of migration, sustainable development and (re)integration. The main objective of the European Agenda on Migration14 (2015) is to approach migration in a comprehensive way and to mainstream migration into all relevant policy areas, both internal and external. The Agenda defines immediate measures to prevent human tragedies and to reinforce mechanisms to deal with emergencies, as well as a new ***strategic*** approach to better manage migration in the medium- to long-term. It focuses on four pillars; 1) reducing the incentives for irregular migration; 2) saving lives and securing the external borders; 3) a strong common asylum policy; 4) a new policy on legal migration. The external aspects of migration are a cross-cutting issue in the Agenda and EU development cooperation will directly contribute to its implementation. In the Communication on establishing a new Partnership Framework with third countries (2016) - the European Union's comprehensive approach to address the challenges of irregular migration and its root causes as part of the broader cooperation with our partners under the European Agenda on Migration, Afghanistan, Bangladesh and Pakistan were identified as long-term priority countries for addressing migration and forced displacement in Asia. The EU is also committed to continuing support to Iran's efforts benefitting Afghan refugees inside Iran and to launch a joint EU-Iran comprehensive migration dialogue. All the concerned countries participate in the regional framework of dialogue and cooperation on migration-related issues, the ‘Budapest Process’15, involving 50 governments and 11 COM(2009) 458 of 15.09.2009 12 COM(2013) 292 of 21.05.2013 13   [*http://www.consilium.europa.eu/en/press/press-releases/2015/12/14/conclusions-external-assistance/*](http://www.consilium.europa.eu/en/press/press-releases/2015/12/14/conclusions-external-assistance/). 14 COM(2015) 240 of 13.05.2015 15 Together with the Rabat, Khartoum and Prague Process, the Budapest Process is one of the main informal migration dialogues as recognised with the EU's Global Approach on Migration and Mobility. [8] international organisations. The Budapest Process strives to implement the objectives and initiatives listed in the Istanbul Ministerial Declaration establishing the Silk Routes Partnership for Migration, adopted in April 2013. The EU Communication 'Lives in Dignity' and following Council Conclusions (2016) put forward a new development-oriented approach to address forced displacement through a multi-stakeholder approach aimed at fostering self-reliance and resilience. Support targets access to the labour market, integrated service-delivery and the capacity of local authorities to enable socio-economic inclusion of the displaced. The EU approach is fully in line with the Agenda 2030, the New York Declaration for Refugees and Migrants’ focus on investing in the resilience of refugees and their host communities and the piloting of the Comprehensive Refugee Response Framework (CRRF). Afghanistan To date, most of the Afghan Government and international community's efforts have gone towards targeting vulnerable Internally Displaced Persons (IDPs), refugees and returnees from neighbouring countries, in particular Pakistan and Iran. Positive steps have been made through the adoption of the National IDP Policy (2013) and the endorsement of the Solution Strategy for Afghan Refugees (2012) which was developed by the Governments of Afghanistan, Iran, Pakistan and UNHCR, providing the overall framework for Afghan refugees in the region. In December 2015, the Afghan Government adopted a national policy paper on migration proposing four priority areas / programmes: (i) revitalising the civil service; (ii) housing development; (iii) expanding legal migrant labour, and (iv) increasing ***rural*** productivity and market integration. The policy has been linked to the 'Jobs for Peace' programme, launched in the fall of 2015 by the Afghan Government in response to the worsening socio-economic conditions. In addition, the Ministry of Labour, Social Affairs, Martyrs & Disabled (MoLSAMD) drafted a new labour policy (2015) with a separate section on labour migration and is currently finalising a National Labour Migration Strategy (NLMS) to transform the largely informal and irregular migration movements into well-governed formal labour migration system based on international norms and on skills development linked to market needs. In December 2016, Afghanistan adopted a Policy Framework for Returnees and IDPs to address problems posed by massive numbers of returnees and IDPs. The framework identifies three stages for the sustainable integration of returnees and IDPs; (i) immediate humanitarian assistance, (ii) intermediate livelihood support and (iii) long-term integration measures, to address the socio-economic burden on host communities. It establishes a new policy coordination and governance structure for migration issues under the guidance of the Council of Ministers’ Sub-Committee on Migration Affairs, chaired by the Chief Executive. The Displacement and Return Executive Committee (DiREC) leads on and oversees the implementation of the policy framework, with representation from relevant government ministries and agencies, the IOM, UN and World Bank, and since February 2017 the EU Delegation. In February 2017, DiREC circulated an Action Plan Matrix for the implementation of the Migration Policy Framework which also guides this proposed action and has been endorsed by the Cabinet. It sets out eight implementation goals, which include registration of [9] new arrivals, improving access to services, land, housing and livelihoods, and full integration in host communities. It also provides a framework for the monitoring of and the strengthening of citizens’ awareness and community cohesion. Moreover, DiREC has decided to expand the Citizens’ Charter Afghanistan Project, designed to improve the delivery of core infrastructure and social services to all communities in Afghanistan, to regions of high return, thus bridging between humanitarian assistance and a longer-term livelihood programming in 2018. Afghanistan is in the process of ratifying the UN Protocols on trafficking and smuggling and a new law banning smuggling is in preparation and was published by the Ministry of Justice in January 2017, emphasising a commitment to strengthening the legislative framework designed to enhance protection for vulnerable migrants. In order to step up political cooperation on a number of issues of mutual concern, the EU and Afghanistan signed in October 2016 the ‘Joint Way Forward on migration issues’ (JWF). Moreover, migration will be a topic of discussion under the framework of the recently signed EU- Afghanistan Cooperation Agreement on Partnership and Development (CAPD). Migration is being considered as one of the EU's main objectives under its new Strategy for Afghanistan 2017-2020. The ongoing mid-term review of the multiannual indicative programme (MIP) 2014-202016 clearly recognises the link between security, development and migration, and proposes a combination of dedicated measures addressing the immediate needs of the migratory populations with measures to support sustainable (re)integration and address the root causes of irregular migration and forced displacement under the focal sectors. The proposed action will be an integral part of this approach. Aware of the importance of the Afghan refugees’ regional dimension, the EU is also actively pursuing a dialogue with relevant partners to identify and implement sustainable solutions for Afghan refugees in the region. Bangladesh The policy framework governing migration in Bangladesh has received significant attention from development partners over the past 10 years. Currently governing the migration space are the Prevention and Suppression of Human Trafficking Act (2012) and the Overseas Employment and Migrants Act (2013). While these instruments have been legally enacted, gaps remain in their implementation. There are growing political pressures on the state to take a more vigilant and effective role in ensuring the rights and well-being of its citizens abroad and to make the Prevention and Suppression of Human Trafficking Act more in line with international standards and to strengthen its implementation. The Government has established Counter Trafficking Committees (district to sub-district level). The Prevention and Suppression of Human Trafficking Act is being implemented: its Standard Operating Procedures (SOPs) are being developed by ILO in consultation with the Ministry of Home Affairs, and the guidelines for implementation have been recently cleared by the same Ministry. However, the core tribunal mentioned in the act has not yet been established, limiting the strength of the instrument. Further, its National Plan of Action adopted by the Ministry of Home Affairs requires further coordinated support from the relevant ministries. For the 16 C(2014) 7413 of 10.10.2014 [10] Overseas Employment and Migrants Act (2013) various rules, including the Recruiting Agent’s Conduct and License (2002), require the adoption and development of new legislation. Further work is required to ensure its effective implementation and tangible results in terms of curbing irregular migration. The EU-Bangladesh Migration dialogue was launched in the spring of 2016 and aims to enhance cooperation on all aspects of migration management, with a particular urgency on managing irregular migration and improving cooperation on return. Iran Following the Joint Comprehensive Plan of Action (JCPOA) (2015) between the E3/EU+3 and Iran which, once fully implemented, will ensure the exclusively peaceful nature of the Iranian nuclear programme and provide for the comprehensive lifting of all United Nations, EU, and United States nuclear-related sanctions, the EU and Iran have engaged in a number of sectors, including migration. This engagement refers to the Joint Statement (April 2016) by High Representative/Vice-President Mogherini and Foreign Minister Zarif, announcing the intention of both sides to develop a broad and comprehensive agenda for bilateral cooperation.17 The Iranian government has shown interest and commitment to engage in a number of migration-related issues in a wider sense, as part of a structured comprehensive migration dialogue. Generally speaking, the interest in migration issues among the government authorities is high and Afghan refugee matters are becoming the focus of a growing public discourse. The government of Iran introduced in 2010 the Comprehensive Regularization Plan (CRP) which allowed for a number of Afghans to obtain a visa for their stay in Iran. Iran is part of a quadripartite consultative process initiated in 2011 involving also the Islamic Republics of Afghanistan, Pakistan and UNHCR and linked to the Solutions Strategy (SSAR). Recent developments have shown a positive trend. Since a decree by the Supreme Leader stating that all children must attend school regardless of their documentation status (2015), 48 000 undocumented Afghans were able to register for formal education in Iran. Substantial number of Afghan children could be enrolled over the next years. 360 000 Afghan children are currently in Iranian high schools. In late 2015, the government announced a large-scale initiative to allow registered Afghan and Iraqi refugees to be included in the (Salamat) public health insurance scheme, based on an agreement between UNHCR, the Bureau for Aliens and Foreign Immigrants Affairs (BAFIA) of the Ministry of Interior, the Ministry of Health, and the Iran Health Insurance Organisation (Salamat). Iran has repeatedly reiterated that it does not intend to forcibly return Afghan refugees back to Afghanistan and in 2017. The government also asked some categories of undocumented Afghans to reach out to the authorities. UNHCR is in discussions with the government of Iran on their involvement with the CRRF– which could be supported by this action. At the same time, challenges remain as documented refugees have a limited ability to integrate economically, since only a limited number of jobs are accessible to them. Iran does not register new asylum seekers arriving from Afghanistan and the number of newly arrived asylum 17 Joint Statement of April 2016:   [*http://europa.eu/rapid/press-release\_STATEMENT-16-1441\_en.htm*](http://europa.eu/rapid/press-release_STATEMENT-16-1441_en.htm) [11] seekers which are returned is high. In addition, the protracted situation of undocumented refugees makes them particularly vulnerable. Iraq The Government of Iraq’s migration policies have mainly focused on responding to very specific internal forced displacement needs to ensure access to basic services and rights for displaced populations. A National Policy for Displacement along with a number of additional pieces of legislation partially addressing specific needs, such as housing and shelters, have been in place since late 2000. The Ministry of Migration and Displacement (MoMD) provides ad hoc support to IDPs and returnees by providing cash assistance and registration services to IDPs and ensuring coordination functions. An inter-ministerial High Committee on IDPs has been in place since June 2014. The Government works with the UN and the international community to develop programmes and structures to facilitate safe and voluntary returns for IDPs. Priorities include improving access to shelter, employment, and services in areas where Iraqis are returning home, in addition to removing and clearing explosive hazards and explosive contamination in areas liberated from the Islamic State. During the 2015 migration crisis, IOM, with EU funds, supported the Government in developing standard operating procedures for migration crisis response, aiming at enhancing the Government’s capacity to plan and coordinate the emergency responses on forced displacement and migration. Still, the current institutional response fails to address the complexity of the Iraqi situation, characterised by subsequent displacements and return movements, and by the most recent mass flows due to the advance of the Da’esh and subsequent Iraqi Security Forces military campaign. Some of the current policies only target specific categories or historical periods, such as the regulations on property disputes dealing only with the ‘‘Saddam era,’’ and the absence of a regulatory framework for (mainly Asian) foreign labour migrants present in the country. In addition, forced displacement and return crises in Iraq are closely intertwined with broader political and power struggles between the different ethnic and sectarian groups, making more difficult the set-up of an integrated policy approach. Looking towards stabilisation and new post-conflict challenges, the Government is now willing to expand the current limited policy angle and is currently drafting a National Strategy Action Plan on Migration. This plan will be looking at long, mid and short-term actions, also expanding on key migration aspects such as voluntary and involuntary returns and communication strategies for potential migrants and those who have already migrated. Helping Internally Displaced People, reintegration measures and assistance for returnees, migration management, fight against trafficking, smuggling, no

n–voluntary return and irregular migration of Iraqi youth with subsequent brain-drain, are key areas of interest. In May 2012, a Partnership and Cooperation Agreement was signed between the EU and Iraq, inter alia covering the joint management of migration flows and establishment of a comprehensive dialogue on all migration-related issues, including irregular migration. It is yet to enter into force subject to ratification by the EU. Following the outcome of the second EU-Iraq Cooperation Council, in October 2016, informal talks have started between the Iraqi authorities, the EU Delegation and the EU Member States representatives in Baghdad to [12] identify areas of possible cooperation on migration management and to define the terms of reference of a possible migration dialogue. In addition, EU services (DG DEVCO18, DG ECHO19, FPI20, and EEAS21) are currently developing an EU-Comprehensive Action Plan to address short-, medium- and long-term needs in a jointly analysed and planned manner followed by well-coordinated and conflict/post-conflict sensitive delivery in the field. The objective is to enhance complementarities between different funding instruments and build on each other's achievements, towards an overall higher impact and, ultimately, long-term peace, stability and prosperity in Iraq and the region. Particularly, building on the substantial humanitarian investment in-country, ensuring the stability of retaken areas, the restoration of basic services and livelihood are critical for the safe, voluntary and dignified return of those displaced and to reconstruct the social compact in Iraq. Pakistan Migration is an important issue for Pakistan and has a substantial impact on its economic development, and migration governance needs to be strengthened.The area of legal migration is better regulated, but lacks a comprehensive policy; the country is in the process of developing its labour migration policy. The flow of workers’ remittances to Pakistan has more than quadrupled in the last ten years and shows no sign of slowing down. Remittances are a key component of the Pakistan economy (about USD 20 billion per year - 2016), namely more than twice the flow of official development assistance (ODA). The participation of the Government of Pakistan at various international and regional fora, including the Bali, Budapest and Colombo Processes and the Abu Dhabi Dialogue, can be read as commitment to working on migration-related issues. The Government has also expressed interest in receiving support for migration issues, especially improved reintegration capacity. A National Policy of migration was drafted in 2013, but was never approved. Currently the Ministry of Overseas Pakistanis and Human Resource Development (OPHRD) started to revise the policy. As elections are to be held in 2018, it is uncertain whether this strategy will be approved by the current government. It is important to take into consideration that there is no policy or institution in charge of returning migrants. In view of trafficking of human beings and smuggling of migrants, Pakistan is signatory to the related international conventions, but has not signed the protocols. Pakistani law does not distinguish between trafficking and smuggling and irregular migration is a criminal offense. Currently two laws are at the level of the Senate to close the loophole and adapt the legal framework to international standards. A Readmission Agreement between the EU and Pakistan is in place since December 2010 but the number of irregular migrants being detected in the EU remains high. In July 2016, an EU 18 Directorate-General for International Cooperation and Development. 19 Directorate-General for European Civil Protection and Humanitarian Aid Operations. 20 Service Department for Foreign Policy Instruments. 21 European External Action Service. [13] Cooperation Platform on Migrant Smuggling was launched in Pakistan aiming at enhancing EU-Pakistan exchange of information and cooperation on migrant smuggling. Cooperation on law enforcement between Member States' authorities and those of Pakistan and Afghanistan has also been launched. The aim is to work together to better address migrant smuggling. The issue of migration will be central to the new ***Strategic*** Engagement Plan being developed between the EU and Pakistan, reflecting the importance of migration in the overall relation between the EU and Pakistan. At the Leaders’ Summit on Refugees (September 2016) Pakistan announced the intention to stand by the right established in its Constitution that foresees access to government schools for Afghan refugees. Actions aimed towards this include Balochistan’s incorporation of refugees into their provincial education plans. Pakistan will also work with the Unites States (US), the EU, UNHCR and other potential donors to ensure that at least 29,000 additional refugee students are able to attend school in the coming year. In February 2017, the Federal Cabinet extended the validity of the Proof of Registration cards to some 1.3 million registered Afghan refugees until the end of 2017. It also pledged to document Afghan nationals who currently have no identification and committed to adopt a national refugee law and a visa regime for different categories of Afghan nationals. Commitments made by Pakistan at the Leader’s Summit on Refugees and recent moves by its Cabinet showcase a willingness to pursue voluntary return of Afghan refugees to their homeland in a dignified way. In line with its approach to forced displacement and development, the EU will support these developments by promoting – inter alia – the self-reliance and resilience of Afghan refugees and fostering a developmental approach to forced displacement in its policy dialogue with Pakistan, also with a view to decreasing the pressure on returns to Afghanistan, which faces massive internal forced displacement, on top of many other challenges. 1.1.2 Stakeholder analysis Afghanistan In Afghanistan following the regional migration crisis in 2016 the Displacement and Return Executive Committee (DiREC) was established to prepare and coordinate Government response. It prepared and adopted a policy framework and an action plan matrix. A costing exercise is currently underway. Presidential palace is involved and closely follows these issues. Line ministries dealing with refugees, returnees, IDPs and migrants include: the National Disaster Management Authority (immediate humanitarian ***intervention***), the Ministry of Refugees and Repatriations (coordinating role). The Ministry of Urban Development and Housing, the Ministry of ***Rural*** Rehabilitation and Development, the Independent Directorate of Local Governance, the Ministry of Labour and Social Affairs, Martyrs and Disabled, the Ministry of Education, the Ministry of Public Health, and the Ministry of ***Agriculture***, Irrigation and Livestock have service delivery roles and contribute to the implementation of National Priority Programmes (NPPs). Local authorities, including provincial directorates of the above-mentioned ministries, provincial and district governors, as well as municipalities have a key [14] role regarding implementation on the ground, particularly in areas with high levels of returnees and/or IDPs. Communities are considered key stakeholders. In the context of development in Afghanistan, Community Development Councils (CDCs) are considered as key instruments for the implementation of NPPs. Most of the time, communities host the returnees and IDPs, and therefore their inclusion in the planning and implementation is key. Overall, line ministries as well as the provincial and local authorities have limited resources and capacity to fulfil their mandates which is one reason why the international community is still needed to assist them in resolving the problems of uprooted peoples in the country. UN agencies such as UNHCR (which focuses on documented refugees/returnees), IOM (which deals with undocumented returnees), UNHABITAT (land allocation), UNICEF (children rights), WHO (health policies and services), UNESCO (social and cultural reintegration) and international NGOs such as Norwegian Refugee Council (NRC), Danish Refugee Council (DRC), Mercy Corps, International Rescue Committee (IRC), Aga Khan Development Network (AKDN), etc. (livelihood and vocational training) are providing support to the uprooted Afghans inside Afghanistan and in the neighbouring countries. ECHO is actively involved in providing humanitarian assistance to the recently displaced due to conflict or natural disaster. Bangladesh Migration management requires dedicated but shared responsibilities and commitment amongst the three ministries having competencies on migration issues, namely the Ministry of Foreign Affairs (MoFA), the Ministry of Home Affairs (MoHA) and the Ministry of Expatriate Welfare and Overseas Employment (MEWOE). While the MEWOE deals with the skills development, employment and welfare issues of migrants, the MoHA controls immigration issues. The MEWOE oversees the Bureau of Manpower, Employment, and Training (BMET), the government agency in charge of registering and clearing labour migrants for overseas employment and skills training. These ministries have a certain convening power, presence in the field, and capacity to influence other line ministries. However, the lack of information-sharing among the Ministries limits the effectiveness of law enforcement actions to reduce irregular migration. Bodies such as the Vigilance Task Force, ostensibly responsible for monitoring recruitment agencies, lack the capacity and authority to effectively act when faced with infringements or criminal activities. Many established Counter-Trafficking committees at district, Upazila and Union level are often non-functional. For the ***intervention*** to be carried out in a sustainable manner, there is a need for partnerships amongst private sector entities, NGOs, and the public sector. The private sector offers particular value in providing skills development, technical enterprise support, and employment and market linkages. The Community Based Organisations (CBOs) and Civil Society Organisations (CSOs) are indispensable for the implementation of the project at local level. [15] IOM has substantial experience in working with the Government on legal and institutional capacity building. ILO is active in the area of technical and vocational education and training to assist Bangladesh to reform TVET policies and systems so that more people, including returnees, can acquire employable skills and thus generate income through wage-earning jobs or self-employment. The Swiss Development Cooperation (donor) and ILO (implementing agency) are active in the field of migration governance with the project 'Promoting Decent Work through improved Migration Policy and its Application in Bangladesh'. The United States Agency for International Development (USAID) supports Bangladesh with the 'Counter Trafficking in Persons' programme in the areas of prevention, protection, prosecution and partnership. The Bangladesh ***Rural*** Advancement Committee (BRAC) is an NGO based in Bangladesh and active in many migration related areas across the country. Iran The main responsible governmental body dealing with refugee matters in Iran is the Bureau for Aliens and Foreign Immigrants Affairs (BAFIA) under the Ministry of Interior (MoI), which undertakes the periodic renewal of refugee residency cards (Amayesh cards) to access basic services, facilitates the issuance of work permits and determines the total refugee population in Iran. Other government bodies such as the Ministry of Education and Ministry of Labour are involved in the education and employment of refugees. The Immigration and Aliens Police is the responsible body for dealing with entrance, stay, employment and exit of foreign nationals in Iran. Under the authority of the MoI, the security police forces are responsible for combatting trafficking in human beings and migrant smuggling. The Institute for Political and International Studies (IPIS) is linked to the Iranian Foreign Ministry with the task of leading and encouraging the study and research on issues relevant to the foreign policy of the Islamic Republic of Iran and providing the Iranian foreign policy decision making establishment with analytical reports and policy papers. UN agencies such as UNHCR and UNICEF are active on the issues of Afghan refugees for registration, advocacy, protection and youth/minor's rights. International NGOs active in the field, the Norwegian Refugee Council, the Danish Refugee Council and Relief International, together with UNHCR, are indispensable as regards addressing status and living conditions of refugees in Iran. There are only a limited number of partners in Iran, and working with them would allow reaching the vast majority of refugees. Iraq In Iraq, the Ministry of Displacement and Migration (MoMD) is the main responsible body for all matters pertaining to refugees and displaced persons. It is also in charge for all policies and programmes related to non-Iraqi refugees residing in country and Iraqi returnees. The Kurdish Regional Government has its own government structures similar to the central government. Other line ministries and specialised institutions include: the Ministry of Interior, leader in law enforcement including border management and residency affairs; the Ministry of Labour and Social Affairs, in charge of social security and of work permits including regulation for Iraqis working abroad; the Ministry of Foreign Affairs, responsible for visa issuing, the wellbeing of [16] Iraqis abroad and of Iraq’s international treaties obligations; the Property Claims Commission, in charge of land and property disputes before 2003; and the Iraqi National Intelligence Service follows on illegal human trafficking and the status of foreigners inside Iraq. The Ministry of Justice, the Council of Ministers and the Council of Representatives have further key roles related to their legislative, executive and judiciary functions. In addition further institutions are involved as for the Kurdistan autonomous region, namely the Bureau of Displacement Migration within the Ministry of Interior, responsible for migrants and IDPs, and the Kurdistan Regional Governments Ministries of Justice, Interior and Labour and Social Affairs with similar functions as their corresponding Ministries at the federal level. Overall, line ministries as well as the provincial and local authorities have limited resources and capacity to fulfil their mandates. UN agencies in particular IOM and then UNDP, with the large stabilisation programmes devoted to the resettlement of displaced communities in the newly liberated areas from Da'esh, are key international actors providing support. Via the bilateral envelope the EU, through the Hijira Amina project run by IOM, has been funding support to the key line ministries and institutions in particular through dedicated training on migration management and tools to face the migration crisis in 2015. Given the high vulnerability of host communities and the underlying issues of social cohesion and sectarian violence in Iraq, communities are considered key stakeholders on forced displacement and migration and receive dedicated attention by the key stabilisation and early recovery response programmes. Pakistan Labour migration is under the responsibility of the Ministry of Overseas Pakistanis and Human Resources Development (MOPHRD). The Ministry makes policies for employment promotion abroad and coordinates with provincial governments to align national labour laws with Pakistan’s international obligations on labour standards, but has limited oversight possibilities. The Protectorate of Immigration (POI) is the entity in charge of oversight of legal migration. Its tasks include the checking of visas, labour contracts and information for legal migrants. However, the office does not function fully and lack of valid documentation often leads to the deportation of migrant workers from the GCC countries. In Islamabad and Lahore two migration resource centres (MRC) have been established in 2016 with the mandate to disseminate information on legal migration possibilities. Neither at federal nor at provincial level is there any specialised entity for the management of the return of regular or irregular migrants that could provide information, assistance or referrals. The Overseas Pakistanis Foundation (OPF) started a dialogue with the Board of Investment and the Board of Revenue to establish an investment information centre to advise overseas Pakistanis in investments upon return in a vision to use the positive experiences and skills as well as the earnings abroad to develop the areas of return. [17] For the Afghan refugees, the institutions in charge are the Ministry of States and Frontier Regions (SAFRON), the Pakistani Chief Commissioner for Afghan Refugees (CCAR), and the National Database and Registration Authority (NADRA). All issues concerning refugees are being dealt with by the Ministry of Interior (MoI) and the Ministry of States and Frontier Regions (SAFRON). Under the authority of the MoI, the Federal Investigation Agency (FIA) has the main responsibility for immigration, trafficking and smuggling of migrants. The agency is understaffed and in need of capacity development. The MOI announced recently a plan to establish a separate Immigration agency, but it is uncertain whether this will be realised. Border management is challenging within Pakistan and in relation to the neighbouring states. Several security agencies (FIA, Frontier Corps (military), Frontier Constabulary, Rangers, police and customs) are operating without a coordinated approach, without communication, with serious lack of equipment and capacity to control the borders. Information exchanges between the two sides of the border are very scarce. In 2016, a trade agreement between Pakistan and Afghanistan foresaw the opening of two additional border crossing points. The more than 2500 km long border between Pakistan and Afghanistan is politically sensitive since Afghanistan has never recognised the Durand Line. It was recently closed (February 2017) following a brutal increase of terrorist attacks in Pakistan. 1.1.3 Priority areas for support/problem analysis Afghanistan Issues concerning Afghan refugees, returnees and IDPs are quite diverse but can be clustered in the following main categories which are interlinked and which cover the main concerned countries: Afghanistan, Pakistan, Iran and recently the EU. 1) As of December 2016, the Government estimated the number of internally displaced people in Afghanistan to be around 1.5 million individuals, a major part of which are in prolonged or even protracted situations. IDPs are mostly hosted by their extended family networks or close acquaintances; in some circumstances they have been compelled to settle in makeshift camps. The widespread poverty of the host communities, doubled with the strains of sharing limited resources with displaced groups, IDPs' limited access to basic services, precarious accommodation, and generally material and psychological hardship, continue to be the most important challenges for these segments of the population. For those providing support, the challenge is not so much to identify new IDPs, but to identify sufficiently early those who will become protracted IDPs. Over the last years, ECHO support has specifically focussed on the humanitarian needs of the IDP population particularly the newly displaced, and thus most vulnerable. 2) Quite similar, but slightly better than the situation of IDPs, Afghan returnees face difficulties in reintegrating in Afghanistan as they would also have limited access to basic social services and development opportunities. In Afghanistan, the living conditions are not favourable enough for a sustained return, and there is an increasing concern regarding possible reverse migration to the neighbouring countries and further afield. Studies show that the main [18] reasons causing difficulties to socio-economic reintegration are security concerns, the lack of land and housing and very limited livelihoods or jobs opportunities for returnees. The absence of proper documentation further limits access to services. Moreover, the poor urban infrastructure limits the absorption capacity. The Afghan institutions are not strong enough to deal properly with the land disputes and to prevent human rights abuses which are among the reasons for lack of integration. In addition, the limited capacity of the Government of Afghanistan to deliver basic services further worsens the opportunities for reintegration of returnees. For instance, the governmental Land Allocation Scheme (LAS), which has recently seen a number of improvements such as the adoption of an integrated approach or the setting up of a project implementation unit still needs continued support from the international community in order to be successful. 3) Afghan refugees in host countries remain vulnerable, especially because the political context in Pakistan is not favourable to them, and hardships persist also in Iran. A large number of Afghans living in the host countries remain in a vulnerable condition with regard to their health, education and legal situation. Afghanistan is therefore confronted with a double-faced challenge. On the one hand, sustainable, long-term solutions have to be identified to facilitate return and reintegration of its displaced population. On the other hand, solutions have to be found to tackle the root causes of forced displacement and curb the prospects of increasing irregular migration from Afghanistan. To a great extent these two issues are interlinked, a key requirement for success being improved security and economic conditions including realistic and viable employment, livelihoods and income generation opportunities. In brief: → Afghanistan has a weak reintegration capacity and a limited absorption capacity. Main recurrent problems for reintegration are: the rising insecurity and the economically precarious situation, especially in relation to difficulties in promoting jobs and the lack of social services. The Government has recently taken significant steps in shaping policy and actions in response to the crisis. These efforts need to be supported and any ***intervention*** should be aligned with Government priorities and programmes. Given the magnitude of the forced displacements responses have to be comprehensive and nationwide. → A regional approach in support of Afghan refugees in Iran and Pakistan to sustain a predictable, dignified and well managed return and reintegration process needs to be enhanced. Improving international protection, enhancing employment and livelihood opportunities as well as integrated service delivery, and supporting host country national and local authorities, policy dialogue on developing enabling legal frameworks to enable self-reliance and resilience for forced displaced populations, as well as advocacy activities and cross-border activities should be envisaged. → The returns (whether voluntary or forced) are too concentrated in terms of both time (too short) and locations (mainly Kabul and Nangarhar). This has an impact on the increasing fragility and socio economic texture of the two main peri-urban areas of [19] return. The problem is exacerbated by the limited access to reliable information on the status of many returnees. → Adopting a community based approach, thus enlarging the number of beneficiaries to include members of the communities where the refugees/returnees and IDPs settle would be an effective means of ensuring sustainability. In this context, access to basic public services (transport, health, legal redress and education) and utilities (safe water, affordable electricity) as well as livelihood opportunities and jobs should be prioritised. → Lack of registration and lack of access to valid ID documents are also significant issues in Afghanistan. Without proper documentation, access to basic services and sustainable reintegration is under severe threat. → Land allocation and security of tenure: A key priority for sustainable reintegration is to improve the regulatory framework enabling land allocation and securing the legal title to land ownership, upgrading urban and peri-urban neighbourhoods and promoting affordable housing. → Specifically young migrants/refugees face a situation with very limited economic perspective upon return, competing among an estimated 400,000 new entrants into a saturated labour market each year. This exacerbates the risk of continued migration pressure as much as the risk of vulnerability to radicalisation. An additional challenge is represented by the endemic presence of polio in both Afghanistan and Pakistan. The key challenge for the full eradication of this disease in the two countries is accessing the remaining high-risk populations, i.e the people on the move along the Afghanistan-Pakistan border. The current volatile security situation in many areas limits access to children as much as supervision and monitoring, resulting in sub-optimal campaign quality. Under the given circumstances, access to these groups appears to be easier from the Afghan side than from Pakistan, where violent resistance to vaccination is a high risk. One possible solution is targeting immunisation campaigns for returnees, migrants and IDPs at the point of entry or registration in Afghanistan, or at the places of (temporary) settlement. The advantage of this approach is its relatively easy access, as current migrant streams are monitored and individuals register for ID and support by government and development partners. These populations are in general harder to reach through existing standard vaccination campaigns. This approach would, therefore, be complementary to existing routine activities already supported by the EU under the System Enhancement for Health Action in Transition (SEHAT) programme. Bangladesh Bangladesh is the 8th most populous country in the world with a population of 166 million habitants of which around 45% (74 million) lie in the workforce category. A sizeable number of people in the workforce category have always been prone to looking for overseas employment due to the high rate of unemployment and underemployment, the inefficient social environment, poverty, land scarcity and low wages. The Bangladesh labour market can only provide about 200,000 new formal sector jobs, while there are about 1.8 million new labour market entries per year, which means that people have to seek employment outside of the [20] country. Migrant workers are classified into four categories: 1) Professional 2.21%; 2) Skilled 31.53%; 3) Semi-skilled 13.98% and 4) Less-skilled/unskilled 52.29%. This last category is the largest of the four, which explains why often migrants are unequipped with proper documentation and skills, and therefore led into vulnerable situations in the destination countries, and why they sometimes even initiate subsequent movements from the original destination country to other countries, becoming irregular migrants despite having started as regular migrants. Potential migrants and their communities, as well as the returnees who run the risk of falling back into a new cycle of irregular migration, need better awareness of the processes and strategies of safe migration. In particular they need to better understand the dangers of migrating through irregular channels, the benefits of using regular channels and the mechanisms and processes they need to utilise. To ensure ‘Safe Migration’ for Bangladeshis and more durable reintegration for migrants returning from Europe, it is necessary to strengthen the knowledge on the mechanisms that facilitate regular migration to ensure that migrant workers receive efficient, reliable and accessible migration information and avoid falling into irregular migration, exploitation and potential trafficking. Finally one of the most important contributions of migrants to their country is represented by their remittances, which amount to approximately 11% of the country’s GDP. Basic financial literacy is needed to ensure a better use of the remittances for the benefits not only of the returnees or the potential migrants, but also of their families and communities. Skills Development Bangladeshi returnees may face difficulties to reintegrate in their home country as living conditions may not be favourable enough for a sustained return or their skills may not be adapted to the local labour market. Lack of land and housing, limited livelihood and job opportunities and security concerns could result in returnees being re-exposed to the risk of irregular migration. Emphasis therefore needs to be placed on tackling the root causes of irregular migration and on focusing on skills development, through the scaling-up of specific actions that accompany both the short-term as well as the long-term economic and social reintegration of returnees. Skills development should be adapted to and focus on local labour market needs, but should also equip returnees and other prospective migrants with skills to obtain legal employment in countries that need labour. Awareness raising Awareness raising at community level on the rights and benefits of regular migration and the risks associated with irregular migration remains a cornerstone for ensuring that prospective migrants are fully equipped with the necessary knowledge, advice and access to services to reduce their vulnerability and exposure to exploitation. Remittances Remittances-related activities in the form of financial literacy training and services to the returnees and their family members can be provided to ensure a better use of the remittances for [21] the benefit not only of the returnees or the potential migrants but also of their families and communities. Iran Over the past three decades, the Islamic Republic of Iran has hosted one of the largest refugee populations in the world (today it is the fifth largest and the most protracted refugee population). Afghans began to seek refuge in Iran after the 1979 Soviet invasion of Afghanistan. The effects of war, insecurity, and the lack of economic opportunities in Afghanistan drive its citizens across the border. During the past two years, the Government of Iran has further opened the public health and education systems to refugees and also partly to undocumented migrants. Most refugees in Iran reside in urban areas, with only 3% living in settlements in ***rural*** areas. Resettlement is therefore an important durable solution for the Afghan refugee population although only a very small number of Afghan refugees in Iran have benefited from such a solution so far. Since 2002, UNHCR assisted the voluntary repatriation of approximately 920,000 Afghan refugees residing in Iran, with an increase in voluntary returns since 2011. In 2016, IOM reported the return of 420,293 undocumented Afghans. Approximately 10% of them are in need of humanitarian assistance. Ensuring dignified voluntary return and adequate protection, especially of vulnerable groups, is a priority. While Iran is a middle-income country, an estimated 22% of registered Afghan refugees live below the poverty line.22 While the EU is present in Iran through its support to humanitarian partners (EUR 15 million in 2016), Iran receives minimal financial support from the international community at large for its role as a host country to Afghan refugees. Due to its geographic position, Iran represents an important transit country and destination country of irregular migrants. The irregular migrants are notably from Afghanistan, but also Pakistan and Bangladesh. Iran has been facing an increasing number of Afghan refugees transiting to other destinations. Daily arrivals from Afghanistan are counted in the thousands. While for some refugees Iran is a country of destination, others will spend time in Iran before heading towards Turkey and Europe, however precise data on migration flows are insufficient. Iranian migration authorities estimate that between 800,000 and one million Afghans have arrived in Iran since the beginning of 2016 alone. Iranian authorities have also made attempts to address the problem of unaccompanied minors as well as human trafficking, while facilitating the settling down and stabilisation of Afghan migrants and refugees in the Iranian territory. At the same time, challenges remain in the context of border management, especially at the borders with Afghanistan and Pakistan. Accompanying measures to improve migration governance and to inform policy choices with relevant Ministries can be developed, including through targeted information sharing and exchange of experience programmes, to ensure continued operationalisation of existing policies and to support the relevant areas, as needed, in the EU-Iran structured migration dialogue. 22 [*https://www.nrc.no/countries/middle-east/iran/*](https://www.nrc.no/countries/middle-east/iran/). [22] Iraq The precondition for migration management in Iraq is an understanding of the changing trends in such a dynamic context. The key elements for migration and forced displacement are the security concerns related, not only to the conflict, but also to political instability, lack of social justice, and economic factors, which are all directly related to the conflict and create a sense of hopelessness among the population. The impetus is on enhancing community stabilisation and revitalisation in order to facilitate the return and durable reintegration of IDPS and Iraqi returnees from Europe to their areas of origin, thus preventing further irregular migration. More in-depth analysis on the motivation, mode, methods and demographics of migration and migrants in Iraq and on their intentions and needs with regards to return and reintegration are necessary to tailor country specific activities. In brief, the following priorities need attention:  The high number of displaced and returnee population, which poses tremendous reintegration challenges, as many are in camps and some have returned to homes that have been destroyed or severely damaged, with little to no basic services and infrastructure; inconsistent security presence and limited economic/income generation opportunities. In this context, social tensions may turn into violence, not only as a result of competition over scarce resources, but also because of the perceptions that returnees and security forces hold of those who stayed behind as colluding with Da’esh, with ethnic and religious identities coming into play. Not only can this environment lead to internal conflict, but it also creates the conditions for further radicalisation, especially of disenfranchised youth, and fosters the push factors of irregular migration such as people smuggling, increasing the risk of human trafficking.  Irregular migration. Iraq has a long history of irregular migration to Europe and in 2015 saw a sharp increase of these flows. The number of negative asylum decision is steadily growing which impacts on the expected number of Iraqi nationals subject to return. Findings from a 2016 EU-funded IOM piece of research, exploring the dynamics of migration from Iraq to Europe revealed that the main reasons for migrating, or “push factors”, were an unstable security situation (both general and personal), and a lack of equality and social justice.  Poor socio-economic opportunities for reintegration of IDPs and returnees, who experience a significant decline in their standard of living as a consequence of their forced displacement. Employment opportunities are limited and 20-30% are working in the informal sector, further increasing income instability. Employment of IDPs previously working in some sectors, i.e ***agriculture***, is particularly challenging given the inaccessibility of large areas. Security, housing, financial resources and livelihoods are the most determining factors of intentions to return, and there is high borrowing from family and friends.  Lack of access to shelter, housing, land and property security contributes to the overall risks to social cohesion, justice, peace and stability in the return communities, and can generate further erosion of the public trust in the rule of law. There are currently gaps in [23] terms of the lack of timely and accurate information about housing, land and property rights; the lack of referral systems for individual and families to get adequate support in accessing their houses, land and property; geographic, political and cultural inconsistency of the application of community level dispute resolution mechanisms; and the lack of adequate institutional legal framework and mechanisms for compensation and restitution of housing, land and property rights. This is combined with the widespread extent of destruction and confiscation in all territories which were or are still controlled by Da’esh. These areas have seen, among others, the systematic destruction of property records of the displaced population, confiscation or loss of essential civil documentation and the illegal rental and sale of confiscated property areas. Property recovery policies will then become extremely necessary for the recovery of the country.  Lack of adequate capacity of governmental institutions to enable fast, efficient and sustainable management of migration crisis and integration of returnees. In specific, the Government needs further support in efficiently coordinating and delivering essential services to the newly displaced population; in leading the coordination response with key stakeholders; in collecting and analysing data informing rapid decision making; in developing short to long term policies and implementation guidelines that can be put in place rapidly. Pakistan Migration management Migration in Pakistan is a complex interlinked phenomenon that has to be addressed in a comprehensive way. Economic factors including poverty, lack of employment opportunities, and low wages are among the key reasons for migration. The rapidly growing population has led to excess supply of the workforce comprising illiterate persons, semi-skilled, skilled, educated, and even highly qualified professionals as compared to the domestic labour demand. Labour migration is an important coping mechanism and the improvement of migration management and protection of migrant workers should be further strengthened so that Pakistan and Pakistanis can fully benefit from the positive impact of migration. The negative side of regular migration is the corrupt process, the insufficient protection of migrant workers at home and abroad and the lack of efficient redressal systems for complaints. The Government of Pakistan lacks the capacity to offer comprehensive social welfare and protection systems and business development programmes that could benefit returning Pakistani migrants. As a consequence, ***interventions*** will focus on enhancing the capacity of national and provincial authorities, in particular in KP and Punjab provinces, for addressing migration and reintegration issues through the availability of an expanded evidence base for policy formulation. In the public sector, the Government of Pakistan, with support from international donors, has taken initiatives to promote access to livelihood opportunities such as technical and vocational training programmes and health outreach services. However, these programmes are not targeted or tailored towards lower and upper middle class Pakistanis, the class to which the returnees from Europe mostly belong. Similarly, private sector organisations focus on cash grants ***interventions*** rather than sustainable reintegration programmes. Therefore, [24] there is a clear need to invest in increasing knowledge of migration dynamics and the needs of returnees to enable public and private institutions to develop and implement sustainable reintegration programmes that have a holistic focus on returning migrants and their communities. Via cooperation with chambers of commerce as well as with international companies with a presence both in Europe and Pakistan, Pakistani nationals with a return decision will be supported to reintegrate. Irregular migration On the other hand, irregular migration and particularly trafficking and smuggling of migrants is a growing phenomenon and is overshadowing the positive effects of migration. This is true for irregular migration to Europe as well to the GCC states. Institutional development and capacity building to strengthen border control, data collection, monitoring and analysis of irregular migration, smuggling of migrants and trafficking in human beings will be carried out. Reintegration Better use of the knowledge, skills and earnings of returnees, skills development to enhance employability and the provision of better opportunities is crucial not only for returnees' reintegration, but also for providing alternatives to irregular migration or migration in general. Youth should be particularly targeted as they represent a significant proportion of returning and potential migrants. Market-oriented training to equip returnees with skills that enhance their chances to obtain legal employment in countries and regions that need labour is a particular focus. Socio-economic problems, including the lack of livelihood opportunities and lack of access to accurate information, contribute to weak community resilience in key source communities. Building social resilience in key source communities of irregular migration in Punjab and KP Provinces is therefore a key priority area. Existing programmes, such as TVET and microcredits, are an important ***intervention*** for the ***rural*** poor, but not targeted towards lower middle class Pakistanis who wish to earn more than the minimum to survive. Innovative approaches for lower middle class for both returning migrants and residents will be piloted. 2. RISKS AND ASSUMPTIONS Risks Risk level (H/M/L) Mitigating measures Lack of political will and commitment from the Governments to work on return and reintegration in the context of migration and development L-M EU is pursuing dialogue at all levels, combining different instruments. Discussions should be held on the way to proceed, including on whether or not to sequence the funding to the level of cooperation from the partner country Lack of political will and M EU is pursuing dialogue at all levels, [25] commitment from the targeted countries to work on socio-economic inclusion of forcibly displaced populations and their host communities combining its own instruments and ensuring alignment and complementarity with international processes (CRRF/GRC23 and Leaders’ Summit Commitments) and financing (World Bank IDA24-18, EU Member States) Structural changes at national and local government level, including regular turnover of staff M The EU and its implementing partners will ensure close cooperation with stakeholders, highlighting the importance of dedicated resources (financial and personal), and, if necessary, convene meetings at high-level to address any issue that may arise. Deterioration of security situation, political instability H Implementing partners work in coordination with law enforcement agencies and under guidance of the UN Department of Security and Safety. For political stability, a strong institutional collaboration with stakeholders at various levels of the three Governments will be maintained. Interest of and access to returnees and their communities to engage in monitoring and participation in reintegration and development-oriented initiatives L-M The issue will be addressed by working through local grassroots organisations that have strong relationships with communities and can contribute to community buy-in. Communities face lack of matching skills for labour market L-M Need assessments in communities and close coordination with provincial authorities will enable that a targeted diverse set of training/skill building initiatives are offered to key source communities. Assumptions  Political will to establish durable solutions for migration and forced displacement at multiple levels of government remains strong; including the political will to create an enabling policy environment.  National and provincial authorities continue to be committed to the promotion of sustainable reintegration, willing to engage in the implementation of the activities, and 23 Global Compact on Refugees. 24 International Development Association. [26] receptive to the recommendations provided.  Conditions for return do not further deteriorate and asylum space in host countries is preserved.  Hosting areas are willing to engage with programme activities  Conflict between host communities and new arrivals is not prohibitive; relations between different groups can be built through joint programmes and an area-based approach to development ***interventions***, and conflicts that do arise can be mitigated  Insecurity and instability do not prevent participation and smooth implementation of programme activities; access to implementation sites is not restricted to the extent where essential monitoring and evaluation activities are not possible  Local government authorities have adequate absorption capacity (including sufficient qualified and experienced staff) to benefit from participation in programme activities and ultimately take over ownership  (Afghanistan) Sufficient vacant state owned land in appropriate locations can be identified and acquired 3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES 3.1 Lessons learnt In the area of return and reintegration programmes funded by the EU Development policy the key lessons learned are identified in the 2015 Study on the Results and Impact of EU development cooperation-funded projects in the area of voluntary return and reintegration. One of the study´s findings was that it is necessary to provide comprehensive support across categories of migrants while paying attention to their particular needs and vulnerabilities, regardless of their status. Experience has shown that reintegration can be considered as sustainable when returnees are re-included in a group or a process, and when they fully participate in the social, cultural, economic and political life of their country of origin. The support therefore needs to address all dimensions of successful reintegration and take into account individual needs of the returnees beyond one-off assistance. At the same time, the support has to consider the wider impact of returnees on the communities of origin and return. Individual assistance has to be combined with more structural reforms addressing the underlying drivers of migration (and also be aligned with policy priorities of beneficiary countries) if it is to lead to broader and sustainable impact. In Afghanistan, there is a well-documented sense of failure amongst those who return. Reintegration is far more effective when there are face-saving community reintegration ***interventions*** to support returnees. In communities, this sense can easily turn to resentment if the returnee is seen to receive excessive individual assistance. To avoid this, and in order for communities to more easily embrace returnees, it is essential to also provide those communities with improved access to basic services, additional development and job-creation benefits in the context of accepting returnees. [27] Using local expertise and partners in community ***interventions*** not only increases local ownership, and thus the sustainability of the ***interventions***, but also enhances the capacities of local actors to establish and implement a structured system for reintegration support after the external assistance has ended. One of the major reasons for young people not being able to get a job is their lack of skills. Apprenticeships are an effective pathway to employment; however, apprenticeship systems often do not provide all of the skills that apprentices need as they are reliant on the existing skill levels of the master craftspeople. Apprenticeship alone is not sufficient and must be linked with structured vocational training systems. Skills development and employability has proved to be one of the most successful ***interventions*** for employment creation in many countries. This is crucial for returnees' reintegration but it is also crucial for providing alternatives to migration. Skills development has to be part of an integrated approach that includes labour market information, technical and entrepreneurship skills development, and with appropriate post-training support, including employment services, business management and financial services. In light of the activities for technical and vocational training and skills development established under the 2016 activities for Afghanistan, specific attention needs to be given to the employability of these skills. The proposed action should complement and reinforce the ongoing training programmes with a market oriented support to employment and self-employment generating measures. In Bangladesh, in the area of skills development, the programme builds on long-term EU support to the TVET reform process, notably through a previous ILO-implemented TVET reform project. It will directly work through the ongoing project Skills 21 (EUR 21 million, 2016-2020), which already includes a window for supporting the reintegration of some 1000 returnees. Moreover, the implementation of the projects promoting safe migration and local development in eight districts, funded by the EU and implemented by DanChurchAid – Terre des Hommes (2009-2013), provides good basis for awareness raising actions at grassroots level. Two main lessons were learned: enhancing awareness at the community level through adequate awareness campaigns, on the migration process, legal opportunities, rights and benefits of regular migration, as well as risks of irregular migration, have proven to be effective. Through the above mentioned projects the EU funded the establishment of a total of 23 local migration resource / information centres at a local level to make information on safe migration, as well as employment conditions, more easily available to communities and families. In communities empowered with reliable information and available services, migrants’ vulnerability to exploitation is reduced. These migration resource / information centres have been integrated in the overall migration governance of the country and are still operating and contributing to the promotion of legal migration. In Iran, lessons learnt from the ongoing Aid to Uprooted People (AUP) programme show that there is a strong demand for the continuation of ***interventions*** addressing protection issues of Afghan refugees in Iran. There is a need to improve provision of and access to basic services such as health and education and livelihood support. [28] The AUP programme improved the conditions of voluntary repatriation of Afghan refugees from Iran but showed that a long term development approach has to be provided in order to sustainably address this issue. In Iraq, lessons learnt from previous and ongoing ***intervention*** show that a careful assessment of the needs of IDPs and returnees is crucial to better understand their situation and ensure appropriate targeted and general responses. A theory of change that breaks down IDPs, returnees, refugees and vulnerable members of host communities is necessary to clearly reflect their different motivations and economic reasons for migration. There is a need to translate from the humanitarian and early recovery to long term stability and recovery. Understanding data and statistics, analysing the interface between programmes at community level and long term government accountability, transparency and responsiveness issues is a crucial aspect of the success of this action. In terms of direct assistance to returnees, specific lessons learnt from the EU Commission funded Magnet ***intervention*** (DG HOME25), show that individual assistance is not a sufficient incentive when it is related only to cash assistance, payment of vocation training and cash subsidies to employers. Key to success is a reintegration scheme that focuses on wider, community based schemes including job referral and in combining labour demand with labour offers though the strong participation of the private sector. In Pakistan, the project has been designed taking into account lessons learned from reintegration programmes implemented by IOM Pakistan. The programme will also take into account lessons from other programmes, including the EU-funded 'Support to the Silk Routes Partnership for Migration under the Budapest Process' (implemented by ICMPD) and the programme 'Promoting the Effective Governance of Labour Migration from South Asia through Action on Labour Market Information, Protection during recruitment and Employment, Skills and Development Impact' (implemented by the International Labour Organization (ILO). Lessons learnt from the ongoing project Support to the Silk Routes Partnership for Migration under the Budapest Process and the Promoting effective governance of labour migration (ILO) show that: - Comprehensive policy on migration and the legal framework of migration is incomplete and improvements are needed; - Institutional development and capacity building of the government entities in charge of migration management at federal and provincial level has to be strengthened; - Migration governance is largely compartmentalised in the Silk Routes countries and further efforts are needed to put in place sustainable inter-ministerial/inter-agency coordination and cooperation mechanisms at national and at regional level; - Trust building through regular meetings, exchange of experience and information sharing, contacts and consultations is crucial in establishing a regional understanding of migration challenges and developing a regional response to address them; 25 Directorate-General for Migration and Home Affairs. [29] - To a certain extent, deficit of information and awareness among the general public and media as well as government stakeholders as regards migration and mobility and serious consequences of irregular migration can be addressed through Migration Information Centres and community outreach, as one of the tools; - Enhancing awareness at the community level on the migration process, legal opportunities of migration, skills training, rights of migrants, international protection and assistance mechanisms, and the risks and consequences of irregular migration proves to be effective in reducing migrants’ vulnerability to exploitation; - Regional and national law enforcement response is crucial in addressing irregular migratory flows in and from the Silk Routes region. Empirical evidence shows that – if the necessary enabling conditions are put in place – the forcibly displaced can make positive social and economic contributions to host communities in both camps and urban areas by expanding markets, importing new skills, and increasing demand for goods and services. The EU's approach to forced displacement and development was built on examples of better integrated, coherent development-oriented responses and a shift towards more holistic programmatic and regional ***interventions*** in forced displacement in EU programming such as the Regional Development and Protection Programme (RDDP) Middle East and the multi-donor public sector financial reform and management programme in Jordan, together with a small number of integrated projects such as those for refugees in Uganda and Pakistan. These projects not only seek to mitigate the costs and impacts of forced displacement by the Commission's humanitarian ***interventions***, but also to promote a more proactive and coherent development-led response. Since the adoption of the Communication, the developmental approach underpins programming to forced displacement done in Uganda (responding to the forced displacement crisis due to the conflict in South Sudan) with a view to supporting the CRRF process, Kenya, Niger, Northern Cameroon, the Lake Chad basin, Libya, Ukraine, Afghanistan and Pakistan. The approach underpins programming done in the context of the Facility for Refugees in Turkey26, the EU Regional Trust Fund in Response to the Syrian Crisis27 (Madad Fund) and the EU Trust Fund for Africa28, as well as the Regional Development and Protection Programmes29 (Middle East, Horn of Africa and North Africa). 3.2 Complementarity, synergy and donor coordination The Regional Indicative Programme Asia 2014-2020 includes the Aid to Uprooted People programme (EUR 25 million, committed in 2014). The main activities under the current Aid for Uprooted People programme include improving infrastructure of IDP settlements, empowering IDP through creating their governance structures, improving health, education, international protection, hygiene and increasing livelihood opportunities for Afghan refugees in Iran and Pakistan, provision of information, counselling and legal assistance to IDPs and returnees, provision of economic and employment opportunities for IDPs and returnees and improving 26   [*https://ec.europa.eu/neighbourhood-enlargement/news\_corner/migration\_en*](https://ec.europa.eu/neighbourhood-enlargement/news_corner/migration_en). 27   [*https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/syria/madad\_en*](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/syria/madad_en). 28   [*https://ec.europa.eu/europeaid/regions/africa/eu-emergency-trust-fund-africa\_en*](https://ec.europa.eu/europeaid/regions/africa/eu-emergency-trust-fund-africa_en). 29   [*https://ec.europa.eu/home-affairs/what-we-do/policies/asylum/external-aspects\_en*](https://ec.europa.eu/home-affairs/what-we-do/policies/asylum/external-aspects_en). [30] access to education for IDPs and returnees in Afghanistan. This programme is already complementary with ECHO ***interventions*** with IDPs and returnees. The programme will complement the regional programme on Improving Reintegration of Returnees in Afghanistan, Bangladesh and Pakistan of EUR 91 960 500 that aims at supporting the sustainable reintegration of migrants returning to Afghanistan, Bangladesh and Pakistan. The Action will complement and support the relevant elements of and resulting from ongoing migration dialogues between the EU and Afghanistan, Pakistan, Bangladesh, Iran and Iraq.. Close coordination of the activities with the reintegration programmes by the EU Member States will be ensured. In this respect, the key instrument is the European Reintegration Network (ERIN). It is a joint return and reintegration programme involving several European partner states: the Netherlands (network leader), Austria, Belgium, Germany, Greece, Finland, France, Italy, Luxembourg, Norway, Romania, Spain, Sweden, Switzerland and the United Kingdom (UK). Participation is open to all EU Member States and the Commission has actively encouraged them and all Schengen-associated states to join. At regional level, Afghanistan, Bangladesh, Pakistan, Iran and Iraq are part of the Budapest process. Complementarity and synergy will be ensured with the EU-funded programme 'Support to the Silk Routes Partnership for Migration under the Budapest Process' (ICMPD), which finances a facility for short and long term technical assistance and flagship initiatives on issues like the protection of migrant workers and the establishment of migration information centres. Cooperation on law enforcement between Member States' authorities and those of Pakistan and Afghanistan has also been launched. The aim is to work together to better address migrant smuggling. Afghanistan At the Brussels Conference on Afghanistan (5 October 2016), the Government of Afghanistan presented its Afghanistan National Peace and Development Framework (ANPDF) to which a set of 10 National Priority Programmes (NPPs) is linked. Of particular importance in the context of migration are the 'Citizens Charter' (a compact between government and citizens for the provision of basic social services particularly, but not only, in ***rural*** areas), the Urban Development Programme (under preparation), the Human Capital Development Programme (under preparation) and the NPP for Women's Economic Empowerment. On 16 December 2016 the EC adopted the Decision on ''Improving reintegration of returnees in Afghanistan, Bangladesh and Pakistan'' which foresees a substantial financial allocation for Afghanistan (EUR 78 million). This package includes three components: i) Supporting individual returnees and communities in areas of high migration/return to achieve sustainable reintegration; ii) Incentivising Government efforts in key areas linked to migration and reintegration, and; iii) Promoting skills development/TVET and employability as a deterrent for irregular migration. The 'Incentive Package' for the Government of Afghanistan will be disbursed through WB/ Afghanistan Reconstruction Trust Fund (ARTF) upon the achievement of jointly agreed benchmarks which will align with the Government Policy Framework and Action Plan Matrix. A national Steering Committee will coordinate the abovementioned action. [31] This proposed action will fully complement and enlarge this existing ***intervention***. Close cooperation with the Government and with partner organisation including UN agencies will be reinforced. The EU's overall assistance already comprehensively addresses certain root causes of irregular migration and there are specific national programmes addressing migration-related issues and job-creation. The EU 'FARM' programme30 of EUR 102 million implemented by GIZ and the World Bank as well as the 'Panj-Amu programme' of EUR 45 million implemented by the ADB support added value chains, ***agricultural*** development and improved access to sustainable irrigation increasing jobs in ***rural*** areas. The 'Jobs for Peace' programme, launched in autumn 2015, aims at creating short-term employment that should contribute to a reduction of out-flow migrants. The EU committed EUR 30 million to this programme under the annual action programme (AAP) 201631 to create jobs in ***rural*** areas and to contribute to improved infrastructure. This will reinforce the component on prevention of irregular migration. An action financed by the Instrument contributing to Stability and Peace (IcSP – EUR 8 million) is seeking to provide temporary job opportunities in anticipation of the implementation of more structural reforms that were launched in 2017. Complementarities and synergies will be fostered with the new 'STRIVE' action in Afghanistan (STRIVE for development – strengthening resilience to violence and extremism) being launched by the Instrument contributing to Stability and Peace (IcSP). The aim of the Action is to support local state and non-state partners to develop and implement ***interventions*** that have a demonstrable impact on the threat posed by radicalisation and recruitment to terrorism. The specific objective is to develop best practices to implement and monitor programmes that have demonstrable impact on strengthening resilience against extremism and violence among returnees including women and their communities in selected areas of Afghanistan. Bangladesh The action in support of returnees will be conceived as a scaling-up of two actions: (1) For skills development, this action will reinforce the activities foreseen for returning migrants under the Skills 21 programme (AAP 2015)32, where specific units specialised in migration-related matters will be established in selected TVET training centres; (2) For awareness-raising campaigns at the grassroots level and for the financial literacy training and services for a better use of the remittances, this action will complement the 2016 Special Measure33 whose implementation started in 2017 (implemented by IOM/BRAC) and the Safe Migration Awareness Raising Programme financed by the EU (DG HOME) through the EURCAP (Capacity Building for Return Management) implemented by IOM. 30 Support to ***Agriculture*** and ***Rural*** Development in Afghanistan; C(2014) 9099 of 03.12.2014 and C(2015) 9115 of 08.12.2015 31 C(2016) 5716 of 05.09.2016 32 C(2015) 9336 of 14.12.2015 33 C(2016) 8433 of 16.12.2016 [32] Complementarities and synergies will be ensured with projects under the Bangladesh-EU MIP 2014-202034 priority sectors, in order to address the root causes of economic migration, notably the resilient livelihoods programme (AAP 2016), where the emphasis is placed on offering alternative sources of livelihoods. A specific component within the resilience programme implemented by GIZ addresses the specific needs of returnees from the EU in terms of skills, jobs and value chains development, linking with formal and informal SMEs and promoting access to social services in urban contexts. Complementarity will be ensured with the other actions under the 2016 Special Measure which focuses on migration management services, the social reintegration of returnees and the referral to the economic reintegration activities. Complementarity will be ensured with the projects implemented by IOM and ILO on Enhanced Skills Development & Qualification recognition of labour migrants from Bangladesh, aiming at building the employability of Bangladeshi migrant workers and improving their job opportunities through enhanced skills and recognised qualifications, and with the ILO – the Swiss development cooperation programme on Promoting Decent Work through improved Migration Policy and its Application in Bangladesh. Complementarity will be ensured also with BRAC's migration programmes including the one on capacity building strengthening of government, media and partners, and on policy advocacy – mainly – during the Libya crisis (project financed by UN Women – ILO – Japan International Cooperation Agency – UK Aid). In 2016, in the run-up for the Global Forum on Migration and Development held in Dhaka in December, a new informal Migration Working Group was created among the donor community, which expects to be – but has yet not been – formalised within the Local Consultative Group donor coordination mechanism. Donors have so far met 3 times to discuss and exchange information on migration related issues have only recently decided to work on multiple mapping exercises: 1) on on-going and planned programmes on migration, 2) on the different contribution/activities on the follow up to the Global Forum on Migration and Development (GFMD) and to the contributions to the Global Compacts. Iran The action will complement activities implemented under the Aid to Uprooted People programme. In Iran, access to refugees and providing them with durable solutions has recently improved. This could allow creating synergies in areas such as health, education and livelihoods, school attendance of refugee children and self-reliance and livelihoods of the beneficiary population. Synergies with ECHO funded ***interventions*** is ensured by focussing on medium- and long-term funding to address the needs of refugees in areas such as education, health and social services, while ECHO will continue covering the humanitarian needs of refugees where appropriate. Until 2015, ECHO partners working with Afghan refugees were only NRC and UNHCR, who concentrated their assistance mainly on vulnerable documented refugees. Since 2016, the 34 C(2014) 5718 of 18.08.2014 [33] number of partners has increased and assistance is progressively being targeted towards undocumented Afghans. The main sectors of ***intervention*** are health, protection, education, food security, shelter, advocacy, coordination, and WASH35, which is in line with the proposed activities of this action. Iraq EU bilateral cooperation in Iraq focuses on humanitarian assistance, stabilisation, national reconciliation, economic reforms, and the support to education and vocational training. A reinforced diplomatic engagement and attention to qualitative and quantitative information on migration causes and patterns are part of a more ***strategic*** approach to migration pursued in past years. This action on migration follows on the legacy of the EU funded initiative by the Hijira Amina (‘‘safe migration’’ in Arabic), a project implemented by IOM between 2013 and end 2016. The project has provided technical support and capacity development to the Federal Government of Iraq and the Kurdistan Regional Government (KRG) ministries, including provincial authorities with migration functions, in establishing adequate migration procedures and has responded to the urgent protection needs of IDPs, returnees, refugees and other migrants in Iraq. While conceived to provide dedicated policy support to Government, the project’s long term vision has been affected by the escalating of violence, insecurity, forced displacement and immigration which has occurred since 2014, and so has then dealt on specific emergency issues on migration management caused by the changing context. The project has produced some pieces of research identifying underlying causes, key gaps and recommendation for future ***intervention*** on migration in Iraq, which now needs to be implemented. EU funding, channelled through ECHO, the Madad Trust Fund and the Instrument contributing to Stability and Peace (IcSP), is already addressing, within the remits of each specific instrument mandate, part of the challenges linked to forced displacement, social cohesion, return and conflict resolution in local communities hosting IDPs and returnees. In specific, IcSP funding (implemented by IOM) is supporting the ongoing stabilisation efforts in Iraq by helping to reduce tensions between IDPs and host community members. In the past years DG HOME has supported the IOM's programme 'MAGNET' , which is linked to the assisted voluntary return and reintegration programmes of four European countries, providing job placement opportunities for rejected asylum seekers and irregular migrants returned from Austria, Belgium, France and the Netherlands. The project created and delivered innovative services involving the identification of possible vacancies in the private sector and linking beneficiary profiles to these job offers, so as to improve the attractiveness and the sustainability of reintegration. Pakistan EU-Pakistan relations are moulded into a 5-year Engagement Plan (2012-2017). The purpose of the Engagement Plan is to upgrade the relationship, improve EU coordination in Pakistan and expand relations to include a full range of issues including migration. The last chapter of the 35 Water, sanitation and hygiene. [34] Engagement Plan on sectoral cooperation calls for cooperation on migration issues. A new Engagement Plan is currently being discussed. Complementarity and synergy exists with the Pakistan-EU MIP Bilateral Development Cooperation for the period 2014-202036 (EUR 653 million), which is comprised of ***Rural*** Development (EUR 340 million), Education including TVET and Human Resource Development (EUR 210 million), as well as Good Governance (EUR 97 million). These focal sectors are addressing certain root causes of migration. Possible complementarities and synergies will be also sought with other technical education and vocational training programmes, social welfare programmes and micro-credit schemes of other actors including the UK Department for International Development (DFID) Skill Development Fund in Punjab and other governments and donors' programmes in Khyber Pakhtunkhwa. The programme is also developed based on findings of an ongoing assessment of service provision for returning migrants from Europe, being carried out under the EU funded “Monitor” project. The system aims to provide an increased understanding of the situation of returnees and provide a monitoring and evaluation mechanism to ascertain their needs. The project will ensure continuity and complementarity with EU-funded initiatives like: (i) Regional Programme 'Promoting the Effective Governance of Labour Migration from South Asia through Action on Labour Market Information, Protection during recruitment and Employment, Skills and Development Impact' (SALM), which includes two already established Migration Resource Centres (ILO & ICMPD jointly) and ended in September 2016; (ii) EU- ILO project on Fair recruitment process; (iii) the project “Fight against Trafficking in Human Beings - Phase 2” (THB/IFS/2) contributing to the prevention of and fight against transnational organised crime, particularly in relation to trafficking in human beings (THB), implemented by ICMPD; (iv) the Global Action against Trafficking in Persons and the Smuggling of Migrants (GloAct) project aiming at assisting selected countries in developing and implementing comprehensive national counter-trafficking and counter-smuggling responses and focusing on prevention and protection (implemented in Pakistan by UNODC). Coordination and policy dialogue on Afghan Refugees is eased by regular meetings of the Friends of Sustainable Solutions for Afghan Refugees (FOSSAR) gathering all concerned Government stakeholders with the key donors involved. 3.3 Cross-cutting issues Cross-cutting issues, such as gender, human rights and good governance, will be carefully considered and taken into account throughout the implementation process. Given the fact that women make up close to 50% of migrants worldwide, and their vulnerability in the migration process is particularly serious, careful attention will be put on addressing their needs. The action will also address female poverty by ensuring that the 36 C(2014) 5599 of 11.08.2014 [35] proportion of those receiving services and their access to livelihood activities is in line with the proportion of female refugees/IDPs/returnees. The different roles of women and men in community-based ***interventions***, reintegration processes, livelihoods and development programmes are important to recognise, thus ensuring their inclusive and equitable participation in decision-making processes and project implementation. Monitoring, including through disaggregated data, will be key in this programme. In addition, the project will address gender-specific needs through efforts to reach female community members through multiple ***interventions***. Social resilience activities will include fostering dialogue between men and women to foster the agency of both and contribute towards gender equality. Similarly, disaggregated data throughout the programme cycle (i.e baseline and results) will help make clear to what extent the programme benefits women and men according to their needs. Given the nature of the action, the protection of human rights and due processes will be an integral part of the activities carried out. Protection of human rights for the different categories of 'people on the move' and specifically for vulnerable categories, such as children, unaccompanied minors, disabled persons, victims of trafficking or smuggling and rejected asylum seekers will need to be specifically considered. Human rights issues will be an important topic of discussion between the EU and the partner countries. The proposed action will particularly need to be reflective of the fact that a large part of the Afghan refugee and migrant population, specifically returnees from Iran but also returnees from Pakistan and Europe, are young people, often minors. This segment of the target group for the proposed action is particularly vulnerable in the migration process but also susceptible to abuse, exploitation and radicalisation, especially if confronted with a lack of social and economic perspectives and a deep sense of personal failure upon return. In terms of good governance, the proposed action recognises the comprehensive approach required to address socio-economic inclusion of forcibly displaced persons in their host or return communities. As such, the action will be supported by policy dialogue with partner countries and relevant stakeholders, aimed at improving the legal and socio-economic situation of refugees and IDPs in their host or return communities. Sustainability and empowerment are core cross-cutting issues that are promoted throughout the community-based ***interventions***, which ensure inclusive participation from the initial phase of identifying priorities and needs throughout the project design, implementation and monitoring phases. Finally, as concerns Afghanistan, the high numbers of return in certain areas increase pressure on natural resources (e.g water and fuelwood). A managed approach to land allocation, with impact studies, will avoid installing returnees in regions with insufficient water, preventing future conflicts with the host communities. [36] 4. DESCRIPTION OF THE ACTION 4.1 Objectives Overall objective In line with the commitments undertaken by the Commission in the European Agenda on Migration and within the framework of the Sustainable Agenda 2030, the action primarily contributes to the progressive achievement of Goal 10.7 (SDG target 10), to facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed policies. Limiting the negative effects of forced displacement is a central part of ensuring safe, orderly and regular migration and mobility and maximising its positive aspects, notably contributions of the displaced to their host communities, will improve development outcomes in host regions. Specific objective(s) The aim of the programme is to: (i) enhance the resilience and self-reliance of the forcibly displaced, the returnees and their host / return communities in a way that they may live together peacefully, have access to social services and develop economic ties to build sustainable livelihoods and thus foster social cohesion and stability, (ii) ensure that those who intend to migrate or return will be equipped with the necessary information, resources, skills and knowledge to achieve a decent standard of living and contribute to the long-term development of their communities, (iii) ensure the protection of IDPs, returnees, refugees and vulnerable migrants, and victims of smuggling or human trafficking; (iv) improve the national migration management systems, policies and their implementation; (v) improve basic financial knowledge for a better and broader use of the remittances to the advantage of the communities (Bangladesh), and; (vi) support the relevant elements of and resulting from ongoing migration dialogues between the EU and Afghanistan, Pakistan, Bangladesh, Iran and Iraq. Target groups Actions under this measure will target all categories of 'people on the move', including refugees and IDPs who are assisted in voluntary repatriation as a durable solution or assisted in their host country through socio-economic inclusion to foster resilience and self-reliance; returning migrants (irregular migrants or failed asylum seekers who are returned as part of the immigration policy of receiving states); labour migrants; other categories or specific vulnerable groups in need of international protection (especially minors and women), as well as of return and reintegration assistance. Responses will be articulated taking into account context specificity, different types of returnee/refugee/IDP profiles and associated needs and aspirations, as well as specific vulnerabilities and capacities. The action will also target host/return communities and communities of high out-migration to favour social cohesion and promote stability in areas of high return/forced displacement. Communities will benefit from community-based projects leading to improved service delivery, sustainable livelihood opportunities, governance, stability, and cohesion. Community members will benefit from increased options/opportunities to stay in their community rather than migrate irregularly. [37] This action will provide support and capacity building to government authorities at national and local levels in origin/transit/destination countries who will benefit from improved capacities and expertise as well as strengthened cooperation networks to address migration, socio-economic inclusion of forcibly displaced populations and reintegration. Civil society organisations and social partners in both transit/destination and origin countries will benefit from improved capacities and strengthened cooperation networks among stakeholders engaged in migration management, including reintegration, and forced displacement. 4.2 Expected results 1. The resilience and self-reliance of returnees, refugees, IDPs and their host/return communities is strengthened through improved access to integrated service-delivery (including health, education and other services), and economic opportunities, including land tenure, housing and property rights, livelihood services and labour market access; 2. Returning migrants, refugees, IDPs and their host/return communities receive appropriate support to actively participate in the local economy; 3. The capacities of the different target groups are strengthened and sustainable employment opportunities for returnees, refugees, IDPs and their host/return communities are created and, where needed, legal frameworks are developed to ensure safe and dignified labour market access and prevent exploitation; 4. Human rights protection is enhanced for the different categories of 'people on the move' and their host/return communities; 5. The strategy of integrated service delivery and economic opportunities for the forcibly displaced and their host communities is included in national development plans. The capacities of national and local authorities in targeted countries are strengthened to provide access for forcibly displaced populations to integrated service-delivery and economic opportunities; 6. The capacities of national and local authorities in the targeted countries are strengthened to plan, manage and implement sustainable migration policies related to all areas of migration management at both central and local level, including reintegration of returnees. The expected areas of migration management could include in particular: trafficking in human beings and smuggling of migrants, integrated border management, awareness raising on both risks of irregular migration and safe legal channels, diaspora engagement/remittances (including financial literacy), labour migration and international protection that covers all refugee populations; 7. National migration data management systems are strengthened and the knowledge base on migration is improved; 8. Strengthened regional dialogue on migration, forced displacement, return and reintegration. 4.3 Main activities [38] All assistance efforts will need to be clearly linked to relevant national policies. The nexus between humanitarian and development assistance will need to ensure a smooth interaction between relief and development. Main activities across the countries may include the following: 1. Information, tracking and profiling: activities under this component are aimed at capturing population movements, routes and flows, and at the profiling of migrants, returnees, refugees and IDPs in order to design a better tailored response and include providing technical support and knowledge transfer on methods of collecting, producing, disseminating and analysing statistical data and supporting the establishment of a migration data management system. The expansion of tools like IOM’s Displacement Tracking Matrix (DTM) will be supported through this action. Vulnerability and needs assessment would be conducted to determine the right beneficiaries and the type of ***interventions***; 2. Access to economic opportunities and integrated service-delivery in host countries and reintegration in countries of origin: improve the socio-economic condition of returnees, refugees, IDPs and displaced-hosting communities based on a market-system approach. It will consist of activities aimed to provide/develop: a. support documentation of refugees/returnees with identification as a critical means for access to services, and where appropriate, support migration management with a focus on mixed migration to promote mutually acceptable regimes for cross-border movements to seize development opportunities of mobility; b. support for integrated service-delivery systems targeting both forcibly displaced persons as well as their host/return communities; c. support for employment opportunities for refugees, IDPs and their host communities (requiring policy commitment for better regulatory environment for refugee employment), underpinned by labour market assessments, which include opportunities for self-employment; d. small grants mechanism for targeted high return areas for community-driven programming; e. enhanced TVET and skills development opportunities to address specific needs of sustainable return, reintegration and socio-economic cohesion; f. information and legal counselling services on aspects related to forced displacement and return such as housing, land, property issues and management of potential debt arising from migration experience; g. reestablishment of networks and ties between communities of origin and forced displacement; h. support to community outreach activities to enhance trust and promote social cohesion at local level; [39] i. enhanced orientation and referral services for returnees (especially health – including immunisation campaigns with special attention to polio, education, etc.) and support to national delivery systems for both hosts, IDPs and refugee communities to facilitate access to basic services, like health an education; j. tailored individual or family-level assistance, where appropriate; k. support for land tenure to refugees/returnees/IDPs. 3. Protection and human rights, especially for vulnerable groups like women and unaccompanied minors, including activities like training of local actors on human rights protection, support to family tracing/reunification services, legal aid and counselling. All activities in the programme will be targeted based on vulnerability and needs. Considering the (pockets of) fragility and conflict in the targeted countries (Afghanistan, Iraq, Pakistan, Iran and Bangladesh), the programme will mainstream protection to ensure that access to programme activities/services is provided on a safe, equal and fair basis and to prevent, reduce/mitigate and respond to the risks and consequences of violence, coercion, deliberate deprivation and abuse, in line with the European Commission guidelines on protection in humanitarian crises. 4. Capacity building/empowerment of public authorities at national and local level: may include support to draft legislation and by-laws, support to the development of national strategies and action plans focusing specifically on dealing with socio-economic inclusion of forcibly displaced populations, gaps and needs assessment, trainings, study visits etc. Afghanistan Building on the EU support measures initiated in 2016 and guided by the Afghan Government’s migration action plan matrix, action should focus on: 1. Information, tracking and profiling 2. Access to economic opportunities and integrated service-delivery in host communities and reintegration in communities of origin – activities may include: a. Specific support to the Government's goal of providing all arrivals with immediate registration and proper documentation, and immediate assistance as needed; b. Building on the activities for technical and vocational training established under the 2016 package, support to sustainable livelihoods opportunities, employment and income generation. Support measures could include labour-intensive and productive public work schemes for implementing certain other goals of the Government's action matrix (e.g Citizens' charter programme, regularisation of informal settlements and improved access to utilities, livelihood programmes), as much as microfinance, support to self-employment and business start-ups. Actions will also include activities related to community empowerment, community and productive infrastructure development and cultural initiatives aimed to foster social cohesion and sustainable reintegration of displaced people/returnees in the recipient communities; [40] c. Specific support to the Government's goal of improving access to land and adequate housing, particularly in (urban and peri-urban) areas of high return, including measures dealing with affordable housing and regularisation of informal settlements; specific attention should be given to policies and regulatory framework for improved tenure security; d. In a context of high mobility, to avoid the disruption of services (notably education and health) and facilitate access to assistance, the focus should be on support for national social protection schemes to address forced displacement related challenges. Activities in the health sector may also include improved vaccine coverage and access to immunisation – with special attention to polio – for returnees and internally displaced people (especially children aged below five years) at the point of entry or registration in Afghanistan, and/or at the places of (temporary) settlement. 3. Protection and human rights, especially for vulnerable groups like women and unaccompanied minors; 4. Capacity building/empowerment of public authorities at national and local level: direct budgetary assistance and technical support to the Government of Afghanistan's policies on migration and forced displacement, through a reinforcement of the 'incentive package' set up under the 2016 special measure on 'Improving reintegration of returnees in Afghanistan, Bangladesh and Pakistan'. Specific attention needs to be given to access to basic services (i.e education and health – including standard immunisations with special attention to polio) for returnees, IDPs and host communities; Particular attention needs to be given to young migrants, with regard to their employability and economic opportunities but also with regard to their social integration in host communities. Bangladesh 1. Information, tracking and profiling 2. Access to economic opportunities and integrated service-delivery in host countries and reintegration in countries of origin a. Building on the activities for skills development established under the Bangladesh Annual Action Programme 2015 “Skills 21 – Empowering citizens for inclusive and sustainable growth” (first migration window, targeting approximately 1000 returnees and their family members), activities may include TVET and skills development opportunities to address specific needs of sustainable return including from transit countries, reintegration and socio-economic cohesion. Complementing the ***intervention*** foreseen under Skills 21, the activities will target an additional 2000 returnees and their family members (1000). Specific training practices for returnees and family members will be offered in seven local development skills centres and will have, to the extent possible, a country-wide coverage. The vocational training activities, tailored to returnees, will take into account the main findings of the market needs analysis which will be previously undertaken at the local level, so as to better match the training to be provided with labour market [41] needs, in order to ensure their potential employability. Specific services will be offered tailored to returnees such as recognition of prior learning and knowledge acquired abroad. b. Remittances and development: reinforcement of access to financial literacy training and services for returnees and their family members, to complement the services already foreseen in the 2016 Special Measure. This activity consists of developing manuals and trainings modules on: a) entrepreneurships for developing new business; b) financial literacy on use and investment of remittances, better management of incomes, savings for the future, expenditure for education for children and health services, benefits of saving money in banks, reducing risks of transfer of remittances and increase use of the formal channels. 3. Capacity building of national authorities to develop and implement sustainable migration policies and migration management system: activities may include in particular actions aimed at fighting migrant smuggling and trafficking in human beings, diaspora investment/remittance and awareness-raising activities on the risks associated with irregular migration. The latter will be carried out at community level to make the potential migrant workers and their family members more aware of the risks associated with irregular migration and to promote safe migration through legal channels (legal opportunities, rights and benefits of regular migration). These activities will also help engage the stakeholders (community people, government officials, local elite e.g ) to promote safe migration from Bangladesh and progressively change community perceptions and behaviours about irregular migration. They may include, inter alia: a. Capacity building and resources development; b. Elaboration of Information, Education and Communication (IEC) material; c. Volunteer development and engaging volunteers in awareness campaigns; d. Revision of the National Communication Strategy on migration for enhanced efficiency and effectiveness of messaging/community outreach; e. Activities such as interactive popular theatre, street drama, community meetings, video shows in public places; media sensitisation and networking on migration issues; information sessions on the occasion of large community migrants’ fairs at district level such as the International Migrants Day which will be celebrated at the national, district and Upazila level to mobilise people and policy makers on safe migration. Awareness activities will be carried out at local level through local NGOs using a mix of different communication strategies, channels and tools. Iran 1. The component 'access to economic opportunities and integrated service-delivery in host countries and reintegration in countries of origin' may include: a. Supporting refugee registration, including ensuring personal data protection, as a critical means to access the national service delivery systems; [42] b. Supporting national (basic) service delivery systems for both refugees and their (vulnerable) host communities, including support to the development and/or strengthening of national social protection schemes (such as the Salamat (Health) Insurance Programme) to ensure the inclusion of refugees on equal footing with nationals (including contributory schemes) by promoting social cohesion, as well as education for refugees in order to ensure their inclusion in the job market and overall employability; c. Supporting employment opportunities, based on a thorough analysis of labour market gaps/needs, and/or facilitating access to financial services to encourage entrepreneurship for refugees and (vulnerable) host communities, both requiring a policy commitment for further improving regulatory environment for refugee employment (e.g exploring value chain development) and collaboration with private sector actors at provincial/local level; d. Possibly: facilitating return of Afghans who would like to voluntarily return. 2. The component 'capacity building of national authorities to develop and implement sustainable migration policies and migration management system' may include increasing the knowledge base, data gathering and analysis, exchange of best practices and sharing of experience in particular on border management, document security, fighting migrant smuggling and trafficking in human beings, routes, flows and trends, where appropriate. Iraq More specifically, the ***intervention*** in Iraq will target the following components: 1. Information, tracking and profiling: Provision of accurate information to potential migrant and returnees in country and abroad. Activities could include the creation of 'migration resource centres' offering neutral space to obtain accurate information on legal migration procedures and documentation required, as well as the risks of irregular migration and information for returnees on their rights and potential opportunities for reintegration. 2. Access to economic opportunities and integrated service-delivery in host countries and reintegration in areas/communities of origin: a. Socio-economic (re)integration of IDPs and returnees, as well as vulnerable members of communities. Activities may include support for social-protection systems – including education and child-protection measures; livelihood and income generation; facilitation of employment opportunities matching labour demand and supply; access to more inclusive financial services to encourage entrepreneurship; self-reliance opportunities for displaced persons and host communities. This will be based on a thorough analysis of socio-economic needs and labour market gaps/needs and on existing and future assessment of current social safety nets in place and of the current labour policies so as to further improvement of the regulatory framework and address barriers faced by IDPs and returnees; [43] b. Reconstruction and revitalisation of communities: activities may include support to communities' economic and social infrastructure and rehabilitation of basic services; conflict prevention, reconciliation/reducing tension and strengthening social cohesion. 3. Capacity building of national authorities to develop and implement sustainable migration policies and migration management system: activities may include support to Iraqi Government to develop and implement sustainable migration policies, including providing assistance to migrants in need of international protection, with a more inclusive and less fragmented migration management system, including actions fighting trafficking in human beings and migrant smuggling, information and awareness-raising activities at national and international level, border management. Activities will also focus on legislations regulating the labour market, labour migration, housing, property and land rights and dispute resolution. Pakistan In addition to the activities foreseen above and building on the EU support measures initiated in 2016, specific activities in Pakistan should focus on: 1. Information, tracking and profiling: support analysis and monitoring of migrant flows; 2. Access to economic opportunities and integrated service-delivery in host communities and reintegration in communities of origin – activities may include: a. Actions aiming to enhance the resilience and self-reliance of the forcibly displaced, the returnees and their host / return communities and to ease social tensions; b. Building on the activities for technical and vocational training established under the 2016 package, providing TVET, skills development and business opportunities to returnees to facilitate reintegration in Punjab and in KP; supporting community development and empowerment as important elements to facilitate reintegration at local level. c. Providing TVET and skills development opportunities to Afghan refugees, to facilitate their reintegration once back in Afghanistan, and supporting documentation on undocumented Afghans in Pakistan with identification as a critical means to access services; 3. Capacity building/empowerment of public authorities at national and local level – activities may include: a. Strengthening of migration policies and management systems. In particular, supporting the planned New Refugee Law and its implementation and promoting mutually acceptable regimes for cross-border movements in order to seize development opportunities of mobility; b. Actions targeting the fight against smuggling and trafficking in human beings, including border management. [44] 4.4 ***Intervention*** logic The project is designed to address the challenges of irregular migration and forced displacement at different levels. On the macro-level the project activities are geared towards enhancing institutional frameworks and capacity of stakeholders to better address migration and forced displacement issues (including – inter alia – migration and asylum management systems, protection, socio-economic inclusion, return and reintegration). This is essential in order to have in place sustainable policies related to all areas of migration management and forced displacement at both central and local level to foster sustainability of the ***intervention***. This entails also the capacities of national and local authorities providing access to integrated service-delivery and economic opportunities for returnees, forcibly displaced populations and host communities, which are key elements of responsible migration management and effective public service delivery. At micro-level, the ***intervention*** is designed to build the resilience and self-reliance of returnees, refugees, IDPs and their host/return communities to help beneficiaries to re-establish stable livelihoods and perspectives for the future and increase absorption capacity for returnees in their respective communities, thus helping to prevent further irregular migration and fostering social cohesion. 5. IMPLEMENTATION 5.1 Financing agreement In order to implement this action, it is foreseen to conclude financing agreements and/or addenda to existing ones with the partner countries for:  all the activities related to Pakistan and Iraq;  the component related to the World Bank, UNESCO and activities in direct management in Afghanistan. It is not foreseen to conclude a financing agreement in Afghanistan for the other components (i.e indirect management with IOM, UNHCR, UN-HABITAT, UNICEF/WHO);  the component related to the top-up of the Skills 21 programme (AAP 2015). It is not foreseen to conclude a financing agreement in Bangladesh for the other components (i.e actions in indirect management with IOM); It is not foreseen to conclude a financing agreement with the partner country in Iran. 5.2 Indicative implementation period The indicative operational implementation period of this action, during which the activities described in section 4.3 will be carried out and the corresponding contracts and agreements implemented, is a maximum of 60 months from the date of entry into force of the financing agreement in Afghanistan, Iraq and Pakistan and from the date of adoption by the Commission of this Action Document for Bangladesh and Iran and for the component not subject to financing agreement in Afghanistan. [45] Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014. 5.3 Implementation modalities Both in indirect and direct management, the Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation 37. 5.3.1 Grants Call for proposals 1 – 'Sustainable (re)integration of returnees and displaced populations through skill development and improved employment opportunities' (direct management) – Afghanistan (a) Objectives of the grants, fields of ***intervention***, priorities of the year and expected results  The objective of the call for proposals is to improve employment opportunities, especially for youth, through skills development and labour market access, thus favouring (re)integration and social cohesion in host communities;  The expected results of the action is to enhance skills (and thus employability) of Afghans, in particular the youth, in areas of high migration/return/forced displacement;  The main activities will build a basis for resilience through ***interventions*** in the areas of livelihoods, youth employment, skill enhancement, job-creation, reconstruction, social cohesion, rule of law and good governance. Activities will target both returnees/IDPs and host communities/communities of origin; (b) Eligibility conditions In order to be eligible for the grant, applicants must:  be legal persons and  be a member states agency, non-governmental organisation, civil society organisation, international research organisation, university or university related organisation or an international organisation as defined by Article 43 of the Rules of Application to the EU Financial Regulation38 and 37   [*https://eeas.europa.eu/sites/eeas/files/restrictive\_measures-2017-04-26-clean.pdf*](https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf) 38 International organisations are international public-sector organisations set up by intergovernmental agreements as well as specialised agencies set up by them; the International Committee of the Red Cross (ICRC) and the International Federation of National Red Cross and Red Crescent Societies, European Investment Bank (EIB) and European Investment Fund (EIF) are also recognised as international organisations. [46]  be established in39 a Member State of the EU or an eligible nation as per Article 9 (DCI) of the Regulation (EU) 236 / 2014 (CIR). This obligation does not apply to international organisations and  be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary and  be operational in Afghanistan at the moment of the launch of the call for proposals. Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 3.5 million and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries).The indicative duration of the grant (its implementation period) is 48 months (c) Essential selection and award criteria The essential selection criteria are financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action. (d) Maximum rate of co-financing The maximum possible rate of co-financing for grants under this call is 80%. In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission’s authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management. (e) Indicative timing to launch the call First half 2018. Call for proposals 2 – 'Access to economic opportunities and integrated service-delivery for Afghan refugees/undocumented migrants and host communities in Iran' (direct management) – Iran (a) Objectives of the grants, fields of ***intervention***, priorities of the year and expected results  The objective of the call for proposals is to improve livelihoods, skills and employability of Afghan refugees/undocumented migrants and their host communities, through improved access to national service delivery systems, skills development and labour market access, thus favouring integration and social cohesion in host communities; 39 To be determined on the basis of the organisation's statutes which should demonstrate that it has been established by an instrument governed by the national law of the country concerned. In this respect, any legal entity whose statutes have been established in another country cannot be considered an eligible local organisation, even if the statutes are registered locally or a “Memorandum of Understanding” has been concluded. [47]  The expected results of the action is to enhance livelihood, employability and inclusion of Afghans, in particular the youth, in areas of high migration /forced displacement and to favour social cohesion;  The main activities will build a basis for resilience through ***interventions*** in the areas of livelihoods, youth employment, skill enhancement, job-creation, reconstruction, social cohesion, rule of law and good governance. Activities will target both refugees/displaced people and host communities; (b) Eligibility conditions In order to be eligible for the grant, applicants must:  be legal persons and  be a member states agency, non-governmental organisation, civil society organisation, international research organisation, university or university related organisation or an international organisation as defined by Article 43 of the Rules of Application to the EU Financial Regulation40 and  be established in41 a Member State of the EU or an eligible nation as per Article 9 (DCI) of the Regulation (EU) 236 / 2014 (CIR). This obligation does not apply to international organisations and  be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary and  be operational in Iran at the moment of the launch of the call for proposals. Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 3.5 million and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries).The indicative duration of the grant (its implementation period) is 48 months (c) Essential selection and award criteria are the same as in the above mentioned call for proposal 1. (d) Maximum rate of co-financing is the same as in the above mentioned call for proposal 1. (e) Indicative timing to launch the call First half 2018. 40 International organisations are international public-sector organisations set up by intergovernmental agreements as well as specialised agencies set up by them; the International Committee of the Red Cross (ICRC) and the International Federation of National Red Cross and Red Crescent Societies, European Investment Bank (EIB) and European Investment Fund (EIF) are also recognised as international organisations. 41 To be determined on the basis of the organisation's statutes which should demonstrate that it has been established by an instrument governed by the national law of the country concerned. In this respect, any legal entity whose statutes have been established in another country cannot be considered an eligible local organisation, even if the statutes are registered locally or a “Memorandum of Understanding” has been concluded. [48] Grants: call for proposals 3 – 'Improving livelihood, employment opportunities and access to social protection schemes for IDPs and host communities / communities of origin in Iraq' - (direct management) – Iraq (a) Objectives of the grants, fields of ***intervention***, priorities of the year and expected results  The objective of the call for proposals is to improve livelihoods and employment opportunities for IDPs, especially for youth and vulnerable groups;  The expected result of the action is for Iraqi IDPs and targeted communities to have increased livelihoods and job opportunities in Iraq through improved access to social protection schemes, including the provision of skills development and job placement services;  The main activities will build a basis for resilience through ***interventions*** in the areas of livelihoods, youth employment, skill enhancement, job-creation, reconstruction, social cohesion, rule of law and good governance. (b) Eligibility conditions In order to be eligible for the grant, applicants must:  be legal persons and  be a member states agency, non-governmental organisation, civil society organisation, international research organisation, university or university related organisation or an international organisation as defined by Article 43 of the Rules of Application to the EU Financial Regulation42 and  be established in43 a Member State of the EU or an eligible nation as per Article 9 (DCI) of the Regulation (EU) 236 / 2014 (CIR). This obligation does not apply to international organisations and  be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary  be operational in Iraq at the moment of the launch of the call for proposals. Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 1 million and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries).The indicative duration of the grant (its implementation period) is 48 months 42 International organisations are international public-sector organisations set up by intergovernmental agreements as well as specialised agencies set up by them; the International Committee of the Red Cross (ICRC) and the International Federation of National Red Cross and Red Crescent Societies, European Investment Bank (EIB) and European Investment Fund (EIF) are also recognised as international organisations. 43 To be determined on the basis of the organisation's statutes which should demonstrate that it has been established by an instrument governed by the national law of the country concerned. In this respect, any legal entity whose statutes have been established in another country cannot be considered an eligible local organisation, even if the statutes are registered locally or a “Memorandum of Understanding” has been concluded. [49] (c) Essential selection and award criteria are the same as in the above mentioned call for proposal 1. (d) Maximum rate of co-financing is the same as in the above mentioned call for proposal 1. (e) Indicative timing to launch the call First half 2018. 5.3.2 Procurement (direct management) See evaluation, audit and communication. 5.3.3 Indirect management with an International organisation. A part of this action may be implemented in indirect management by the international organisations mentioned below, in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012: Regional activities (in the five countries covered by the action)  United Nations Office for Drugs and Crime (UNODC, in partnership with and IOM), this implementation entails activities related to anti-smuggling and anti-trafficking in human beings. This implementation is justified because fight against human trafficking is part of its core business and because its experience and well stablished presence in the country;  IOM: this implementation entails activities aimed to capturing population movements and to profiling of migrants, returnees, refugees and IDPs through the expansion of IOM's Displacement Tracking Matrix (DTM). This implementation is justified because migration is part of IOM's core business and because its experience and well established presence in the country;  International Centre for Migration Policy Development (ICMPD): this implementation entails activities related to integrated border management. This implementation is justified because migration policies and border management are part of its core business and because its experience and well stablished presence in the country. Activities targeting Afghan refugees/undocumented/IDPs  UNHCR: this implementation entails regional activities in support of Afghan refugees/IDPs in Afghanistan, Iran and Pakistan and sustains the eventual return and (re)integration process. In particular, UNHCR will support the implementation of regional and national frameworks and policies for protection, return and forced displacement in coordination with the Governments, UN agencies and NGOs including through strengthened data collection, profiling and analysis. Community-based activity will also be launched to increase access to services and livelihoods that could be up scalable through the World Bank livelihood programme under preparation. These will be accompanied by income generating activities supporting joint-venture businesses through private sector inclusion and facilitating access to microfinance services. In Pakistan activities may also include provision of TVET and skills development opportunities to Afghan refugees, to [50] facilitate their reintegration once back in Afghanistan. Support to the New Refugee Law in Pakistan and to registration / documentation of refugees in both Pakistan and Iran may also be covered under this component. This implementation is justified because of UNHCR's well established presence in the countries and because it has refugees' international protection as its core business. UNHCR is a signatory to the Solution Strategy for Afghan Refugees alongside the Governments of the Islamic Republics of Afghanistan, Iran and Pakistan. UNHCR is mandated to protect and facilitate solutions for refugees, returnees and IDPs and has the necessary expertise in this regard. In this context, UNHCR supports the Government of Afghanistan in leading on policy development and implementation including on the Policy Framework for Return and Displacement and the National IDP Policy. UNHCR enjoys strong community acceptance in Afghanistan.  UNICEF: this implementation entails activities related to the care of refugees and young migrants (including unaccompanied minors), with regard to their protection, their education, their employability and economic opportunities but also with regard to their social integration in host communities. It may also cover, tentatively in partnership or co-delegation with the WHO, vaccination campaigns with special attention to polio and capacity building of local authorities for the management of supplementary immunisation campaigns. Activities will be implemented in Afghanistan and Iran. This implementation is justified because of UNICEF and WHO’s well established presence in the countries (Afghanistan and Iran) and because they have protection of children (UNICEF) and prevention of communicable diseases (WHO) among the areas of their core business. Afghanistan  IOM: this implementation entails activities related to return and sustainable (re)integration of returnees and IDPs to address the regional and international migration and forced displacement crisis, including support to registration and documentation, TVET for individual returnees, community development projects, creation and expansion of small businesses, technical support to the Ministry of Refugees and Repatriations (MoRR) to strengthen its secretarial role in support of the High-level Commission on Migration, its coordinating role also as co-chair of DiREC, developing provincial return and reintegration mechanisms and improving communication. This implementation is justified because migration is part of IOM's core business and because its experience and well established presence in the country.  UNESCO: this implementation entails activities in support to cultural initiatives for Afghan Returnees and IDPs, e.g : (i) the safeguarding of cultural heritage, (ii) the development of a network of cultural centres across the country to foster heritage education and awareness and (iii) the promotion of creative industry for employability and job creation. This implementation is justified because culture is part of UNESCO's core business and because of its experience and well established presence in the country.  UN-HABITAT: this implementation entails activities related to supporting the Government's goal of improving access to land, particularly in areas of high return, [51] including measures dealing with regularisation of informal settlements; specific attention should be given to policies and regulatory framework for improved tenure security as well as access to livelihood opportunities. This implementation is justified because of UN-HABITAT's well established presence in the country and because it has improved access to habitat as its core business.  World Bank: this implementation entails safeguarding and increasing the Government’s capacity for public service delivery including in the area of returns and reintegration both directly and through programmes like the Citizens' Charter and the Livelihood programme planned to start early 2018. This support will address the humanitarian development nexus and on longer term nationwide reintegration goals. This implementation is justified because the World Bank is the ARTF’s Administrator, the leading Trust Fund operating directly on the national budget and has long-standing experience in implementing development aid in Afghanistan. For the budget-implementation tasks not yet assessed, the World Bank is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management. Bangladesh  IOM: this implementation entails the top-up of the activities launched under the 2016 special measure 'Improving reintegration of returnees in Afghanistan, Bangladesh and Pakistan' related to the social reintegration of returnees (in particular remittances-related activities like financial literacy) and awareness raising and information activities at local level. This implementation is justified because of IOM’s well established presence in the country and because it has migration as its core business. If negotiations with the above-mentioned entrusted entity fail, the part of this action covering remittances-related activities may be implemented in indirect management with International Fund for ***Agricultural*** Development (IFAD). This implementation is justified because of IFAD's expertise on remittances and development, including promotion of diaspora engagement in their countries of origin.  ILO: this implementation entails the top-up of the Skills 21 programme (AAP 2015) as concerns activities related to skills development for returnees. This implementation is justified because skills development part of core business of ILO's and its well stablished presence in the country. Iran  ICMPD: this implementation entails activities related to the component 'capacity building of national authorities to develop and implement sustainable migration policies and migration management system'. This implementation is justified because of ICMPD’s well established presence in the country and because it has migration as its core business. [52] Activities supporting Afghan refugees/undocumented and young migrants in Iran will be covered by the actions implemented by UNHCR and UNICEF respectively, as previously mentioned under the section on activities targeting Afghan refugees/undocumented/IDPs. Iraq  IOM: this implementation entails activities related to the socio-economic reintegration of returnees and specific activities to improve migration management, through close involvement of the Government departments within the existing frameworks already developed with the country authorities. This implementation is justified because of IOM’s well established presence in the country and because it has migration as its core business. Pakistan  IOM: Building on the process and actions initiated through the 2016 Special Measure 'Improving reintegration of returnees in Afghanistan, Bangladesh and Pakistan', this implementation entails activities addressed to returnees, aspiring migrants and members of source/host communities to favour access to enhanced livelihood support, social and psychosocial counselling, skills development and TVET. Action will also focus on developing and delivering tailored initiatives that improve the reintegration support in Punjab and KP Provinces. This implementation is justified because of IOM’s well established presence in the country and because it has migration as its core business.  GIZ: this implementation entails the top-up of the programme 'Support to the Technical and Vocational Education and Training (TVET) Sector in Pakistan (TVET III)' (AAP 2015 – i.e creation of 'migration window') as concerns activities related to TVET and skills development of Afghan refugees to facilitate their reintegration once back in Afghanistan. This implementation is justified because of GIZ’s well established presence in the country and strong track record in the ongoing implementation of the above-mentioned programme. If negotiations with the above-mentioned entrusted entity fail, this action may be implemented in indirect management with UNHCR under the regional component addressing the needs of Afghan refugees in Afghanistan, Pakistan and Iran. This implementation is justified because of UNHCR's well established presence in the countries and because it has refugees' international protection as its core business. In all cases of indirect management, the entrusted entities would carry out the following budget-implementation tasks to the extent of their pillar assessment status: launch calls for tenders and calls for proposals; define eligibility, selection and award criteria; evaluate tenders and proposals; award grants and contracts; act as contracting authority concluding and managing contracts, carrying out payments, recovering moneys due and cancelling debts that cannot be recovered. Some of the entrusted international organisations and the alternative entrusted international organisation are currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission’s authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, [53] Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation[s] can be entrusted with budget-implementation tasks under indirect management. 5.4 Scope of geographical eligibility for procurement and grants The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult. 5.5 Indicative budget EU contribution (amount in EUR) Thematic 21.020705 Asia 21.020200 Afghanistan 21.020500 Regional / Multi-country activities 36 000 000 Indirect management UNODC/IOM Anti-smuggling/anti-trafficking in human beings 12 000 000 Indirect management IOM Displacement Tracking Matrix (DTM) 12 000 000 Indirect management ICMPD Integrated border management 12 000 000 Activities targeting Afghan refugees/undocumented/IDPs 59 000 000 Indirect management with UNHCR Actions in Afghanistan, Iran and Pakistan and possible support to reintegration44. 34 000 00045 44 Activities may also include , support to:  Implementation of the regional and national frameworks and policies for return and forced displacement in coordination with the Government, UN agencies and NGOs including through strengthening data collection, profiling and analysis, supporting registration and documentation and relevant policy development.  Access to national (basic) service delivery systems for both refugees/returnees and their return/host communities, including support to national social protection schemes, and livelihoods through reinforced community social cohesion (i.e community participation and empowerment; community and productive infrastructure development as part of early recovery support) as a component of their regional approach up-scalable through the World Bank livelihood programme under preparation. [54] Indirect management with UNICEF and WHO Activities related to reinforce the care of refugees and young migrants (including unaccompanied minors)46. This component will cover actions in both Afghanistan and Iran. 25 000 00047 Afghanistan 65 700 000 Indirect management with IOM Top-up 2016 decision, i.e activities related to sustainable reintegration, including support to registration and documentation48 12 000 000 Indirect management with UN-HABITAT Activities related to support the Government's goal of improving access to land, particularly in areas of high return49 16 700 000 Indirect management with UNESCO Support to cultural initiatives for Afghan Returnees and IDPs 3 000 000\* Indirect management with World Bank Top-up 2016 decision (i.e Incentives Package, extension to Citizen's Charter/migration window and/or livelihood programme) 27 000 000\* Direct management (call for proposals) 7 000 000  Sustainable income generating activities and facilitate joint-venture businesses through private sector inclusion and increased access to microfinance services. 45 Tentatively: EUR 19 million may be allocated to Afghanistan, EUR 10 million to Iran and EUR 5 million to Pakistan 46 Activities may also include protection, health, education, employability and economic opportunities but also with regard to social integration in host communities. It may also include, in partnership or co-delegation with the WHO, the vaccination campaigns with special attention to polio and capacity building of local authorities for the management of supplementary immunisation campaigns. 47 Tentatively, EUR 20 million may be allocated to Afghanistan – of which EUR 15 million for vaccination-related activities – and EUR 5 million to Iran) 48 Activities may also include TVET for individual returnees, community development projects, creation and expansion of small businesses, technical support to MoRR to strengthen its secretarial role in support of the High-level Commission on Migration, development of provincial return and reintegration mechanisms and improvement of communication. 49 Activities may also include measures dealing with regularisation of informal settlements; specific attention should be given to policies and regulatory framework for improved tenure security as well as access to livelihood opportunities. [55] TVET, skills development, labour market access Bangladesh 6 000 000 Indirect management with ILO Vocational training activities for returnees and related services. 3 000 000 Indirect management with IOM Awareness raising and information activities at local level. Remittances-related activities (e.g financial literacy). 3 000 000 Iran 10 000 000 Indirect management with ICMPD Capacity building of national authorities on sustainable migration policies and migration management system. 3 000 000 Direct management (call for proposals) Livelihood, access to economic opportunities and integrated service-delivery. 7 000 000 Iraq 10 000 000 Indirect management with IOM Socio-economic reintegration of returnees and activities to improve migration management. 6 000 000 Direct management (call for proposals) Livelihood and employment opportunities. 4 000 000 Pakistan 9 000 000 Indirect management IOM Reintegration and enhanced livelihood. 4 500 000 Indirect management GIZ TVET and skills development. 4 500 000 Total per budget line 90 000 000 40 000 000 65 700 000\* Total 195 700 000\* \* of which EUR 30 000 000 from budget 2018 5.6 Organisational set-up and responsibilities In order to ensure enough flexibility and prioritisation of needs in the fast-changing area of migration management and forced displacement, a strong coordination will be carried out by the European Commission (DG DEVCO, DG HOME, DG ECHO) and the EEAS. Meetings will be conducted on a quarterly basis. The Commission services will supervise the [56] implementation of project activities and their adaptation in function of the changing migratory patterns and political priorities. The Commission will work closely with the Governments and local authorities of the concerned beneficiary countries to ensure that the activities are in line with their national priorities. Afghanistan The National Steering Committee set up to ensure overall coherence and coordination of activities in Afghanistan launched through the 2016 special measure 'Improving reintegration of returnees in Afghanistan, Bangladesh and Pakistan' will also oversee the implementation of this action. It will comprise of representatives of the Office of the President, MoRR, MoLSAMD, other relevant Afghan entities, IOM, other implementing partners, and the EU Delegation. They will meet at least once per year. The EU will extend / confirm the set of benchmarks for achievements under the incentives programme through a rider to the Financing Agreement related to the 2016 special measure. A common assessment that may include EU-procured external assessments of progress and achievements will inform the process on a regular basis and will establish the number of benchmarks achieved. The Government of Afghanistan will be informed in due course about the EU decision on the corresponding disbursement amount. Incentive payments will be released through an Administration Agreement signed with the World Bank and will be channelled through the ARTF ad hoc (bilateral) payment facility (AHP), reimbursing costs of activities under 4.3 above. Bangladesh The National Steering Committee set up to ensure overall coherence and coordination of activities in Bangladesh launched through the 2016 special measure will also oversee the implementation of this action. It includes representatives of relevant Ministries (MoFA, MoHA and MEWOE), the EU Delegation and representatives of Member States on behalf of ERIN. It will meet at least once per year to contribute to project implementation, taking stock of/reviewing progress made, providing ***strategic*** guidance and ensuring appropriate coordination among all the project stakeholders. The EU Delegation will be directly involved in the monitoring and steering of the action and will follow-up directly/establish links and synergies with the recently established EU-Bangladesh migration dialogue. Pakistan The National and Provincial (Punjab) Steering Committees set up to ensure overall coherence and coordination of activities in Pakistan launched through the 2016 special measure will also oversee the implementation of this action. It includes relevant Government departments at the national level and a representative of the EU Delegation in Pakistan. The provincial Steering Committee will include different provincial Government departments, representatives of the EU Delegation, and public and private service providers (including the Technical Education & Vocational Training Authority – TEVTA). It is proposed that the provincial Steering [57] Committee meetings are organised on a quarterly basis. The provincial Steering Committee will be tasked with finalising multiple criteria for selection of beneficiary communities and individuals for the proposed ***interventions***, aided by the technical expertise of ICMPD and IOM and relevant evidence base established through inception phase of the programme. The Steering Committees will contribute to Government-ownership at both national and provincial levels of various programme areas, accommodating different perspectives and also ensuring participatory monitoring of project progress. 5.7 ***Performance*** monitoring and reporting It is of vital importance that a sound reporting and monitoring system is put in place. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding ***indicators***, using as reference the logframe matrix (for project modality) or the list of result ***indicators*** (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). 5.8 Evaluation Having regard to the importance of the action, a mid-term and a final evaluation may be carried out for this action or its components via independent consultants contracted by the Commission. The mid-term and final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision). The Commission shall inform the implementing partner(s) at least one month in advance of the dates foreseen for the evaluation mission(s). The implementing partner(s) shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation report(s) shall be shared with the partner country and other key stakeholders. The implementing partner(s) and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. [58] The financing of the evaluation(s) shall be covered by another measure constituting a financing decision. 5.9 Audit Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. The financing of the audit shall be covered by another measure constituting a financing decision. 5.10 Communication and visibility Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. Communication and visibility activities will be part of each contract that will be signed with the implementing partners under this decision. If additional communication and visibility activities covering the overall programme are deemed necessary during the course of implementation, these shall be covered by another measure constituting a financing decision. [59] APPENDIX - INDICATIVE LOGFRAME MATRIX The activities, the expected outputs and all the ***indicators***, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome ***indicators*** whenever it is relevant for monitoring and reporting purposes. Whenever appropriate, collected data should be disaggregated by gender, age and target group (i.e refugees, IDP’s, returnees, affected host/return communities) unless ***indicator*** is not beneficiary-based. Results chain ***Indicators*** Baselines (incl. reference year) Targets (incl. reference year) Sources and means of verification Assumptions Overall objective: Impact In line with the commitments undertaken by the Commission in the European Agenda on Migration and within the framework of the Sustainable Agenda 2030, the action primarily contributes to the progressive achievement of Goal 10.7 (SDG target 10), to facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed policies. % of persons of concern covered by the project Migration policies integrated into existing government mechanisms based on evidence generated; N/A TBD UNHCR, IOM and other implementing partners’ monitoring reports. Government reports, budget and national development plans (where applicable) Project reports Monitoring reports, surveys National and local governments remain committed to well-managed migration policies, including protection and sustainable (re)integration and inclusion. Political stability in the concerned countries Increased security issues and natural disasters do not divert the attention of national authorities [60] Specific objectives: Outcome(s) The resilience and self-reliance of the targeted beneficiaries50 is enhanced, as they are equipped with necessary skills, have access to required resources and opportunities and their protection is ensured. They benefit from improved access to social services and develop economic ties to build sustainable livelihoods, which should foster social cohesion and stability. Their financial knowledge for a broader use of remittances is improved, as well as their awareness of the risks of irregular migration and the systems in place for regular migration. At the government level, migration policies and management systems are improved and migration dialogue between the EU and its partner countries is supported. % of national population with access to basic services (education/health/water/ sanitation/energy) and legal identity (documentation and birth registration) compared to % targeted beneficiaries access levels and country-wide average (if available). % of national population with access to economic opportunities to secure sustainable livelihoods, including land tenure, housing and property rights, livelihood services and labour market access through provincial and national systems compared to % targeted beneficiaries access levels and country-wide average (if available). Number of policy reforms and strategies adopted by partner countries to enable access to services and economic opportunities for forcibly displaced persons and their host communities. N/A TBD UNHCR, IOM and other implementing partners’ monitoring reports. Government reports, budget and national development plans (where applicable) Project reports Monitoring reports, surveys Political commitment to and active engagement in the project by concerned countries Minimal staff turnover in relevant authorities/implementing partners Timely decisions made by senior officials of national authorities throughout project implementation Political commitment of the concerned countries to strengthen national migration management structures, ensure protection and promote sustainable (re)integration Outputs Result 1: The resilience and self-reliance of the targeted beneficiaries is improved through improved access to integrated service-delivery (including health, education and other services), and economic opportunities, including land tenure, housing and property rights, livelihood services Number of targeted beneficiaries, having received support from the programme, including enhanced support for vulnerable cases, disaggregated by refugees, IDP’s, returnees, affected host communities. Number of targeted beneficiaries referred and assisted for civil documentation, legal awareness and N/A TBD UNHCR, IOM and other implementing partners’ monitoring reports. Government reports, budget and Partner country governments remain willing to engage with the issue of integration/reintegration of refugees, IDPs and returnees. 50 This Special Measure will target all categories of 'people on the move', including refugees and IDPs, returning migrants, labour migrants, or potential other categories or specific vulnerable groups in need of return and reintegration assistance. The action will also target host/return communities. [61] and labour market access. legal aid Number of targeted beneficiaries who report increased: - literacy rate and primary school completion rate; - knowledge and skills; - income; - land tenure, housing and property rights - labour market access. Number of targeted beneficiaries who enjoy the same access level as their host communities to: - primary education; - training and skills certification; - income generating activities; - health facilities. national development plans (where applicable) Project reports Monitoring reports, surveys Governance is sufficiently strong and coordinated with service providers. Partner governments do not change their policies towards refugees, returnees & IDPs in a detrimental way concerning their rights. Result 2: Returning migrants, refugees, IDPs and their host/return communities receive appropriate support to actively participate in the local economy. Number of skills assessments and labour market assessments conducted which feed into TVET and skills development programmes. Number of targeted beneficiaries (of working age) employed or engaged in income generating activities after vocational/skills training received Number of targeted beneficiaries who have started their own businesses N/A TBD UNHCR, IOM and other implementing partners’ monitoring reports. Government reports, budget and national development plans (where applicable) The local economy in the host/return communities is sufficiently strong. Host/return communities and the individuals in these communities are supportive of reintegration policy. Result 3: The capacities of the different target groups are strengthened and sustainable employment opportunities for returnees, refugees, IDPs and their host/return communities are created and, where needed, legal frameworks are Number and percentage of targeted beneficiaries placed in employment. Number of targeted beneficiaries who report increased in training and skills certification; education; and income - attributable to the project, Number of support mechanisms such as start-up support, employment N/A TBD UNHCR, IOM and other implementing partners’ monitoring reports. Government The labour market in the host/return communities is sufficiently strong. Refugees, IDPs and returnees receive appropriate training. [62] developed to ensure safe and dignified labour market access and prevent exploitation. service centres, tools, internships, job placements and mentorships launched. Establishment of a coordination mechanism and regular interactions between governments and actors for education/skills promotion and recognition. Number of policy instruments responsive to safe and dignified labour market access, tailored for refugees, IDP’s, returnees, affected host communities’ specific needs. reports, budget and national development plans (where applicable) Attendance sheets, certificates. Result 4: Human rights protection is enhanced for the different categories of 'people on the move' and their host/return communities. Number of targeted beneficiaries having used legal aid support Number of vulnerable beneficiaries receiving enhanced individual support Number of family tracing/reunification successfully performed Number of governmental and non-governmental actors trained and/or aware of legal frameworks for migration, fundamental rights of migrants and prevention of abuses and risks. N/A TBD UNHCR, IOM and other implementing partners’ reports. Government reports. Governments support human rights for refugees, IDPs and returnees, and this is translated into national legislation and is effectively enforced by government officials and respected by individuals in communities. Result 5: The strategy of integrated service delivery and economic opportunities for the forcibly displaced and their host communities is included in national development plans. The capacities of national and local authorities in targeted countries are strengthened to provide access for forcibly displaced populations and their host communities to integrated service-delivery and economic Number of policy reforms and strategies adopted by partner countries, ensuring equal opportunity for refugees, IDP’s, returnees, affected host communities. Change of implemented methods in partner countries on migration-related matters, including in a regional and trans-regional context (Re)integration activities integrated into existing Government mechanisms N/A TBD Government reports, budget and national development plans (where applicable) Project reports and related monitoring reports Governments have a long-term developmental view on reintegration and this is effectively translated into national legislation and implemented at the grassroots level. Governments remain committed to sustainable migration policies, including [63] opportunities. based on evidence generated within 3 years. Number of officials trained, who report using their new skills in providing service-delivery to forcibly displaced populations and their host communities reintegration. Local government and local government officers have sufficient resources and are committed to implementing central government migration policy. Result 6: The capacities of national and local authorities in the targeted countries are strengthened to plan, manage and implement sustainable migration policies related to all areas of migration management at both central and local level, including reintegration of returnees. The expected areas of migration management could include in particular: trafficking in human beings and smuggling of migrants, integrated border management, awareness raising on both risks of irregular migration and safe legal channels, diaspora engagement/remittances (including financial literacy), labour migration and international protection that covers all forcibly displaced populations. Number of capacity building initiatives and trainings implemented. Number of officials trained, who report using their training in the public service-delivery entities/areas targeted (i.e trafficking/smuggling/ border management/labour migration/ international protection). Number of information and outreach activities implemented Number of awareness-raising activities among migrants and aspirant migrants and their families on safe and legal migration initiated. Number of information exchange tools developed. N/A TBD Reports of capacity building initiatives and training programmes Implementing partners’ project monitoring reports. Information materials and products of awareness activities Meeting minutes Institutional settings remain the same and staff turnover is low Local government authorities have adequate absorption capacity (including sufficient qualified and experienced staff) to benefit from participation in programme activities and ultimately take over ownership National and provincial authorities continue to be committed to the promotion of sustainable reintegration, willing to engage in the implementation of the activities, and receptive to the recommendations provided Result 7: National migration data management systems are strengthened and the Number of officials trained and who report using their trainings in targeted public-service entity. N/A TBD Reports of capacity building initiatives and training Capacity building is sufficiently strong, staff [64] knowledge base on migration is improved. Number of mobility assessments, flow monitoring and surveys in communities carried out and report on use in public-service delivery; Number of target beneficiaries monitored per year (including for re-integration progress) Number of policy makers / public officials making effective use of information on migration and forced displacement Number of exchanges of good practices and lessons learnt on migration management from EU (including EU MS), regional partners and international organisations programmes Implementing partners’ project monitoring reports (in particular IOM) receives adequate training. Result 8: Strengthened regional dialogue on migration, forced displacement, return and reintegration. Number of intergovernmental meetings organised at a senior level. Number of regional collaboration measures on migration and mobility. N/A TBD Meeting reports Implementing partners’ project monitoring reports Political commitment of partner countries to strengthen regional dialogue and cooperation.

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**Body**

Zagreb, 25 January 2018 (Hina) - PM:Justice Ministry working on new Distress ActZAGREB, Jan24(Hina) - Prime Minister Andrej Plenkovic said on Wednesday it was essential for the Uljanik restructuring process to continue, for the government to resume dialogue with MOL regarding the purchase of INA stocks, adding that the Justice Ministry was forming a task force to work on a new Distress Act which should addressthe issue of citizens with blocked bank accounts.Commenting on the European Commission's decision to give a go-ahead for the state guarantee for a EUR96 millionloan to the ailing Croatian shipyard of Uljanik, Plenkovic said at the start of the government session that this was an expected decision which was the result of intensive dialogue with the Commission.Plenkovic said it was important that a decision was made to pay out salaries to Uljanik workers. "However, it is essentialto continue the restructuring process in Uljanik and find a ***strategic*** partnerand in that way maintain sustainability, employment and productivity of this important Croatian shipyard," Plenkovic said.Commenting on the Sisak Oil Refinery, Plenkovic said that Environment Protection And Energy MinisterTomislav Coric explained the government's position to the INA Management Board, regarding the survival of the refinery and the fact that all workers affected by this decision would be offered adequate jobs elsewhere in the refinery.Earlier this month, the INA oil company proposed organisational changes in the Sisak refinery which envisaged the transport of products between the Sisak and Rijeka refineries and closing the FCC plant in the Sisak refinery, which will result in a maximum 40 layoffs in the second half of the year.Commenting on connections between improving economy and higher salaries, Plenkovic said Croatia could be proud of its macroeconomic ***indicators*** -- economic growth, reduction of the public debt and deficit, general government budget surplus and upgradedcredit ratings.He also said the average salary in Croatia in November was HRK 6,190, up 6.6% on the year.Plenkovic recalled that the government had increased the minimum wage on two occasions."The fact that consumption has gone up for the 39th consecutive month, the fact that our unemployment rate is at a record low, that our employment is growing, that in 2018 we are set to further reducetaxes...all these are measures taken by the government and citizens will feel them," the prime minister said.Uljanik workers paid December wages and Christmas bonusesZAGREB, Jan 24 (Hina) - Workers of the Uljanik shipbuilding group were paid their wages for December and a Christmas bonus of 850 kuna on Wednesday, the management said.Djino Sverko, regional representative of the Croatian Metal Workers Union and spokesman for the striking committee, said he was pleased that the management had made good on their promise."We are satisfied because the wages have been paid.

Since there are no legal reasons to strike any more, we will dissolve the striking committee on Friday," Sverko told the press.This has defused tensions in and around the Uljanik shipyard, and now it is up to the group's management to find a ***strategic*** partner and prepare a restructuring plan in cooperation with the government.FinMin: Good ***indicators*** alone not enough, they need to be visible in living standardZAGREB, Jan24(Hina) - Finance Minister Zdravko Maric said on Wednesday he was happy that President Kolinda Grabar-Kitarovic had recognised good economic ***indicators*** andthat for the government the idea was not only to have good ***indicators***, but for those ***indicators*** to be visible in the living standard.Maric said this to the press before the government session when asked to comment on the president's statement.Maric also said that salaries in the industrial sector were up -- the average gross salary last year went up 4% and when the effects of the tax reform are taken into account, the average net wage increased by 5.5%.Consumption in December was record high, Croatians spent 1 billion kuna more than expected. "All of these ***indicators*** are visible in the living standard," Maric said.President Grabar-Kitarovic earlier today welcomed what hadbeen done so far, adding however that that's not enough. "It is necessary to adopt measures, as soon as possible, that will increase job security, notably for pregnant women and mothers of small children, and bring to the minimum the number of fixed-term employment contracts," Grabar-Kitarovic said.Noting that increasingly good macroeconomic results were being emphasised recently, including those on improved state finances, she said that this was encouraging and should be welcomed but that citizens had to be able to feel it as well."If the state is recording increasingly good financial results, then citizens must be able to feel it in their bank accounts. Unfortunately, the number of people with frozen bank accounts continues to exceed 300,000. It is a national tragedy that many of them are leaving the country... to start their life anew abroad," she said, calling on the government to urgently adopt measures to deal with the problem of frozen bank accounts, including a new distraint law,Asked if he was offended by the president's criticism, Maric replied: "I don't plan to express any particular emotion about that issue. It is her job to warn and speak her mind and it is up to us in the government, as the executive authority, to work responsibly," Maric said.He added that nothing could happen overnight and once again spoke about the effects of the tax reform.Petrov calls on president to "put her money where her mouth is"ZAGREB, Jan24 (Hina) - The leader of the opposition Bridge party, Bozo Petrov, commented on criticisms which President Kolinda Grabar Kitarovic addressed to the government on Wednesday, saying that the president should "put her money where her mouth is.""I have nothing against drawing attention to problems, because attention should be drawn to all that is bad in Croatia and all that should be changed for the better. I would only advise the president to put her money where her mouth is and take advantage of all the options at her disposal. She can call a government meeting,she can warn them and she canpresent her initiatives andher bills," Petrov told the press in the parliament building.He called on the government and the president to propose concrete measures and legislative initiatives."I've had enough of all these shows. They are using their positions to draw attention to certain anomalies, but are not using their positions to correct those anomalies. They should stop being hypocritical and should finally start doing their jobs," Petrov said.During her visit to Krapina on Wednesday, Grabar-Kitarovic said that the better economic ***indicators*** should also be seen in ordinary people's bank accounts."Macroeconomic ***indicators*** have been improving as of late and this should be welcomed. But if the state is delivering better results, thencitizens must be able to feel that in their bank accounts. There are a lot of people with blocked accounts. The government must find a way to unblock their accounts and pass a new Enforcement Law," the president said.She also stressed the need for swift, effective and systematic measures for demographic revival. "I welcome what has been done so far, but that is not enough. Measures should be put in place as soon as possible to increase job security, especially for pregnant women and mothers of underage children, and to reduce fixed-term work contracts to a minimum."President meets Krapina-Zagorje County officialsZAGREB, Jan24(Hina) - President Kolinda Grabar-Kitarovic, who has temporarily relocated her office to Krapina, some 60 kilometres north of Zagreb, said on Wednesday that she was glad to spend the next three days in the Zagorje region whose residents, she said, had always preserved Croatian freedoms and rights."Always patriots, the people of Zagorje... made a major contribution to our victory in the Homeland War. The Croatian Zagorje was home to our displaced people and refugees and offered the necessary logistical support to Croatian army and police units. Many residents of this county gave their lives and health for Croatia's freedom and independence," said Grabar-Kitarovic, who in the next three days will meet with local business people and farmers and visit successful companies and institutions, as well as youth representatives.Today, she met with local officials andveterans' representatives in Krapina-Zagorje County.Grabar-Kitarovic: Gov't must find solution to problem of citizens with frozen bank accounts"I welcome what has been done so far, but that'snot enough. It is necessary to adopt measures, as soon as possible, that will increase job security, notably for pregnant women and mothers of small children, and bring to the minimum the number of fixed-term employment contracts," she said.Noting that increasingly good macroeconomic results were being emphasised recently, including those on improved state finances, she said that this was encouraging and should be welcomed but thatcitizens had to be able to feel it as well."If the state is recording increasingly good financial results, then citizens must be able to feel it in their bank accounts. Unfortunately, the number of people with frozen bank accounts continues to exceed 300,000. It is a national tragedy that many of them are leaving the country... to start their life anew abroad," she said, calling on the government to urgently adopt measures to deal with the problem of frozen bank accounts, including a new distraint law.Recalling the need for decentralisation, she said that the government had adopted taxation-relatedmeasures to ensure the financial decentralisation of regional and local government units and that it should pursue such efforts in order to make counties more autonomous in withdrawing money from EU funds.The potential for that can be seen in Krapina-Zagorje County, she said, commending the county's orientation to exports and its results in health and cultural tourism.County head: Accomplishing national interests requires unityKrapina Mayor Zoran Gregurovic of the Croatian Democratic Union (HDZ) said that the number of jobless people in the town was on the declineand that the number of new jobs was rising.He called for financial decentralisation, and his call was supported by county head Zeljko Kolar of the Social Democratic Party (SDP),who said that in the coming days local officials would discuss with the president local projects and challenges.Calling for a consensus on issues of national importance, Kolar said the county supported the president's advocacy of demographic revival, veterans' rights, and measures aimed at preventing alarge-scale emigration ofyoung people.Croatia's government debt to GDP ratio 81% in Q3 2017ZAGREB, Jan24(Hina) -At the end of the third quarter of 2017, Croatia's governmentdebt totaled HRK 291.6 billion, 4.2 billion more than in Q2, as a result of which thegovernment debt to GDP ratio increased from 80.9 to 81%, according to Eurostat data released on Wednesday.Compared with the third quarter of 2016, Croatia's public debtwas HRK 2.5 billion higher, but thegovernment debt to GDP ratio slid from 83.4 to 81%. The annual ratio decrease, despite the debt's nominal increase, was a result of a 3% economic upturn in the first nine months of 2017.Croatia'sgovernment debt to GDP ratio puts it below the European Union average of82.5% at the end of Q3 2017.The highest ratios of government debt to GDP at the end of the third quarter of 2017 were recorded in Greece(177.4%), Italy (134.1%) and Portugal (130.8%), and the lowest in Estonia (8.9%), Luxembourg (23.4%) andBulgaria (25.6%).Croatia'sgovernment debt to GDP ratio has been decreasing for some time and Croatian economists expect the positive trends to continue.Although the government was very active on the domestic and international capital markets in last year's last quarter, issuing EUR 1.275 billion in bonds on the European market and HRK 5.8 billion on the local market, the state of the government debt should not change since it's about refinancing old debts, said Zrinka Zivkovic-Matijevic ofRaiffeisenbank Austria.New issues will improve the debt structure and reduce interest costs, she said. Taking into account the projected economic growth for 2017, we expectgovernment debt to GDP ratio to continue to fall below 80%, she added.Eurostat: Croatia among 3 EU countries with biggest increase in overnightsZAGREB, January 25, 2018 (Hina) - Croatia, Latvia and Slovenia have recorded a substantial increase in the number of nights in 2017, according to figures provided by Eurostat, the statistical office of the European Union.In 2017, the number of nights spent in tourist accommodation establishments in the European Union (EU) is expected to have reached more than 3.2 billion, up by 5.1% compared with 2016.In 2017, Spain (471 million nights, +3.6% compared with 2016) retained its lead, ahead of France (431 mn, +6.6%), Italy (425 mn, +5.4%) and Germany (400 mn, +2.7%). These early estimates, which include nights spent whether for business or leisure, come from an article issued by Eurostat, the statistical office of the European Union.In 2017, Croatia recorded 86.1 million overnight stays of which 80.2 million was generated by foreign tourists and 5.9 million by tourists from Croatia, up 10.6% on the year.Highest growth in total tourism nights in Latvia, Slovenia and Croatia The number of nights spent in tourist accommodation in 2017 grew in nearly all Member States for which data are available, with the largest increases being observed in Latvia (+12.0%), Slovenia (+11.3%) and Croatia (+10.6), followed by Portugal (+8.0%), the Czech Republic (+7.7%) and Cyprus (+7.3%).In contrast, the only slight fall was registered in Luxembourg (-1.0%, equivalent to 28 thousand nights). Spain, top destination abroad In the EU, the number of nights spent in tourist accommodation by non-residents grew faster (+6.9%) between 2016 and 2017 than those spent by residents (+3.5%).Almost every EU Member State recorded an increase in the number of tourism nights spent by non-residents, with the exception being Luxembourg (-0.6%, equivalent to 15 thousand nights). In absolute figures, Spain (307 mn nights, or 19% of the total of nights spent by non-residents in the EU) recorded the highest number of nights spent by non-residents in tourist accommodation establishments.Gov't aligns natural gas supply market legislation to EU acquisZAGREB, Jan24(Hina) - The Croatian government sent the Natural Gas Market Billto parliament on Wednesday, aligning it withEU law,extending the protection of households in terms of prices and safeguarding the security of gas supply.The bill sets out a methodology for regulating a gas pricefor households.Energy and Environment Protection Minister Tomislav Coric said key changes in the new bill referred to laying down transparentlyrules and procedures for energy-related businessesin the gas sectorso as to enable all stakeholders and participants to be in an equal position and protect end-users, that is households.The bill envisages changes in procedures relevant for the wholesale gas market.The bill was sent to parliament for adoption under fast-track procedure.Government sends Family Farms Bill to parliament for second readingZAGREB, Jan 24 (Hina) - The government sent the Family Farms Bill to parliament for a second reading on Wednesday, and ***Agriculture*** Minister Tomislav Tolusic said that family farms would finally have a law specifically designed for them, like companies, small businesses or cooperatives, and would be protected against enforcement action.The bill sets out conditions for engaging in ***agriculture*** as an economic activity, registration in the Family Farms Register, the responsibilities and rights of farm owners, and oversight of law implementation.Family farms have been encountering obstacles to their development, primarily because of the lack of a legal framework, so the new bill will professionalise their operation,enable them to develop their capacity and services and facilitate their access to EU funds and government-owned farmland, Tolusic said at a cabinet meeting.The bill encourages families to operate one farm and to consolidate their production resources with a view to ensuring sustainable management and self-employment of their families.Tolusic said that production resources, such as tractors, combine harvesters and livestock, which are necessary for the ***performance*** of ***agricultural*** activity, as well as residential property would be protected against enforcement action.He said that the Family Farms Register would be made public so that it would be clear who produced what and how much.According to the Paying Agency for ***Agriculture***, Fisheries and ***Rural*** Development, 165,458 farms were registered in the Farmers Register as of 31 December 2017, of which 159,191 were registered as family farms, 2,554 as companies, 2,174 as small businesses, 347 as cooperatives and192 as other forms.Prime Minister Andrej Plenkovic said he believed the bill would better regulate the status of family farms in terms of legal security.Split Airport and HC roads operator secure government approval for borrowingZAGREB, Jan 24 (Hina) - The government on Wednesday gave Split Airport a go-ahead to take out an HRK 300 million loan for the reconstruction and upgrade of the passenger terminal, and granted a state guarantee to the Hrvatske Ceste (HC) road construction and maintenance company for a EUR 45 million revolving loan for working capital financing.Split Airport will borrow HRK 300 million (EUR 40.3 million) from the Croatian Bank for Reconstruction and Development (HBOR)without a state guarantee for the reconstruction and upgrade of the passenger terminal, a project worth HRK 450 million (EUR 60.5million).The work should be finalised by the end of July 2019, and the terminal will be able to receive 3.5 million passengers annually.Transport Minister Oleg Butkovic said that Split Airport had launched the investment project in 2016 and had invested about HRK 65 million (EUR 8.7 million) of its own money in it.Hrvatske Ceste will borrow EUR 40 million in kuna equivalent from Zagrebacka Banka and Privredna Banka Zagreb for more efficient liquidity management as the company is currently in the process of partial debt refinancing.Minister: Complaints against choice of contractor for Peljesac Bridge to slow down projectZAGREB, Jan24(Hina) - The Minister of Maritime Affairs, Transport and Infrastructure, Oleg Butkovic, said on Wednesday that two complaints filed over the selection of the contractor for the Peljesac Bridge construction project would slow down the entire process by up to a month and a half, and that upon the completion of the appeals procedure, a contract would be signed with the contractor."The complaints will slow down the start of work on the project for a while. This is the most important project in Croatia, a major project co-financed by the European Commission and the State Commission deals with such procedures faster than with others. I believe that after the Hrvatske Ceste road operator responds to the complaints, the matter will be resolved within a month to a month anda half," Butkovic said in an interview with Croatian Radio.Hrvatske Ceste said on January 12 that of the three bids submitted for the first stage of construction work on the Peljesac Bridge it had selected the one by the Chinese consortiumChina Road and Bridge Corporation, worth HRK 2.08 billion, not including VAT.The State Commission for the Supervision of Public Procurement Procedures on January 22 received a complaint by the Austrian company Strabag against Hrvatske Ceste's decision to choose the Chinese company to do the work on the Peljesac Bridge. According to media reports, the third bidder - a consortium comprising Italy's Astaldi and Turkey's IC Ictas - has appealed against the decision as well.The Peljesac Bridge, which is to connect the southern Dalmatian peninsula of Peljesac with the mainland and thus connect Dubrovnik-Neretva County with the rest of the country, will facilitate the transport of people and goods throughout the year, notably during the peak tourist season.Ex-intelligence officials sentenced for stealing money intended for informantsZAGREB, Jan24 (Hina) - The Zagreb County Court on Wednesday sentenced aformer head of the Military Security and Intelligence Agency, Darko Grdic, and his then deputy Ognjen Preost to three years' imprisonment each pending appeal for stealing HRK 5 million intended for informants from 2009 to 2012.Grdic's then secretary Zdeslav Ivankovic and a non-commissioned officer at Grdic's office, Denis Lukinic, were given suspended sentences, while another agency employee, Tibor Mijo Kuljanic, was acquitted.According to the verdict, Preost stole HRK 3 million, Grdic HRK 1.5 million, Ivankovic HRK 182,000 and Lukinic HRK 199,000.The defendants denied the charges from the start. Only two, Preost and Lukinic, were present at today's hearing.Two Croatians and Israeli man suspected of wrongdoing in TLMZAGREB, Jan24(Hina) - The police in the Adriatic city of Sibenik brought charges against two Croatians, aged 50 and 68, and a 62-year-old Israeli on suspicion of economic wrongdoing in two companies within the TLMmetal-processing group.They are suspected of causing damage in the amount of HRK 834,000 to the two companies from 13 April to 11 September 2015 when they were senior executives and theowner of the TLM group.The police have not revealed the identity of the suspects but media outlets speculate that the suspects are Marijan Stricevic and Zivko Lakos and the Israeli Igor Shamis who took over TLM in 2015.Last year, the police launched another investigation against former executives and owners of the TLM,factory, Tonci Kandido, Marko Pejcinovski and Loran Pejcinovki from whom Shamis took over the group. In this separate probe, the three suspects are charged with embezzling 170 million kuna.Serbian minister dissatisfied with sentences to Croatian hooligans, requests further probeZAGREB, Jan 24 (Hina) - Serbian Interior Minister Nebojsa Stefanovic is not satisfied with the verdict against Croatian nationals who took a plea bargain with the prosecution, following their involvement in a massive fan brawl during a football match between Partizan and Crvena Zvezda in Belgrade, adding that he would insist on further investigation but would not interfere in judicial proceedings.The Croatian nationals on Tuesday took the plea bargain with the prosecution, accepting prison sentences ranging from four to six months."I cannot interfere in court proceedings," Stefanovic told the media in Belgrade which reported that the minister was disatisfied with the sentences.Negotiations are under way with the sixth participant in the fight regarding his plea bargain.All the defendants will serve their prison terms in Serbia. After they finish serving their sentences, each of them will be given a five-year entry ban to Serbia.A total of 26 persons were arrested after violence erupted between Partizan and Crvena Zvezda fans on 13 December, including six Croatian nationals.At least 20 people were injured in the mass fight that broke out on the southern stands of the Partizan stadium during the first half of the game, after which a group of fans was escorted out of the stadium under tight police security.According to media reports, the fight was a conflict between factions of Partizan fans.The Belgrade press said the Croatian nationals were from Split and had been paid to take part in the rioting.Hundreds rally in Sarajevo to protest against amended pension insurance lawZAGREB, Jan24(Hina) - A few hundred protesters gatheredin front of theParliament of the Croat-Bosniak Federation of Bosnia and Herzegovina entity in Sarajevo on Wednesday in a bid to preventthe adoption of draft amendments to pension insurance legislation, sponsored by the Federation's government.The protest was organised by the SSS BiH trade union federation, which warnedthat the amendments would put future pension recipients into an unfavourable position compared toincumbent retirees.The protesters demanded that the government reconsider the draft amendments and that the amendmentsbe discussed in regular procedure rather than in fast-track procedure.The amendments were tailored by the government to meet the demands of the association of pensioners of the Federation of Bosnia and Herzegovina, and the changes are supposed to ensure a rise in pensions of the current recipients, provided that the pension funds are stabilised.SSS BiH warnedthat the amendments would discriminate against the current labour force in the production sector and that early retirement would be additionally sanctioned.In the Federation entity, there are 408,000 pension recipients, and 60% of them receive a monthly income of only 184 euros, according to the SSS BiH federation.In other news:Croatian parliament speaker receives newly-appointed US ambassadorZAGREB, Jan 24 (Hina) - Croatian Parliament Speaker Gordan Jandrokovic received newly appointed U.S. ambassador to Croatia W. Robert Kohorst on Wednesday.Jandrokovic and Kohorst reaffirmed the high level of bilateral relations and cooperation between Croatia and the United States and expressed a wish to step up cooperation in all areas of common interest.The two officials also underscored the importance of increasing security and stability in Southeast Europe. In that context, Jandrokovic underscored Croatia's support for Bosnia and Herzegovina's European membership prospects. He said Croatia would continue to support the Croats in Bosnia and Herzegovina, adding that their status must be equal to that of the other two constituent peoples in the country.The talks also focused on the strengthening of economic relations, energy supply diversification, and the future LNG terminal on the northern Croatian island of Krk.Jandrokovic expressed hope that the issue of the visa regime would be resolved in the near future.EU-Japan Fest secretary general visits RijekaZAGREB, January 24, 2018 (Hina) - EU-Japan FestSecretary General Shuji Kogi on Wednesday held talks with Rijeka Mayor Vojko Obersnel and members of the team in charge of the European Capital of Culture Rijeka 2020project, because the Japanese are interested in increasing the cultural and tourist exchange with Europe through this project.Rijeka officials briefed Kogi about the project and proposed cooperation with Japanese artists, according to a press release issued by the Rijeka city authorities.The meeting marks the continuation of cooperation between Rijeka city authorities and the EU-Japan Fest which started two years ago.The EU Japan Festis the cultural exchange between the European Union and Japan.Since 1992, theJapanese organisation has worked to create such exchanges between the year's Cultural Capital of Europe and Japan. The Festaims to support both traditional and innovative culture.Croatian interior and justice ministers to attend EU informal ministerial meeting in SofiaZAGREB, Jan 24 (Hina) - Croatia's Interior Minister Davor Bozinovic and Justice Minister Drazen Bosnjakovic will attend an informal meeting of the EU Justice and Home Affairs Council in Sofia on January 25 and 26.It will be the first ministerial meeting during the Bulgarian presidency of the EU. Bulgaria assumed the six-month rotating presidency from Estonia on January 1.The meeting will focus on European asylum policy, global aspects of migration and integrated border management.Bozinovic is scheduled to meet with Austrian Interior Minister Herbert Kickland EU Commissioner for the Security Union Julian King. He is also due to visit the Croatian Embassy in Sofia.Museum Night to be held on FridayZAGREB, Jan 24(Hina) - Over 200 museums, galleries and other institutions in about hundred cities and townsthroughout Croatia will open their doors to visitors for Museum Night from 18 pm Friday to 1 am Saturday, organisers announced at a news conference on Wednesday.The 13th edition of Museum Night is focused on sports-related topics in light of the ongoing European Handball Championship in Croatia and the forthcoming Winter Olympic Games in South Korea.The president of the Croatian Academy of Sciences and Arts (HAZU),Zvonko Kusic, welcomed Museum Night as an unprecedented cultural event.This campaign has managed to popularise the self-effacing profession of museum workers, Kusic added.Crobex up, Crobex10 down by same percentZAGREB, Jan24(Hina) - The Zagreb Stock Exchange (ZSE) Crobex index wentup 0.26% to1,871.98 points on Wednesday, endinga five-day losing streak, whereas the specialised Crobex10 went down by the same percentto1,083.30 points, sliding down for the third consecutive trading day.Regular turnover totalled HRK 9.2 million, which was approximately HRK 4 million more than on Tuesday, on the back of upbeattrading of shares of the Podravka food group, Hotel Maestral and Atlantic Grupa, specialisingin food production and distribution.Podravka shares turned over HRK 2.36 million, and their price increased by 0.37% to HRK 270 per share.The stock of Hotel Maestral generated a turnover of HRK 1.07 million, closing the day at HRK 308 kuna per share, up by 0.65%.(EUR 1= HRK 7.433910)THIS BULLETIN INCLUDES ITEMS RELEASED BY 0830 HOURS THURSDAY. (Hina) vm Masthead Brief News Bulletin is published by the Croatian News Agency HINA Marulićev trg 1610 000 ZagrebCroatia web:[*www.hina.hr*](http://www.hina.hr) mail: [*hina@hina.hr*](mailto:hina@hina.hr) phone: (+385 1) 48 08 660; fax (+385 1) 48 08 822 Publisher: Branka Gabriela Valentić, DirectorEditor in Chief: Serđo Obratov Bulletin Editor: Marija Šestan

ZAGREB, Jan24(Hina) - Prime Minister Andrej Plenkovic said on Wednesday it was essential for the Uljanik restructuring process to continue, for the government to resume dialogue with MOL regarding the purchase of INA stocks, adding that the Justice Ministry was forming a task force to work on a new Distress Act which should addressthe issue of citizens with blocked bank accounts.

ZAGREB, Jan 24 (Hina) - Workers of the Uljanik shipbuilding group were paid their wages for December and a Christmas bonus of 850 kuna on Wednesday, the management said.

ZAGREB, Jan24(Hina) - Finance Minister Zdravko Maric said on Wednesday he was happy that President Kolinda Grabar-Kitarovic had recognised good economic ***indicators*** andthat for the government the idea was not only to have good ***indicators***, but for those ***indicators*** to be visible in the living standard.

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ZAGREB, Jan 24 (Hina) - Croatian Parliament Speaker Gordan Jandrokovic received newly appointed U.S. ambassador to Croatia W. Robert Kohorst on Wednesday.

Jandrokovic and Kohorst reaffirmed the high level of bilateral relations and cooperation between Croatia and the United States and expressed a wish to step up cooperation in all areas of common interest.

The two officials also underscored the importance of increasing security and stability in Southeast Europe. In that context, Jandrokovic underscored Croatia's support for Bosnia and Herzegovina's European membership prospects. He said Croatia would continue to support the Croats in Bosnia and Herzegovina, adding that their status must be equal to that of the other two constituent peoples in the country.

The talks also focused on the strengthening of economic relations, energy supply diversification, and the future LNG terminal on the northern Croatian island of Krk.

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[***Council of the European Union: REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT under Article 12(3) of Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment ST 9274 2017 INIT***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5P52-B031-F0YC-N22R-00000-00&context=1516831)

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**Body**

Brussels: Council of the European Union has issued the following document:

9274/17 MM/mb DG E 1A EN Council of the European Union Brussels, 16 May 2017 (OR. en) 9274/17 ENV 485 COVER NOTE From: Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director date of receipt: 15 May 2017 To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union No. Cion doc.: COM(2017) 234 final Subject: REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT under Article 12(3) of Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment Delegations will find attached document COM(2017) 234 final. Encl.: COM(2017) 234 final EN EN EUROPEAN COMMISSION Brussels, 15.5.2017 COM(2017) 234 final REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT under Article 12(3) of Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment 2 1. Introduction This second implementation report1 on Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment (‘***Strategic*** Environmental Assessment Directive’, or ‘SEAD’)2 presents the experience gained in applying the SEAD between 2007 and 2014. The report is based on Article 12(3) of the SEAD and assesses the implementation of the Directive in this period.3The findings of this report will feed into an evaluation of the SEAD that will be carried out as part of the Commission’s Regulatory Fitness and ***Performance*** (REFIT) programme.4 The SEAD implements the principle of environmental integration and protection laid down in Articles 11 and 191 of the Treaty on the Functioning of the European Union. It provides for a high level of protection of the environment and helps integrate environmental considerations into the preparation and adoption of certain plans and programmes.

To this end, the Directive requires an environmental assessment of plans and programmes which are likely to have significant effects on the environment. The SEAD does not lay down any measurable environmental standards. It is essentially a process directive, which establishes certain steps that Member States must follow when identifying and assessing environmental effects. The ***strategic*** environmental assessment (SEA) process is about helping policy makers take well-informed decisions, based on objective information and the results of consultation with the public/stakeholders and relevant authorities. The application of the key requirements of the SEAD and its relationship with other Directives are described in Sections 2 and 3 respectively. 2. Implementation status 2.1 Legal and administrative arrangements in the Member States All Member States have transposed the SEAD. The legislative framework transposing the SEAD varies across the Member States and depends on their administrative structure and arrangements. Some Member States transposed the SEAD through specific national legislation, while others have integrated its requirements into existing provisions, including those transposing the Environmental Impact Assessment Directive (‘EIA Directive’).5 Since 2007, more than half of Member States have amended their national legislation transposing the SEAD to ensure their national provisions comply with the Directive and to resolve cases of incorrect application. 1 The first report was presented on 14.9.2009 (COM(2009) 469). 2 OJ L 197/30, 21.7.2001, p. 30. The word ‘***strategic***’ does not appear in the SEAD but this is the most common and established reference to this Directive. 3 More information can be found in the supporting study [[*http://ec.europa.eu/environment/eia/pdf/study\_SEA\_directive.pdf*](http://ec.europa.eu/environment/eia/pdf/study_SEA_directive.pdf)] 4   [*http://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existinglaws/*](http://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existinglaws/) reducing-burdens-and-simplifying-law/refit-making-eu-law-simpler-and-less-costly\_en. 5 OJ L 26, 28.1.2012, p. 1. 3 The specific administrative features of each Member State have influenced the organisational arrangements they have established to transpose and implement the Directive. Usually the authority that develops and adopts the plans and programmes is also in charge of carrying out the SEA procedure. In most Member States, the Ministry of the Environment or an environmental agency is considered to be the ‘concerned authority with specific environmental responsibilities’ (Article 6(3) SEAD). In some Member States, the environmental authorities have more responsibilities and are in charge of driving the SEA procedure. Some Member States have designated a body to supervise and check the quality of the documentation and the outcomes of the SEA procedure. The Member States enjoy wide discretion in decision-making (Article 8) and the arrangements for providing information on the decision once the SEA procedure is complete (Article 9). In some Member States, the environmental authorities are entitled to issue an administrative act (such as a decision). The decision could be either binding on the content of the plans and programmes or merely be issued as a non-binding act. 2.2 Scope of application of the SEA Directive In general, Member States have transposed and implemented the SEAD in line with its objectives and requirements, and have not encountered challenges in determining the scope of application of the Directive. The EU Court of Justice (CJEU) has delivered a comprehensive case-law relating to the SEAD, and thus facilitated its application. The CJEU has confirmed the broad interpretation of the terms and provisions of the Directive.6 For example: - ‘Plan and programme’ subject to a SEA (Article 2) The SEAD does not define the terms ‘plans and programmes’ but rather qualifies them. In the first judgment7 examining the scope of the SEAD, the CJEU clarified that the mere fact that plans and programmes are adopted in the form of a law does not exclude them from the scope of the Directive8. Further to this, plans and programmes that are required under national or regulatory provisions determining the competent authorities and the procedure, but adoption of which is not compulsory, may still be subject to the SEAD if they meet the relevant criteria set in the Directive.9 Where there is any doubt, the distinction between plans and programmes and other measures should be drawn by referring to the specific objective laid down in Article 1 of the SEAD, namely that plans and programmes which are likely to have significant effects on the environment are subject to an environmental assessment.10 As regards the definition of plans and programmes, nearly half of Member States have transposed Article 3(2) of the SEAD word for word. Most of them have adjusted the type or name of the sectoral planning to take specific national arrangements into account. 6 C-567/10, ECLI:EU:C:2012:159, p. 37, and C-473/14, ECLI:EU:C:2015:582, p. 50. 7 C-105/09 and C-110/09, ECLI:EU:C:2010:355. 8 Idem, p. 41. 9 C-567/10, p. 31. 10 C-41/11, ECLI:EU:C:2012:103, p. 40 and C-567/10, p. 30. 4 - ‘Setting the framework’ (Article 3(2)) Plans and programmes for which a SEA is required should set the framework for future development consent of projects listed in Annexes I and II to the EIA Directive. Almost all Member States have transposed the term ‘setting the framework’ word for word, often developing it in a legislative act or in guidance documents. CJEU case-law has confirmed that this term must reflect the objective of the SEAD taking into account the environmental effects of any decision that lays down requirements for the future development consent of projects.11 It can therefore be said that plans and programmes set a framework for decisions which influence any subsequent development consent of projects, in particular with regard to location, nature, size and operating conditions or allocating resources. - Screening Article 3(4) and (5) of the SEAD establishes the process of determining whether plans and programmes are likely to have significant environmental effects and thus require a SEA. Member States have to take into account the significance criteria set out in Annex II to the SEAD. Most Member States have transposed Annex II word for word and apply a case-bycase screening approach. However, the margin of discretion in screening certain plans and programmes is limited by the overall objective of the Directive12, namely to ensure a high level of environmental protection. 2.3 Scoping (Article 5(4)) The scope and level of detail of the information to be covered in the environmental report is referred to as ‘scoping’. Member States enjoy wide discretion in organising the scoping phase of a SEA, limited by the sole obligation to consult the authorities with specific environmental responsibilities. In some Member States the preparation of the scoping report is mandatory. The content and the level of detail of the information presented in the scoping report can vary between Member States, and some stipulate its content in national legislation. The public authorities in the different Member States have a different role in the scoping. The environmental authorities should, as a minimum requirement, be consulted in the scoping stage. However, in some Member States they also approve the scoping documentation. 2.4 Environmental report (Article 5 and Annex I) Annex I of the SEAD provides the minimum content of the environmental report. Member States should ensure that this report is of sufficient quality. Nearly half of Member States have extended the scope of Annex I in their national legislation. For example, some Member States require the environmental report to include an assessment of certain economic and social factors that may be relevant in implementing the plan. Other Member States explicitly require the results of the public consultations to be included in the environmental report. 11 C-105/09 and C-110/09, ECLI:EU:C:2010:120, p. 60 12 C-295/10, ECLI:EU:C:2011:608, p. 47. 5 Regarding the content of the non-technical summary of the report, almost all Member States have transposed the relevant provision of the Directive word for word. Member States have encountered two types of challenges in preparing the environmental report: i. the availability and quality of the data; ii. the technical knowledge and experience of the experts preparing the report and the authorities in charge of its quality review. - Baseline information Some Member States have transposed the requirements of Annex I(b) word for word; others have developed guidance documents to facilitate the gathering of baseline information. Nearly two thirds of Member States have reported that the relevance, availability and level of detail of the data to be collected pose a difficulty when gathering the baseline information, for example such related to climate change vulnerability assessments.13 Experience shows that the quality of baseline information is better for small-scale plans and programmes due to their location-specific character. - Reasonable alternatives (Article 5(1)) The SEAD does not define the term ‘reasonable alternatives’, nor does Member States’ transposing national legislation. Many Member States have prepared national guidance documents to make it easier to identify and select the reasonable alternatives in the SEA procedure. There is no common approach to define the types and the number of alternatives to be assessed. This depends on the objectives, the geographical scope and the content of each set of plans and programmes. However, the three most common categories of alternatives for Member States are: i. locational alternatives; ii. qualitative and quantitative alternatives (changing the scale or size of the ***intervention*** in the environment); iii. technical alternatives (related to the design of the future projects to be developed on a selected site). Member States always consider the ‘zero alternative’14 in the environmental report but the implementation approach varies. Some Member States take this as one of the ‘reasonable 13 The Commission services developed a guidance on integrating climate change and biodiversity into ***Strategic*** Environmental Assessment [   [*http://ec.europa.eu/environment/eia/pdf/SEA%20Guidance.pdf*](http://ec.europa.eu/environment/eia/pdf/SEA%20Guidance.pdf)]. 14 Annex I(b) of the SEAD states that the environmental report must include information about the likely evolution of the state of the environment without implementing the plan or programme. This is often called the ‘zero alternative’. 6 alternatives’, while others consider it a self-standing part of the environmental report, and not necessarily linked to the reasonable alternatives, but rather to the baseline information. To ensure compliance in implementing and applying the SEAD, the alternatives that are assessed have to be reasonable taking into account the objectives and the geographical scope of the plans and programmes before setting up their final content. As Member States have also noted, due to the specifics when preparing plans and programmes, identifying the reasonable alternatives could be a challenge. For example, it is challenging to identify and assess reasonable alternatives at the planning stage either because the plans and programmes strategically address a particular matter, or because of the general content of the plans and programmes. 2.5 Consultation (Article 6) Member States have considerable discretion in organising the process of informing and consulting the public and the relevant authorities in the different stages of the SEA procedure. They should ensure an early and effective consultation procedure takes place and it is also in line with the requirements of the Aarhus Convention.15 - Timeframes The SEAD does not specify the timeframes for the consultation procedure, but rather requires the consultation to be carried out in the ‘appropriate timeframes’ (Article 6(2)). Usually the timeframes for consulting the environmental authorities are the same as those for consulting the public. The CJEU16 has confirmed that national legislation can prescribe timeframes, provided they do not preclude the effective opportunities of the public and the authorities to express their opinion. - Making screening/scoping information available to the public All Member States inform the public about the outcomes of the screening procedure. This information is usually announced on the website dedicated to the specific plans and programmes, or the website of the environmental authorities, especially if they take the final decision. The screening decision is also published in newspapers, official journals, etc. In some Member States the public is involved at the scoping stage, through receiving information, and having the opportunity to provide written comments or participate in the scoping consultations. - Consulting the authorities concerned (Article 6(3)) All Member States consult the authorities on the environmental report and the draft plans and programmes. In some Member States the environmental authority plays the role of an intermediary between the authority developing the plans and programmes and all other authorities to be consulted in the SEA procedure. The environmental authority also ensures the quality of the environmental report. 15 UN/ECE Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters. 16 C-474/10, ECLI:EU:C:2011:681, p. 50. 7 The CJEU17 has clarified that it is necessary to ensure a functional separation within the authority responsible for the consultation on environmental matters. This is to ensure that an administrative entity internal to the authority has the real autonomy needed to give an objective opinion on the plan and programme subject to the SEA procedure. - Consulting the public on the environmental report In most Member States the environmental report is made public at the same time as the draft plans and programmes. This gives the public sufficient time to express an opinion and contribute to the development of the environmental report before the plans and programmes are formally adopted. The Member States usually publish an announcement about the public consultation on the internet. The announcement notes the title of the plan and programme, the responsible authorities, and the place where all documents related to the draft plans and programmes, including the environmental report and its non-technical summary, are available for public consultation. In some Member States the consultation requirements are more stringent than the Directive and include the organisation of a meeting or public hearing to consult the public. The public consultation is a key step in the procedure and aims to improve the transparency, efficiency and effectiveness of the planning process. In this way it facilitates and improves the overall perception and social acceptance of the plan and programme, before it is adopted and implemented. - Transboundary consultations (Article 7) All but two Member States have noted experience in carrying out transboundary SEA consultations, either as an affected party, or as a party of origin, or both. In most Member States, the environmental authorities are responsible for organising these consultations. Member States have reported that the main hindrances in the transboundary SEA consultation are the cost of translating documents, the quality of the translated documentation and the often short timeframes. 2.6 Monitoring significant environmental effects (Article 10) Monitoring allows the results of the environmental assessment to be compared with the outcomes from the implementation of plans and programmes, in particular the significant environmental effects. The SEAD does not prescribe the exact arrangements for monitoring the significant environmental effects, the frequency of the monitoring, its methodology or the bodies in charge of monitoring. Member States have noted that the monitoring depends on the plans and programmes, and that there are certain types of plans and programmes for which monitoring reports are regularly prepared. However, most Member States were not able to provide information about the frequency of the monitoring. Monitoring can be based on standard monitoring ***indicators***, sometimes set in the national legislation, or be on a case-by-case basis. For the SEAD, and where applicable, Member States tend to use the environmental monitoring 17 C-474/10, ECLI:EU:C:2011:681, p. 42. 8 arrangements set up in other Directives, such as the Water Framework Directive,18 the Habitats Directive,19 and the Industrial Emissions Directive.20 3. Relationship with other EU legislation and policy areas The SEAD has explicit links with the EIA Directive and the Habitats Directive. It is also closely linked to other Directives that prescribe the adoption of certain plans and programmes covered by the scope of the SEAD (such as the Nitrates, Waste, Noise, and Flood Risk Directives).21 To avoid duplication, Article 11 of the SEAD stipulates that the Member States may provide for coordinated and/or joint procedures where there is an obligation under both the SEAD and other EU legislation to assess the effects on the environment. 3.1 EIA Directive Article 11(2) provides that the ***strategic*** environmental assessment procedure must be performed without prejudice to any requirements under the EIA Directive, or any other EU legislation. CJEU case law22 has acknowledged that the environmental assessment carried out under the EIA Directive is without prejudice to the specific requirements of the SEAD and therefore cannot dispense with the obligation to carry out an environmental assessment under the SEAD if needed to comply with the environmental aspects specific to that Directive. Moreover, the CJEU has confirmed that the EIA and SEA procedures differ for a number of reasons. Therefore, it is necessary to comply with the requirements of both Directives concurrently.23 Practice shows that the boundaries between the two procedures are not always distinct and tend to overlap, in particular as regards plans, programmes or projects related to land use and/or spatial planning. This is because these kinds of plans, programmes or projects can show the characteristics both of plans and programmes and a project. Meanwhile, land use and/or spatial plans are the most frequent plans and programmes subjected to the SEA procedure. In such assessment procedures, it is important to ensure compliance with both the SEAD and the EIA Directive, especially where the Member States have opted for coordinated procedures. 18 OJ L 327, 22.12.2000, p. 1. 19 OJ L 206, 22.7.92, p. 7. 20 OJ L 334, 17.12.2010, p. 17. 21 OJ L 375, 31.12.1991, p. 1; OJ L 312, 22.11.2008; OJ L 189, 18.7.2002, p. 12; OJ L 288, 6.11.2007, p. 27. 22 C-295/10, p. 58-63. 23 Idem, paragraph 61-63. 9 The coordinated or joint procedures are subject to Member States’ discretion24 and only 10 Member States have opted for joint or coordinated procedures in their national legislation. 3.2 Habitats Directive Many Member States take the view that there are no risks in duplicating the appropriate assessment under Article 6(3) of the Habitats Directive with the SEA. This is because of the different scope of and interplay between the two procedures. The CJEU has clarified that the SEAD would apply on its own merits should the preconditions requiring an assessment under the Habitats Directive be met in respect to plans and programmes.25 4. Plans and programmes co-financed by the European Structural and Investment Funds (2014-2020) Article 3(9) of the SEAD provides that plans and programmes co-financed by the EU fall under the scope of the Directive. The Common Provisions Regulation26 and the fund-specific Regulations govern for the 2014-2020 programming period the five relevant European Structural and Investment Funds27 (ESIF). The SEAD was applied to most of the ESIF cofinanced programmes for 2014-2020, as they set up a framework for future consent of projects. The Common Provisions Regulation has improved the application of the SEAD in two ways. Firstly, under Article 55(4) of the Regulation ‘the evaluation must incorporate, where appropriate, the requirements for the ***Strategic*** Environmental Assessment’. The Commission has prepared guidance documents28 to facilitate the ex ante evaluation. The guidance documents provide that the SEA has to be carried out early in the preparation of plans and programmes and must be completed before they are adopted. Secondly, the Common Provisions Regulation introduced ex ante conditionalities as a new feature of the 2014-2020 programming period. The purpose of the ex ante conditionalities is to ensure that the necessary prerequisites for effective and efficient use of EU co-funds are in place and to ensure the effective application of the EIA and SEA Directives. The general ex ante conditionalities include arrangements that ensure the effective application of the SEAD. Few Member States had to amend their national legislation. Consequently, the regulatory framework related to environmental decision-making process has been clarified and the 24 Idem, paragraph 65. 25 C-177/11, EU:C:2012:378, p. 19-24. 26 OJ L 347, 20.12.2013, p. 320. 27 ESI funds include the ERDF, the CF, the ESF, the EAFRD, and the EMFF. 28 Guidance document on ex ante evaluation (ERDF, CF, ESF)[   [*http://ec.europa.eu/regional\_policy/sources/docoffic/2014/working/ex\_ante\_en.pdf*](http://ec.europa.eu/regional_policy/sources/docoffic/2014/working/ex_ante_en.pdf) ]; Guidelines for the ex-ante evaluation of 2014-2020 EMFF OPs [   [*http://ec.europa.eu/fisheries/sites/fisheries/files/guidelines-ex-ante-evaluation-2014-2020-emffops\_*](http://ec.europa.eu/fisheries/sites/fisheries/files/guidelines-ex-ante-evaluation-2014-2020-emffops_) en.pdf ]; Synthesis of the ex-ante evaluations of RDPs 2014-2020 [   [*http://ec.europa.eu/****agriculture****/sites/****agriculture****/files/evaluation/****rural****-developmentreports/*](http://ec.europa.eu/agriculture/sites/agriculture/files/evaluation/rural-developmentreports/) 2015/ex\_ante\_rdp\_synthesis\_2014\_2020/fulltext\_en.pdf]. 10 knowledge and skills of the authorities applying the SEAD has been strengthened. The Regulation also introduced a thematic ex ante conditionality for the transport sector, requiring comprehensive master plans and programmes for transport investment, which comply with the legal requirement of the SEAD. Almost all Member States have fulfilled the general ex ante conditionalities as regards the SEAD. Most Member States have noted that the general and multi-sectoral nature of the ESIF programmes has complicated the SEA procedure, which often had to be accelerated. Member States have pointed out that the information available on the likely significant effects of plans and programmes is rather general at the time of preparing and adopting their plans and programmes. This has been a particular obstacle when assessing the impacts of the crossborder programmes. Few Member States developed specific guidance documents for carrying out SEAs for the ESIF plans and programmes. Most Member States relied on the guidance provided by the Commission. 5. Effectiveness of the SEA Directive The effectiveness of implementing the SEAD can be assessed as a function of its potential to influence both the planning process and the final content of plans and programmes. All Member States have acknowledged that the SEA procedure has influenced the planning process at least to a certain degree, and that it improved the quality of plans and programmes. There is also a common and shared understanding among the Member States and practitioners that the procedure is more effective if there is the political will to effectively influence the planning process. This ensures that environmental considerations are fully integrated within the planning and decision-making process. Many Member States have noted that the SEA procedure is more likely to influence small scale and regional plans and programmes (e.g land use) rather than national plans and programmes for which the ***strategic*** decisions are often taken at political level and there is little margin for these to be reviewed after the SEA procedure. For example, most Member States have acknowledged that the proper consideration of the alternatives can influence the content of plans and programmes, but in practice the alternatives focus mainly on reducing or mitigating the negative impacts. However, such measures can also effectively ensure environmental protection. Many Member States have acknowledged the role of the public consultation in enhancing the transparency and credibility of the assessment. This is important because the results of the assessment have to be taken into account in the final decision when adopting the plans and programmes. However, after 10 years of implementing the SEAD, the Member States have noted that the extent to which the results of the SEA procedure are considered in the final decision of plans and programmes often depends on the decision-making specifics, and can vary from a committed reflection of the results of the assessment to a simple procedural boxticking requirement. 6. Conclusions In 2007-2014, Member States did not raise major implementation concerns. The CJEU has delivered case law clarifying the requirements of the SEAD. Member States have 11 strengthened the implementation of the Directive and gained more experience in applying it. Where necessary, Member States amended their national legislation to ensure compliance with the Directive. The degree to which the SEAD is implemented in the Member States depends on the different administrative and legal arrangements supporting its application. Some of the application challenges relate to different elements of the SEA procedure (such as the quality and availability of the information used in the environmental report). This is particularly relevant for plans and programmes that address a broad scope of issues (e.g national or sectoral). There are still uncertainties about some key concepts such as ‘reasonable alternatives’. While some of these issues could be resolved by means of guidance documents, the interplay between the EIA and SEA procedures appears to be a challenge, particularly for plans and programmes which have the characteristics of a project. All Member States should pursue their implementation efforts to ensure compliance with the SEAD. Where necessary, they should also take proactive initiatives, such as guidance documents, training, information sharing, and establishing environmental information databases. Based on this report, the Commission will consider in the upcoming evaluation how to increase the positive impacts of the SEAD and better demonstrate its EU added value, effectiveness and efficiency.

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[***Ethical issues in action-oriented research in Indonesia***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BNK-BF11-DY41-73BJ-00000-00&context=1516831)

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**Body**

**ABSTRACT**

**Background:**

Action-oriented research is one of the most frequent research types implemented to transform community health in Indonesia. Three researchers and 11 graduate students from a developed country in East Asia conducted a fieldwork program in a remote area in South Sulawesi Province. Although the project was completed, whether or not the international standards for human subject research were applied into that study remains unclear.

**Objectives:**

This study aimed to examine ethical issues raised from that case, analyze constraints to the problems, and recommend alternatives to protect vulnerable populations from being exploited by local/international researchers.

**Methods:**

A problem-solving approach was used in this study. It began with problem identification, evaluation of the action-oriented research goal, investigation of the constraints to the problem, and recommendation of some relevant alternatives to address the central issue.

**Ethical Consideration:**

The approval for conducting the action-oriented research that being investigated in this work was only obtained from the Head of local district.

**Results:**

Some ethical issues were found in this case. No special protection for this population, no informed consent was obtained from the participants, exposure to social and economic risks, no future benefits for the subjects, and conflict of interests. Lack of control from the local research ethics committee and lack of competence of local researchers on human subject research were considered as the constraints to the problems.

**Discussion:**

Creating an independent research ethics committee, providing research ethics training to the local researchers, obtaining written/video consents from underserved populations, and meeting local health needs were recommended alternatives to solve these problems.

**Conclusion:**

Indonesian government bodies should reform their international collaborative system on research involving human subjects. Exploitation may not occur if all participants as well as all local and national governing bodies understand the research ethics on human subjects and apply it into their practice.

**FULL TEXT**

**Introduction**

Action-oriented research is one of the most frequent types of research implemented in Indonesia by developed countries. For instance, in 2004, the International Labour Organization-International Program on Elimination of Child Labour (ILO-IPEC) executed an action-oriented research project in Indonesia to provide better understanding and information on the use of children in the production, sales, and distribution of illegal drugs. 1 In 2012, another participatory action research has also been undertaken by Samaan et al. 2 who used this type of research to introduce a combination of infrastructural and behavioral changes after the implementation of the guideline with 10 control measures to reduce transmission of A (H5N1) avian influenza virus developed by World Health Organization (WHO). Japan was also one of the developed countries that often conducts action-oriented research with the Indonesian population. One of the main reasons of this international collaboration is due to the historical relationships between the two countries.

Japan occupied Indonesia from 1942 to 1945 following 350 years of Dutch colonization. Japan has made commitments to the development of Indonesia since the cease of hostilities. 3 The first commitment was that Japan agreed to pay compensation to Indonesia whose territory was occupied by Japan and suffered damage by Japanese forces. This agreement was stated in the Treaty of Peace between Japan and the Republic of Indonesia in April 1958. 4 The second commitment was the establishment of the Japan’s Official Development Assistance that aimed at providing financial assistance to developing countries, including Indonesia, for socioeconomic development. 5

In this research collaboration, Japan acts as a sponsor country while Indonesia serves as a host country. As a sponsor country, Japan sent five senior researchers who were experts in participatory action research to supervise the action-oriented research conducted in Indonesia. Japan also covered all travel and per diem costs for all researchers and research assistants who were involved in this research. Through this research, all research assistants were hoped to get opportunity to learn how to conduct action-oriented research while also would assist the community to recognize their social, economic, health, educational, and environmental problems and thus the community could solve their problems with the resources that they had. 6 There are some ***indicators*** determining Japan as a developed/industrialized country and Indonesia as a developing country. 7 Economic status, which is indicated by total Gross Development Product (GDP); health system condition, which is indicated by infant mortality rate (IMR); and literacy rates are the primary ***indicators*** for this classification. 7 In terms of the economic status, in 2010, Japan has total GDP at 4.338 trillion dollars; while Indonesia only has total GDP at 1.033 trillion dollars. 7 Considering the health system circumstance, the IMR in Indonesia is 26 (deaths/1000 live births), whereas the IMR in Japan is only 3 (deaths/1000 live births). 7 Literacy rate in Indonesia is 92%, while Japan maintains a 99% rate. 7 All of these comparisons are shown in Figure 1. Therefore, Japan was a stronger negotiator when the agreement with the host country took place. The consequences were that the regency’s government was relying on them and therefore lack of control occurred from the host country or local government.

**Figure 1.**

Profile of sponsoring country and host country.

*Source*: FindTheData. 7

Despite this long-term collaboration, whether or not the Japanese investigators follow the international standard for research involving human subjects conducted in Indonesia remains unclear. In this article, the author will identify ethical issues raised in a case from the previous action-oriented research and will analyze the constraints to the problem. Relevant alternatives will also be discussed in this article. The analysis made in this article is designed to give a better understanding for local researchers and lecturers, who are always involved in the international research, concentrating on the importance of ethics in action-oriented research.

**Case**

Three Japanese researchers and 11 graduate students sponsored by a non-profit organization from Japan came to Makassar, Indonesia, to conduct a fieldwork program. Makassar is the capital city of South Sulawesi, which is one of the 33 provinces in Indonesia. The primary purpose of this research was to stimulate local action from researchers and the community, in which the researchers learned about the life of the community, including what economic, social, educational, health, and environmental problems faced by the community. Meanwhile, the community would know what problems mostly occurred in their community and therefore they could solve those problems. 6 The research was conducted in one of the remotest areas in South Sulawesi, called Lembanna hamlet. This hamlet is located 350 km from Makassar. This location was identified as a suitable site for undertaking this action research due to social, economic, educational, health, and environmental problems. 6

The total community of 776 people in the 150 households in Lembanna hamlet was studied. Eleven Japanese graduate students along with nine young professionals and students from Indonesia were selected as research assistants and worked together in small groups during this fieldwork program. Five groups were formed to collect data from water, ***agriculture***, health and education, economy, and coffee. All the research assistants were given 3-day-session training prior to the fieldwork program on how to gather data from the community. However, guidelines or lessons regarding basic ethical principles on research involving human subjects were not provided during the training.

For the ethical consideration, after the completion of the training, all research assistants and five senior researchers/facilitators went to the Lembanna hamlet and met the Head of the district to obtain a verbal approval to conduct research in one of his authority areas. This was the only approval obtained throughout the research program. The research assistants then started their data collection on the community using field observation, interview, and document survey methods; all important information was collected and recorded. Ironically, no informed consent was obtained from research subjects during data collection.

The results of the health investigation showed that 4 out of 33 babies were malnourished. The cost of medical-assisted childbirth was expensive, which resulted in some mothers giving births without the midwife. Thus, risks of maternal death were very high in this population. In addition to the healthcare access, some older patients complained about the accessibility of medical treatments in the Public Health Center (PHC). Although they were covered by government health insurance, they could not use the medical facilities because they were obliged to pay the administration fee of the PHC. This condition shows that free access to the healthcare system does not exist in the remote areas. Furthermore, generic drugs were often not available in the PHC. Therefore, people were imposed to buy patent drugs, which were very expensive, thereby driven to use traditional herbs. An ironic condition was that a mother complained she received expired generic drugs from the midwife. All of these findings were very crucial and needed to be solved. Nonetheless, these vital findings were only documented in the final report, translated into English and Japanese, and published by the Foundation for Advanced Studies on International Development (FASID) in Japan. Sadly, the subjects were only shown the general findings of this research through skits. 6 No future benefits were obtained by them. No sustainability of the action-oriented research was planned for this population. All research assistants received a copy of the final report, and this final report was not published in the peer-reviewed journal and thus no COPE Ethical Guidelines for Peer Reviewers were adhered. 6

**Ethical question**

On the basis of the above case, a question is framed for case analysis, “Is it ethical to conduct research on a population and therefore expose them to the risks, if they are unlikely to obtain future benefits?” A problem-solving approach is used in this article. It begins with identifying the ethical issues, evaluating the researcher’s goal, investigating the constraints to the problem, and determining some relevant alternatives to address the central issue.

**Ethical issues**

Some ethical issues related to the human subject research are found in the above case. First, no special protection was given to this population during the study. In fact, 32 of 134 households were illiterate or failed to complete Elementary school and did not have regular income. 6 Hence, subjects of this research are considered as vulnerable population because they are economically and educationally disadvantaged and therefore special protection for these subjects must be provided to prevent them from being exploited by the investigator. 8 Some special protections that should be applied were that researchers must protect the rights, privacy, and confidentiality of the subjects. 9 However, when conducting this research, all information collected from the community which were obtained without any informed consents were directly recorded and reported. On the basis of the research ethics guidelines, this research failed to provide special protection for the research subjects. 8

Second, no informed consent was obtained from the research subjects. The approval for conducting research was only obtained from the Head of Sinjai district. All researchers did not obtain informed consents from the participants, for example, when the researchers visited the houses of the participants, they just chatted with them and obtained only the verbal consent. No videos, audios, and signed consent were obtained. No basic respect was demonstrated by the researchers and the Head of Sinjai for the community. This behavior showed that Japan as the sponsoring country did not implement the international standards for research involving human subjects. They only followed the local culture and custom of the host country. Regarding this issue, in paragraph 22 of Declaration of Helsinki, it is mandatory to obtain informed consent from the research subjects. It specifically regulates that in any research on human beings, all protocols and risks/benefits entailed in the research must be explained to each potential subject. Following this procedure, written informed consent or non-written informed consent with a witness, must be obtained from each participant. 10 In accordance with the Declaration of Helsinki, it is clear that the aforementioned research was conducted in contravention of the international requirements for research involving human subjects.

Third, participants in the above case were exposed to risks. Levine 11 classifies the risks to which research subjects may be exposed into four categories: physical harm, psychological harm, social harm, and economic harm. The participants in the above case are more prone to social and economic harm than physical and psychological harm since data were obtained from the interaction with the individual, not from the ***intervention***. 8 In this case, some participants mentioned the illegal conduct of the midwife, and at the same time, the midwife knew which participants reported her issues. Health needs of the population were also found during the fieldwork, but no action was taken from the Japanese and Indonesian researchers. Thus, this conduct is not in accordance with the basic ethical principles for research on human beings ruled in the Belmont Report.

Fourth, no future benefits were obtained by the subjects from the study explained in the above case. After collecting data, no feedback/actions were given to the subjects, although the researchers found that there were health needs in that study population. Macklin 12 claims that research conducted by a sponsoring country should respond to the health needs found in the population of the host country. However, other authors stated that it is the responsibility of local and national researchers to meet the health needs of the population under the area of study. This is a central issue in this advice article.

The last ethical issue found in the above case is that of conflict of interests. It is clear that the research conducted with the vulnerable population benefited only research assistants from sponsoring and host countries, but not the subjects. Further analysis on this ethical issue will be explained in the following section.

**Research’s goal achievement**

The research was geared to future actions of a researcher or those of people in the area under study. The benefits of this fieldwork program were reported by the research assistants from both countries. They had improved their knowledge and built their basic skills for fieldwork (i.e. data collection). However, the benefits of the fieldwork program were not reported by the subjects. After the completion of the fieldwork program, there were no actions taken by either the local researcher or Japanese researchers to meet the health needs of the study participants. The research subjects provided full participation but they did not receive any benefits.

Furthermore, Halai 13 explains that in qualitative health research, researchers’ responsibilities to the participants are to ensure the confidentiality of subjects’ data, to avoid harm, to promote reciprocity, and to provide feedback of results. Furthermore, the action-oriented research aims at empowering actions taken by the subjects and consciousness raised from the community to solve their problems. 14 However, none of these responsibilities were done by the investigators in the above case.

**Constraints to the problems**

In solving the ethical issues above, constraints to the problems need to be analyzed first. From the above case, the first constraint is the low capacity of research ethics committees (RECs) in Indonesia to monitor the implementation of international research on human beings. No informed consent was obtained from the subjects, but from the Head of district. This circumstance shows that the REC in Indonesia did not function properly. This condition also happens in other developing countries. Krogstad et al. 15 describe that in sub-Saharan Africa the consent process is first presented to the community leader and then continued to the potential participants. The authors also explain that the consent process in developing countries differs from developed countries because there is a difference in autonomy to make a decision. In developed countries, consent is an individual decision-making, while in developing countries consent is a communal decision-making. The UK Parliamentary Office of Science and Technology 16 explains that although a universal standard requires researchers to obtain individual consent for research on human beings, some ethical guidelines suggest consent for research focuses on international development can be gained from local leaders or state authorities.

The second constraint is the knowledge of local researchers on research involving human. In the above case, local research assistants had inadequate ethics training. Therefore, they merely focused on the experience of working with foreign researchers and building their research skills, but failed to protect the human subjects. Hence, whether or not benefits would be sustained in the long term was not considered by the local research assistants during the fieldwork program. Macklin 12 states that lack of sufficient protections for human subjects of research in developing countries may cause exploitation on vulnerable population. Likewise, Lofman et al. 17 assert that exploitation may occur when investigators use research only for their academic achievement or treat participants as objects and overlook their needs.

The last constraint is the education level of research subjects. In general, people living in ***rural*** area have lower education than those living in urban area. In 2005, there were about 32 of 134 households categorized as poor in the Lembanna hamlet based on wealth ***indicators***. These people were illiterate or failed to complete Elementary school and did not have regular income. 6 These educationally and economically disadvantaged conditions diminished the capacity of the subjects to stipulate their rights.

**Relevant alternatives**

Some relevant alternatives are proposed in this article to address the problem constraints mentioned above and thereby attempt to solve these ethical issues. A formation of an independent REC for international collaboration in Indonesia is one of the alternatives to overcome the constraints. This committee would play an important role during the implementation of international research in Indonesia. The members of this committee should be trained on research ethics and have experience on research involving human subjects. They cannot be hired as investigators or consultants for any international research that would be controlled by this committee. This strategy is important to avoid bias and conflicts of interest. 15

Research ethics training must be offered to all researchers in Indonesia, regardless of their research experience. Better understanding on research involving human subjects would lead the researchers to planning and conducting their research more carefully. Lecturers in the university must emphasize to their students that ethics in public health research is as important as in clinical research. Young people who graduated from the Bachelor degree and those who are studying in the Graduate program are usually the most hired research assistants for international research conducted in the ***rural*** area because they are keen to travel.

Provision of informed consent in written and video forms is another alternative for protecting human subjects in international research conducted in remote areas. Consent from literate subjects must be obtained in written forms, while consent from illiterate subjects can be gained through verbal forms but audio or video-taped. This informed consent process will protect the subjects and the researchers from being exploited. 14

Meeting local needs (i.e. health needs) is also one of the methods to ensure that research is not exploitative and is beneficial for the subjects. 15,18 As mentioned in the Belmont Report, justice must be upheld in human subject research. Burdens and benefits should be fairly distributed to each person according to individual effort or to each person according to societal contribution. This report also suggests research should give subsequent benefits to the involved participants. 8 Thus, before the research is commenced, Indonesian government must ensure that the proposed international research/collaboration will give future benefits to local community or study population.

**Conclusion**

Action-oriented research is a type of study requested more frequently than any other types of research in Indonesia by foreign countries, mainly developed countries. However, the implementation of this research on human beings in the presented case tended to be exploitative. It was mainly due to the lack of control from the local REC and the lack of competence of local researchers on human subject research. Creating an independent REC, providing research ethics training to the local researchers, obtaining written or video consents from the participants in the remote areas, and meeting local health needs are relevant alternatives that should be considered to address the ethical issues that are often raised in these international collaborations.

Indonesian government bodies should reform their international collaborative system on research involving human subjects. Exploitation may not occur if all participants as well as all local and national governing bodies understand the research ethics on human subjects and apply it into their practice.

**Notes**

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[***Is gender an impediment to firm performance? Evidence from small firms in Mauritius***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5YJX-P231-DY4C-F0M4-00000-00&context=1516831)

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**ABSTRACT**

Purpose

The purpose of this paper is to test the female entrepreneurship underperformance hypothesis using a sample of small firms. The paper also attempts to explain why gender matters in entrepreneurship. The paper specifically investigates the differences in turnover of female and male entrepreneurs and also examines the reasons behind this differential ***performance*** by accounting for the gender factor.

Design/methodology/approach

This study uses survey data on 256 male and female entrepreneurs from the Island of Mauritius. The survey allows for the examination of the ***performance*** differential across male- and female-owned small businesses. The paper uses ordinary least squares and logistic estimation techniques to investigate the underperformance of female entrepreneurs. Sensitivity analyses are also undertaken to ensure robustness of the results.

Findings

The study finds evidence that gender matters when comparing the ***performance*** of male- and female-owned businesses. The results reveal that access to finance is an important hindrance to the ***performance*** of these small firms. Furthermore, the study also reveals that ethnicity plays a major role in influencing firm ***performance***.

Originality/value

This paper is among the few studies, which investigates the female entrepreneurship underperformance hypothesis in a small developing state context and also attempts to explain the reasons why gender matters. The paper is an important empirical contribution to the literature in an African context.

**Introduction**

Entrepreneurs are important development actors. They create jobs for themselves, for others and also contribute to the development of the overall economy (Foelster, 2000). Inclusive growth implies that both male-owned and female-owned firms should have the same opportunities and differences observed in ***performance*** and should potentially be explained by factors other than the gender aspect. A brief glance at the literature surrounding gender and entrepreneurship shows that early studies equated gender with sex (Henry *et al.*, 2016). However, post-structuralist studies use a more apposite definition of the word “gender”, namely “social practices and representations associated with femininity or masculinity” (Ahl, 2007, p. 544, quoted in Henry *et al.*, 2016). It is this definition of gender that this study adopts. Furthermore, this study uses the synthetic definition of entrepreneurship as proposed by Hébert and Link (1989) whereby the entrepreneur is someone who “specializes in taking responsibility for and making judgmental decisions that affect the location of the firm, and the use of goods, resources or institutions”.

The literature has recognised that there are indeed differences in male and female entrepreneurship and these differences can be in terms of the characteristics of the entrepreneurs themselves or in terms of the characteristics and nature of their businesses (Popescu, 2012; Verheul *et al.*, 2006). In terms of the entrepreneurs’ characteristics, age, education, sex, family background and size, amongst others become relevant. Carter and Shaw (2006) find that overall research on entrepreneurship is now increasingly moving towards the investigation as to how gender matters. As proposed by Hughes *et al.* (2012), the existence of a gap between men and women in entrepreneurship has long been acknowledged, and it is attracting increasing academic attention. However, as pointed out by McKay (2001), there is a dearth of research on women entrepreneurs. Green and Cohen (1995) point out that it is important that women are not treated as a monolithic category. Bruni and Perrotta (2014) acknowledge that applying a gender perspective to the study of entrepreneurship is vital as it leads to the discovery of gender assumptions and the understanding that studying women entrepreneurs is distinct from the study of the relationship between gender and entrepreneurship.

Mungai and Ogot (2012) find that a consistent empirical result emerging in the literature on female entrepreneurship is that gender “matters”. Several researchers have found that women exhibit a consistently lower likelihood of becoming an entrepreneur compared to their male counterparts. For instance, Hindle *et al.* (2009) find that the proportion of any country’s adult female population participating in entrepreneurship is lower than that of men. Several people with a certain set of psychological traits may have a tendency to exhibit a certain degree of entrepreneurship (Okhomina, 2010). Ekanem (2015) explores the differences in the entrepreneurial experiences of male and female entrepreneurs and finds that there are indeed differences in the learning experiences between male and female entrepreneurs. Diaz-Garcia and Brush (2012) state that so far comparisons of ***performance*** in male and female businesses have shown contradictory results and that the majority of studies have drawn evidence from Anglo-Saxon countries, highlighting the gap that still exists in the literature. Regarding the characteristics of their businesses, differences can be in terms of ***performance*** (turnover, profitability), size of the firm, access to finance, employment levels and innovation.

Mauritius is an upper middle-income economy currently struggling to come out of the middle-income trap. The country is poor in natural resources, unlike many other African economies. The country only has its human capital as its main resource. Given that the public sector and many private sector firms are no longer able to absorb labour by creating jobs, the government has been promoting the entrepreneurship culture. Many small businesses, comprising mainly owner-managed firms and employing less than five employees have been set up in the past decade. A number of studies have looked at issues surrounding small businesses in Mauritius (Kasseeah and Tandrayen-Ragoobur, 2014; Kasseeah *et al.*, 2013). However, there are very few studies in Mauritius that have explicitly tried to investigate the differences between male and female entrepreneurship. This is an important gap in the literature especially in the wake of the Sustainable Development Goals, which place much emphasis on gender equality. Hence, this study aims at addressing this gap. The study also adds to the literature on the African subcontinent and points out that wearing a gender lens allows researchers to further explore gender dimensions of policies, which are imposed and implemented in a gender-blind fashion.

As proposed by Marlow and McAdam (2013), women-owned businesses are frequently described as underperforming, in that, the majority of their businesses remain small and marginal. There are several ways of capturing this underperformance. These include factors such as sales, profitability, turnover, market share and so on. In this study, the best proxy available to measure “***performance***” is the turnover of these small firms. The objective of the study is threefold. First, the study aims to investigate the difference in ***performance*** of male- and female-owned businesses; second, the paper assesses the reasons why gender differentials in ***performance*** exist by considering access to finance amongst other factors; and third, the study considers whether ethnicity and culture impact on firm ***performance***. The methodology in this paper rests on survey data collected on 256 male and female entrepreneurs in different sectors of economic activity in Mauritius. The paper is organised as follows: the next section briefly reviews the literature to understand the differences in business ***performance*** of male and female entrepreneurs. The study then provides a country background while the subsequent section deals with the sampling strategy. Next, the study presents the descriptive statistics. The findings are discussed and the paper finally concludes with relevant policy implications.

**Literature review**

There are several conditions that influence an entrepreneurship ecosystem, where the ecosystem represents the conditions that shape the context in which entrepreneurship takes place. GEM assesses the following entrepreneurship conditions: financing, government policies, taxes and bureaucracy, government programmes, school-level entrepreneurship education and training, post-school entrepreneurship education and training, R&D transfer, access to commercial and professional infrastructure, internal market dynamics, internal market burdens, access to physical and services infrastructure, and social and cultural norms. The fact that there are differences in male and female entrepreneurship could also be attributed to the fact that this ecosystem is perceived and experienced differently by male and female entrepreneurs.

The GEM 2007 study indicates that, over the previous decade, women have had lower average score on the total entrepreneurial activity index as compared to men across all countries in the world. The GEM 2014 report indicates that women are likely to invest 90 cents of every dollar they earn on their family’s education, health and nutrition compared to men who would spend only 40 cents. For this reason, female employment should be encouraged and especially female entrepreneurship. The latest GEM 2015 report points out that women are less likely than men to engage in entrepreneurship but when they do, they are likely to do so out of necessity.

**Female underperformance**

Existing empirical research on the firm-level ***performance*** of female-owned businesses provides mixed and contradictory evidence on the question whether these businesses perform differently from male-owned businesses as shown in the Table I. However, these studies highlight the dearth of studies on gender and entrepreneurship from the African subcontinent and specifically emerging economies.

The literature on gender and entrepreneurship is quite broad and the findings are diverse. One branch of literature finds that female entrepreneurs tend to underperform (Brush, 1992; Rosa *et al.*, 1996). Earlier analysis of ***performance*** measures suggests that relative to male-owned firms, female-owned firms employ fewer staff, have lower sales turnover, experience lower growth in turnover and employment and are less likely to service export markets (Fischer, 1992; Du Rietz and Henrekson, 2000). Firms headed by females are indeed likely to be small (Brush, 1992; Du Rietz and Henrekson, 2000). Hence, women are still seen merely as an untapped, and yet not fully adequate, resource (Pettersson *et al.*, 2017).

Sabarwal *et al.* (2009) study the ***performance*** gaps between male- and female-owned formal enterprises in Eastern Europe and Central Asia, Latin America and Sub-Saharan Africa and find that female-owned enterprises are significantly smaller than their male-owned counterparts. Women-owned businesses are less profitable than their male counterparts (Robb and Wolken, 2002). Klapper and Parker (2010) also find that women entrepreneurs tend to underperform relative to their male counterparts. Khalife and Chalouhi (2013) find that for Lebanese male-owned and female-owned businesses, gender has an impact on financial ***performance***. The finding is that female owners generate lower revenues than male-owned firms.

Existing studies show that relative to male-owned businesses, female-owned businesses are smaller as measured by employment and turnover. Brush *et al.* (2006) find that in the USA, average revenue of female-owned firms is significantly less than that of male-owned businesses. Coleman (2007) and Chagnati and Parasuraman (1996) also report similar results for the USA. Mungai and Ogot (2012) find that there are no significant gender differences on community perception of entrepreneurship. However, other studies find that female-owned firms do not underperform in terms of employment creation (Fischer *et al.*, 1993; Chagnati and Parasuraman, 1996).

Ruane and Sutherland (2007) study firm ***performance*** of Irish firms and examine whether or not firms owned by females have different characteristics and ***performance*** measures relative to firms owned by males. The findings suggest that there are significant differences in the ***performance*** characteristics of jointly owned firms relative to male-owned firms than there are between single female proprietor firms, compared to single male proprietor firms. Brush *et al.* (2004) examine whether women access different business and social networks than men and find that female firms have lower survival rates, profits, employment and sales than male firms. Fairlie and Robb (2009) find that owner’s education level is an important determinant of business outcomes and marriage is associated with business success, as spouses may provide financial assistance, paid or unpaid labour for the business, health insurance coverage and other types of assistance useful in the running of the business. These studies indicate that “gender” is an important factor affecting firm ***performance***. However, none of these studies are from an emerging economy context and they do not explore the reasons as to why gender “matters”.

Carter *et al.* (2001) find that gender is an important, but not the sole explanatory factor, in differences observed between female- and male-owned firms. For instance, Marlow and McAdam (2013) propose that gendered socio-economic positioning makes it such that women-owned businesses demonstrate constrained ***performance*** and not necessarily an underperformance. Similarly, Blackburn *et al.* (2013) find that conventional factors within this area often include the age of business owners, education levels and gender (Westhead and Wright, 2000; Dobbs and Hamilton, 2007). In their study, Blackburn *et al.* (2013) rely on a telephone survey of 360 firms undertaken in 2002 that selected businesses randomly within stratification criteria based on employment size, age of the business and sector. Interviews were held with the owner-manager, managing director or CEO of the enterprise. The results obtained suggest that size and age of enterprise dominate ***performance*** and are more important than strategy and the entrepreneurial characteristics of the owner.

Studies on gender and entrepreneurship have also been from a cross-country perspective. Specifically, Punnett *et al.* (2007) examine the levels of career and life satisfaction among successful women in nine countries including the USA, Argentina, Brazil, Canada, Chile, Mexico, Barbados, Jamaica and SVG. The results show no differences in satisfaction based on occupation or country and most demographic variables investigated did not have a significant relationship with satisfaction.

It is important to study female entrepreneurship throughout the lifecycle of businesses as pointed out by McClelland *et al.* (2005), who find that the literature on female entrepreneurs is usually limited to only start-up businesses. Their paper investigates the heterogeneous experiences of women entrepreneurs in six countries including Canada, Singapore, South Africa, Australia, New Zealand and Ireland. The results indicate that there are common elements across female entrepreneurs in these six countries. For instance, an “overriding” financial barrier was evident throughout the six countries at both the start-up and growth phases. Milanov *et al.* (2015) reevaluate the female underperformance hypothesis by challenging the assumption that female-owned ventures are more likely to fail. They draw on the extant literature and feminist theories and put forth the idea that female entrepreneurs are actually more likely than males to exit voluntarily.

However, Robb and Watson (2012) argue that much of prior research on female entrepreneurship underperformance is based on inappropriate ***performance*** measures and/or does not adequately control for important demographic differences mostly due to data limitations. Zolin *et al.* (2013), based on an analysis of 209 female-owned and 263 male-owned young Australian firms, confirm the findings of Robb and Watson (2012). They propose that the issue of female underperformance is a myth; which if left unchallenged could result in inappropriate policy decisions. Furthermore, this myth can discourage women from setting up new businesses. Hence, the main research question that arises is whether there is indeed a difference in firm ***performance*** when the gender dimension is considered and whether male entrepreneurs significantly outperform female entrepreneurs when taking into account the characteristics of a small developing island state such as Mauritius.

**Structural constraints**

As proposed by Baker and Welter (2017), most people involved in entrepreneurship at any time, are doing so under the conditions of constraint, adversity and myriad forms of structural inequality. Hence, some studies have tried to explain the female entrepreneurship underperformance by looking at the possible factors underlying it. For instance, access to finance is one of the main hurdles faced by women entrepreneurs. It is apparent that raising capital is more difficult for women than men (Brush, 1992; Carter and Cannon, 1992; Carter, 2000). Women’s lack of assets due to gender discriminatory property and inheritance practices in many African countries, which limits women’s access to land and control over resources, especially land. As a result, Carter and Shaw (2006) find that it is crucial to study how firm ***performance*** and size vary with the gender of the owner given that firm ***performance*** and size and various aspects of access to finance are known to be correlated.

As pointed out by Carter *et al.* (2001), a large number of studies have suggested that it is both more difficult for women to raise start-up and growth finance and that women encounter credibility problems when dealing with bankers. For instance, Dolan and Sorby (2003) finds that female-headed households in Uganda are not able to finance their start-up capital and this limits the size, type and location of income-generating activities. This suggests that women face major constraints in accessing start-up (and growth) finance and are perceived by banks as being less “credible” than men (Carter *et al.*, 2001). However, Klapper and Parker (2010) indicate that cross-country studies have shown that women are less likely to get financing from a formal institution or are charged a higher interest rate than men (Muravyev *et al.*, 2009; Beck, Demirguc-Kunt, Laeven, and Levine *et al.*, 2008).

Access to finance is a key issue for the small business sector and is particularly acute for women because they lack capital for start-up and lack collateral for loans amongst others. A number of studies have shown that access to finance is a key obstacle to small business growth, again mostly focussing on advanced economies. Beck, Demirgüç-Kunt and Maksimovic (2008) show that compared to larger firms, small- and medium-sized firms find accessing finance more difficult than larger firms. Regarding the gender dimension and access to finance, there have been a number of attempts to investigate access to finance for women (Carter and Rosa, 1998; Greene *et al.*, 2001). Carter and Rosa (1998) find that there are: “quantifiable gender differences in certain areas of business financing, although intra-sectoral similarities demonstrate that gender is only one of a number of variables that affect the financing process”. The influences of other variables, such as education, are also important factors. Recently, Kairiza *et al.* (2017), using a large sample of micro, small and medium enterprises data in Zimbabwe, investigate the gender gap prevalence in financial inclusion and find a statistically weak evidence of female financial exclusion in the formal financial sector after controlling for background characteristics and the industry of the entrepreneurs.

Access to finance is obviously a stumbling block for many women entrepreneurs. For example, McKechnie *et al.* (1998) compare the banking relationships of male and female entrepreneurs and propose that lenders discriminate unconsciously amongst male and female entrepreneurs. Similarly, Coleman (2007) finds that women have a lower propensity to access external financing mainly because women entrepreneurs face higher interest rates than men. Additionally, Roper *et al.* (2006) find that for start-ups there are negative, gender-specific effects and the finance effect would tend to reduce female start-up rates. However, there are other studies that do not find women entrepreneurs as facing differential barriers in access to finance. Barriers to women’s access to finance might drive their concentration in low-capital-intensive industries, which require less funding but also have less potential for growth and development. Since women do not hold entitlements to land and other physical assets, one possible barrier is that women have less physical and “reputational” collateral than men.

There are other factors that contribute to access to finance and the strength of constraints. Kalleberg and Leicht (1991) suggest that females may choose to enter those industries that do not require large capital investments reflecting capital market constraints. In their study, Holquist and Sundin (1990) find that gender differences mainly manifest themselves in the selection of industry in a comprehensive study of female-owned businesses in Sweden. In another study, Reavley *et al.* (2005) investigate successful women entrepreneurs in Canada and Ireland and find that all the firms, which were exporting, seemed to have the personality traits and behaviours found in the entrepreneurship literature. However, the authors also propose that these firms were successful simply because they were already involved in international trade. Hence, the second important research question that this study addresses is whether access to finance is a significant barrier in the ***performance*** of female entrepreneurs investigated from the perspective of a bank-based emerging country.

**Culture, gender and entrepreneurship**

Aldrich and Cliff (2003) find that where entrepreneurship has been studied in relation to gender, the focus has been on the influence of social contexts such as networks, family and household embeddedness of women entrepreneurs or the institutional environment for women’s entrepreneurship. As proposed by Al-Dajani and Marlow (2013), entrepreneurship is not only an individually focussed undertaking but also a socio-politically situated activity. Many studies continue to ascribe household- and family-related roles to women thus implicitly making entrepreneurship as a less desirable career choice for women. In patriarchal societies, customary conventions play a major role in determining the socio-economic status and involvement of women in entrepreneurship. Women put forth their primary role of being the homemaker and bringing up their children and this might affect their agency.

Hence, a study of gender and entrepreneurship cannot abstract from the impact of culture on entrepreneurship. Culture can be defined as the mix of norms, values and beliefs that are shared by a particular community. Early socialisation practices emphasise the primary role of women as mothers and wives, influencing girls’ total expectations for future participation in the labour force and the choice of career paths. Given the importance that women play in reproduction, norms may have developed that recommend women should not engage in occupations that absorb a lot of time and energy.

The African culture is mainly seen as a barrier to development because it perpetuates culturally sanctioned biases against women and provides excuses for men (Mungai and Ogot, 2012). Richardson *et al.* (2004) study women entrepreneurs in Africa and find that many women entrepreneurs feel that they lack the abilities, skills and expertise in certain business matters. Many women, particularly those in ***rural*** areas, lack basic information and skills. Hence, there is a need to identify training areas specific to women possibly in the field of marketing, business promotion, bookkeeping, product development, information and communication technology and e-commerce and regulatory processes. However, Brush *et al.* (2004) note that female entrepreneurs have access to different business and investment social networks than male entrepreneurs. Cliff (1998) suggests that female owners may have different goals for business growth and tolerances for taking risks associated with business growth. Along the same lines, Diaz-Garcia and Brush (2012) find that ***performance*** differences are due to women’s assessment of ***performance*** and/or their socio-economic positioning.

De Groot (2001) shows that low education and business skills are quite important barriers in many parts of the world, including Africa, where women have multiple roles in the family and are taken up in childminding. This view is supported by Dejene (2007), who claims that women have higher labour burden. Women, therefore, remain quite conservative in their risk-taking and undertake limited re-investment of their profits as a large chuck is devoted to the expenses of the family. Women entrepreneurs also seem to lack the appropriate marketing skills. They face limited markets of their products due to the lack of mobility, lack of information and lack of technology. Lituchy *et al.* (2006) study 11 cases of women Aboriginal entrepreneurs in Quebec, Canada to show that especially for Aboriginal people, small business entrepreneurship is intimately linked to community and cultural survival where women assume major roles and are active participants and leaders in politics and in business and satisfying community needs.

Female owners tend to have an inability to “let go” and in their attempt to do everything themselves, their business operations may be suffering. To illustrate this, Mukhtar (2002) finds that managerial attitudes of female owner-managers can be qualified as “inflexible”. Mukhtar (2002) also observes that the education background and the age of the owner-manager may impact on his/her managerial skills. However, she finds no statistically significant relationship between managerial skills and the gender of the owner-manager or his/her management characteristics. More importantly, there may be considerable variance in the salience of work-family balance among male or female business owners, which might affect firm ***performance*** (Jennings and McDougald, 2007). However, there remains a strong gender division of labour within the home and for women entrepreneurs this might create a work-family conflict. The study also confirms that the gender of the owner-manager is significantly related to their decision making.

Additionally, entrepreneurship entails more risk taking than working as an employee for a fixed salary; hence more risk-tolerant people should self-select into entrepreneurship (Kihlstrom and Laffont, 1979). Women differ from men in a number of traits that are relevant for occupational choice. If women are viewed as being more risk averse, then this would explain to a large part, why more men than women self-select into entrepreneurship. Women also seem to be less comfortable with the competitive pressure in entrepreneurship and are thus less willing than men to become entrepreneurs (Babcock and Laschever, 2003).

Reavley and Lituchy (2008) conduct a qualitative six-country analysis, and present self-reported definitions and determinants of success among female entrepreneurs in Canada, Ireland, Czech Republic, Poland and Japan. The women became entrepreneurs because they felt rejected: the “push factor”. While some women defined success in terms of profits, many used non-financial factors such as number of clients, number of employees, years in business, or because “my peers say so”. The most important success factor underlying their responses was networking while business education and training came second.

Davidson *et al.* (2010) further examine both the issue of gender and ethnicity when studying the problems encountered by firms in accessing social support. Using data on female entrepreneurs in North West England, their findings reveal that more than 50 per cent had experienced discriminations because of either their gender or ethnic background or both. Hence, the third research question that this study addresses is whether ethnicity is a significant contributor to the underperformance of female entrepreneurs.

**Research questions**

The overview of the literature provided earlier, points to several grey areas which beg for further research. For instance, first, there is still no clear conclusion regarding whether female-owned businesses tend to systematically underperform compared to their male counterparts. Second, most of the evidence, so far, has focussed on developed and advanced economies where gendered data are easily available. There is a lack of evidence on this issue for low-income and middle-income or emerging economies, the more so, when considering a small island economy, vulnerable to external shocks, as is the case of Mauritius.

Hence, the research questions addressed in this study are as follows: *RQ1.* Is there is a difference in firm ***performance*** when the gender dimension is considered? Do male entrepreneurs significantly outperform female entrepreneurs?*RQ2.* Is access to finance a significant barrier in the ***performance*** of female entrepreneurs?*RQ3.* Is ethnicity a significant contributor to the underperformance of female entrepreneurs?

It has often been pointed out that access to finance is an overarching problem for entrepreneurs but still more acute for women due to several reasons. Access to finance is a key issue for small businesses and is particularly problematic for women because they lack capital for start-up and lack collateral for loans amongst others. Hence, when examining the female underperformance hypothesis, it is important to account for access to finance, an element which various studies have hardly taken into account (Ahl, 2006).

Though it is evidently still the case that in many countries, household- and family-related roles are ascribed to women, there is no clear correlation that has been shown between these roles and the impact on firm ***performance***. Hence, a study of gender and entrepreneurship needs to also account for the impact of culture on entrepreneurship. Thus, the gendered role of women, as is culturally acceptable in specific contexts is considered by accounting for ethnicity.

**Situational analysis**

Mauritius is classified as an upper middle-income country and has also been called a “growth miracle” by many researchers (Subramanian and Roy, 2003; Frankel, 2016). At the time of independence in 1968, the country was mainly a monocrop economy. The country thus embarked on a diversification strategy with the setting up of the export processing zone, which saw the setting up of textile and clothing firms. This was highly supported by trade preferences to US and European markets under the Multi-Fibre Agreement (MFA). The small island economy also diversified into tourism, financial services, seafood hub and the information and communication technology sectors.

Though Mauritius has been viewed as a fast growing economy in the African region, it is now stagnating in a middle-income trap. After 20 years of remarkable ***performance***, the economy has fallen off a high growth plateau of about 6 per cent towards a 2-3 per cent range. The creation of new jobs is too slow to prevent the rise in female and youth unemployment. Domestic investment has fallen, the external accounts have shifted from surplus into deficit and the country has sporadically lost reserves. Sugar and manufacturing which were the main growth generating sectors have been fading out.

However, Mauritius is aiming to achieve a second economic miracle and thereby aspiring to move into the league of high income economies. To do so, the government aims to reduce the rising unemployment problem (female and youth unemployment), alleviate poverty and eradicate absolute poverty, open up the country via new air access policies; and promote sustainable development and innovation (Vision 2030, Government of Mauritius). Hence the core areas on which the development of Mauritius is to be centred rest on revamping the manufacturing base to promote high-end manufacturing; developing the ocean industry; revisiting the services sector and finally positioning Mauritius as the regional platform for trade, investment and services to do business in Africa. Mauritius has high hopes on the continent and its Africa strategy is to promote development in the region. In fact, within its economic vision, the SME sector is eyed as a potential growth engine. The inclusive development of small- and medium-sized enterprises is a key priority for the country and this study of the ***performance*** of male- and female-owned firms is timely.

A sector of promising growth and employment creation is the SME sector. Over the last decade, emphasis has been placed on the promotion of a business culture in Mauritius. The development of the SME sector over the years has been driven by policies, strategies and institutions supportive of enterprise creation and development. The government recognised the potential contribution of SMEs to the economy and their need for adequate support as early as 1976. The main policy ***interventions*** in this regard have essentially focussed on the creation of an enabling business environment, providing financial and fiscal incentives, improving access to finance, promoting an entrepreneurship culture and skills development, improving market access, providing appropriate infrastructure, facilitating technology upgrading and strengthening the institutional framework.

As such, reforms of the business regulatory framework in Mauritius, most notably through the Business Facilitation Act (2006), have contributed to establish a business-friendly environment[[6]](#footnote-7)1. In spite of these efforts, one major hurdle remains financial constraint that affects all entrepreneurs indiscriminately but more so women (Kasseeah *et al.*, 2013; Kasseeah and Tandrayen-Ragoobur, 2014). This finding is also likely to hold when young entrepreneurs are considered. Facilitating finance for small businesses has been one of the main policies to accelerate both gender equity and financial inclusion in Mauritius. Data from the World Bank’s Global Financial Inclusion database highlight the existence of significant gender gaps in ownership of accounts and usage of savings and credit products (Demirguc-Kunt *et al.*, 2013). Globally, 47 per cent of women own an account compared to 55 per cent of men, and the gender gap is more pronounced in developing countries. In Mauritius, as per the GlobalFindex 2014 the percentage of women who have borrowed from a financial institution was 13.2 compared to 21.3 for male and 8.0 for the youth. These findings already indicate that access to finance and financial inclusiveness differ both between men and women and the average individual and the youth. In addition, the critical areas of growth constraints faced by women entrepreneurs in Mauritius are the doing business environment and the investment climate (business registration, getting permits and licences). Further, many women entrepreneurs in Mauritius are involved in low-value-added activities such as the production and sale of food, handicrafts and souvenirs (Kasseeah and Tandrayen-Ragoobur, 2016).

Mauritius is an interesting case study given its specificities. First, Mauritius is a melting pot of people of different ethnic origins and different cultures. People of Indian, Chinese and African origins all settled in the island at different points in time. The main religious groups comprise the Hindus, Muslims, Roman Catholics and Christians (Xygalatas, 2013). The society has so far been primarily a patriarchal one but since its independence in 1968, major progress has been achieved in terms of women empowerment. However, in spite of having equal access to education, health care and social protection, women still lag behind when their economic empowerment is considered (Blin, 2008; Bunwaree, 1999; Gokulsing and Tandrayen-Ragoobur, 2014). The careers of women often take the backseat when their reproductive roles are taken into account. Women mostly spend their time taking care of housework, cooking and looking after their children, which reduce the time they have available for other productive activities. In this case, women entrepreneurs may find it worthwhile to maintain their businesses at a size that meets their “minimum vital”. They may not wish to grow their businesses beyond a certain size that will impede on their family life. Hence, given this, it is interesting to study the ***performance*** differential of entrepreneurs in Mauritius based on gender.

**Data source, sampling and estimation strategy**

In Mauritius, a small enterprise has an annual turnover of less than Rs10 million (approximately $285,000) and a medium enterprise has an annual turnover not exceeding Rs50 million (approximately $1,430,000). Due to unavailability of official data on small enterprises and gender in Mauritius, a survey of 256 small-sized firms in both ***rural*** and urban areas of the island and in varied sectors of the economy was undertaken.

The survey involves the use of a tailor-made questionnaire, with a pre-formulated set of questions. The questionnaire was translated in “Creole[[7]](#footnote-8)2” to facilitate communication. The list of small-sized entrepreneurs was provided by the Small and Medium Enterprises Development Authority (SMEDA) and the National Women Entrepreneurs Council (NWEC). The first criterion used for selecting the different entrepreneurs was the size of their business. The study focusses only on small business with an annual turnover of less than Rs10 million. They are the most vulnerable entrepreneurs who face specific problems and have a higher probability of failure compared to the medium and larger sized enterprises. The second criterion was gender. One necessary condition was that both men and women entrepreneurs are well represented in the sample. Then, the region where they operate was the third criterion used to ensure a fair distribution across both ***rural*** and urban areas. The fourth element considered was their sector of activity, to capture a diverse number of activities carried out by small entrepreneurs in Mauritius.

The entrepreneurs were then contacted via phone for an appointment. In many instances, women entrepreneurs were interviewed at the NWEC. Others were interviewed during fairs organised either by SMEDA or NWEC or Enterprise Mauritius which is another support institution that promotes export activities of Mauritian enterprises. Questionnaires were also filled in via mails, on telephone but also through one-to-one interviews. Varied techniques were used to capture as many respondents as possible. The interview lasted for around 40-45 minutes with each respondent.

The survey instrument incorporates different but inter-related information. The first part of the questionnaire gathers information on the profile of the respondent/entrepreneur. Thus specific questions were asked, related to the demographic characteristics such as gender, age, ethnic group, occupation, marital status, family size, number of children, education level and location. The second part covers the business characteristics and includes questions on firm age, sector of activity, business structure, number of skilled and unskilled workers, level of turnover and profits, loan(s) contracted, location of business and exports of the firm. The last part of the questionnaire relates to the reasons for setting up a small business, the facilities provided or received from support institutions, the obstacles encountered in the setting up or in operating the small or medium sized business. The list of variables is presented in Table AI.

The stratified sample is obtained by independently selecting a separate simple random sample from each population stratum. To determine the sample size, three criteria need to be specified, namely the level of confidence, the level of precision and the degree of variability in the attributes being measured (Miaoulis and Michener, 1976). The resulting sample size is demonstrated in the following equation. n 0 = Z 2 p q / e 2 = ( 1.65 ) 2 ( 0.5 ) ( 0.5 ) / ( 0.05 ) 2 = 272.25 , where maximum variability assumed *p*=0.5, the targeted level of significance is 90 per cent and the level of precision is 5 per cent. Since the population is small then the sample size can be reduced slightly. This is because a given sample size provides proportionately more information for a small population than for a large population. The sample size (*n*0) can be adjusted as: n = n 0 1 + ( n 0 - 1 ) N = 272.25 1 + ( 272.25 - 1 ) 4 , 668 = 257 where *N* is the population size. In fact, the sample covers 256 small businesses which is representative of the population. It proved very time consuming and costly to survey the different small businesses across various parts of the island and as such this study postulates that a survey of 256 small enterprises is representative of the existing number of such businesses in Mauritius.

**Descriptive statistics**

From the survey, it is observed that women represent 57 per cent of our sample while 43 per cent are men. Entrepreneurship is reported to be highest in the age category 41-50 for male entrepreneurs and 31-40 for female entrepreneurs. However, it is to be noted that the number of women entrepreneurs is also high in the age group of 41-50. This can be attributed to the dismantling of the MFA and the EU sugar reforms, where the closures of factories have caused a number of women to lose their jobs since they formed the largest part of the labour force in the EPZ sector (Tandrayen-Ragoobur and Ayrga, 2012). In addition, with the EU sugar reforms, which led to a fall of 36 per cent in the sugar prices, the government and the private sector adopted the Multi Annual Adaptation Strategy to restructure the sugar sector. Many sugar factories closed down and workers, mostly women lost their jobs. Female unemployment has exceeded male unemployment over the past years and the gender gap in the labour market has increased considerably, since then. Hence, women have turned to the setting up of their small and medium enterprises to earn a living (Table II).

It can also be noted that almost 85 per cent of female entrepreneurs are married compared to around 83 per cent of male. In addition, most of them have a family size of three to four members. In fact, female entrepreneurs tend to have more children. Further, 47 per cent of the respondents have completed school certificate (SC) and 32.4 per cent have completed primary schooling (the percentage is higher for female entrepreneurs compared to males at both education levels).

The survey further captures the mean firm age across male and female-owned businesses. Male entrepreneurs have been in business for an average of 14.4 years relative to 8.1 years for female entrepreneurs. It was also noted that only around 6.9 per cent of businesses owned by women have more than 20 years of existence while the corresponding percentage is more than twice as much for male-owned firms (18.9 per cent). For most women entrepreneurs, the firm age is below five years (45.5 per cent) while that of men entrepreneurs is between 5 and 15 years. This is in line with other studies, namely Brush and Hisrich (1991) and Watson (2001). In fact, in Mauritius, it has been observed that 70 per cent of start-ups failed (*Defi Quotidien*, 2016), implying a very high failure rate in that sector.

Around 48 per cent of firms have an annual turnover of less than Rs50,000 and the percentage is more pronounced among female owned enterprises. Most female entrepreneurs have a turnover of less than Rs50,000[3] (70 per cent) while a largest share (32 per cent) of the male business owners have a turnover between Rs50,000 and Rs100,000. This gives an indication of their relatively low ***performance*** level. This may be explained by the fact that female-owned businesses are still young and new in the market. Further, they are small in size in terms of number of workers employed and are located in sectors which are highly competitive. Entrepreneurs were also asked as to whether they had contracted a loan or not and overall 39 per cent of them have taken a loan with a higher percentage (47.8 per cent) for male relative to female (32.4 per cent).

As for industry characteristics, most of the entrepreneurs are engaged in manufacturing activities. More men are located in manufacturing sectors (37 per cent relative to 27 per cent for female). Female entrepreneurs tend to locate in what Kalleberg and Leicht (1991) refer to as the “female ghetto”. This “ghetto” is located in retail sales and other activities with meagre returns and long hours. In fact, in the survey, female owners outnumber their male counterparts in the arts and crafts sector. Such activities are highly labour intensive and represent an ideal avenue for “recycling” the laid-off women back into the labour market. Due to their low educational and skills level, women entrepreneurs have opted for those activities, which are similar to their previous jobs in the textile sector (Kasseeah and Tandrayen-Ragoobur, 2016).

The study also explores the different obstacles as currently faced or perceived by entrepreneurs from a gendered perspective. Access to finance remains the major obstacle for women entrepreneurs as it can be seen from Table III. The summary statistics indicate that 59 per cent of women surveyed compared to 38 per cent of male entrepreneurs find access to finance a major obstacle for the business. The table also reports frequencies for corruption, business licensing practices and competitors.

**Estimation methodology**

The methodology adopted to estimate the ***performance*** differential between male and female entrepreneurs is measured by taking into account the individual characteristics of the entrepreneurs, socio-economic factors, firm and industry characteristics.

For both sexes, the following equation is expressed as follows:(1) T j = α + ∑ j = 1 J β j X j + ∑ k = 1 K ψ k Y k + ∑ l = 1 L δ l Z l + ε j

Equation (1) is a linear probability model used to measure the ***performance*** differential across small entrepreneurs. The dependent variable *T*j is a dichotomous variable. The dummy variable takes the value of 1 if annual turnover of the firm exceeds Rs 500,000 (approximately USD13,900) and 0, otherwise.

The linear probability model (Equation (1)) is initially estimated using the ordinary least square (OLS) method. The simplest estimation is that it is a linear function of the covariates and the model estimated by OLS. However, the problem with this model is that there is no guarantee that the predicted values will be in the correct range unless complex restrictions are imposed on the coefficients. Thus, the probability is transformed to remove the range restrictions, and model the transformation as a linear function of the covariates. The logistic regression is thus applied to overcome the limitations of OLS regression in handling dichotomous outcomes. The ***performance*** variable is then split into different categories and the logistic technique is applied. Equation (1) is then estimated by thus using the logit estimation technique.

The independent variables are first: *X* which is the vector of the individual characteristics of the entrepreneurs. The ***indicators*** used are log of age, gender, marital status and level of education. Gender is captured via a dummy variable as to whether the entrepreneur is male or female; marital status accounts for whether the respondent is married or single. Education is represented by completed primary education, completed SC, completed higher school certificate (HSC), has a diploma and the benchmark dummy is having completed a university degree. Second, firm’s characteristics (*Y*) represent a dummy denoting the business location as to whether the firm is located in the urban area or ***rural*** part of the island. The industry dummies (*Z*) are manufacturing, arts and crafts, ***agricultural*** activities, food distribution activities and services. Operating in the services sector is the benchmark dummy. In addition, *α* is the intercept; *ψ, β* and *δ* are the parameters to be estimated and *ε*i is an error term.

**Findings**

Table IV shows the regression results. Column (1) of Table IV shows the results using the OLS method, while Column (2) shows the results for the logistic regression. The first research question pertaining to whether gender matters in firm ***performance*** is addressed. The results indicate that gender matters in explaining ***performance*** of small enterprises in Mauritius. There is in fact a positive relationship between firm ***performance*** as measured by turnover and the gender variable, indicating that compared to female-owned firms, male-owned firms have better firm ***performance*** that is higher levels of annual turnover.

The results indicate that male entrepreneurs tend to perform better than their female counterparts, with a positive and significant coefficient of the order of 0.54 and provide support for the first research question. Further, lower education level is linked with lower likelihood of high annual turnover. The education dummies are seen in relation to the benchmark category of having a university degree, which explains the negative coefficient. This is explained by the fact that entrepreneurs who have lower education levels (that is primary education, SC, HSC and diploma) relative to tertiary education are likely to have lower annual turnover (that is below or equal to Rs500,000). In addition, the variables capturing firm characteristics have all the expected signs and are statistically significant. Firms located in urban areas and which have been operating for long have relatively higher annual turnover. Access to main facilities in the urban regions and experience of the market, have positive influences on business turnover. The results obtained are consistent across both estimation techniques.

To further confirm the gender effect on the ***performance*** of small businesses in Mauritius, the robustness of the coefficient is tested via the sensitivity analysis by augmenting the logistic regression with additional variables, namely the ethnic group of the owner, whether the owner has contracted a loan or not, whether the owner has invested in technology or not and the type of business (family business or partnership). The other two hypotheses regarding access to finance and the cultural dimensions are also accounted for. The results are shown in Table V.

The gender variable remains positive and highly significant across all augmented regressions. The coefficient also remains stable in the range of 0.59 to 0.64, across the different regression specifications. Regarding whether access to finance affects firm ***performance***, the loans contracted by women entrepreneurs are taken into account. Given that only a small percentage of entrepreneurs have contracted loans, the result is a statistically insignificant coefficient. As for the third research hypothesis, the results indicate that ethnicity is important when considering firm ***performance***. Firm owners from the Muslim and Chinese communities tend to have higher firm ***performance*** compared to the Christian community (benchmark dummy). Firms from the Hindu community also do well. The culture dimension could explain this, given that people from the Chinese and Muslim community settled on the island mainly as traders. Furthermore, business networking among the Chinese and Muslim businesses may be stronger and therefore more beneficial in terms of business ***performance***.

The augmented regression captures for other firm characteristics, such as investment in new technology and different types of firm ownership (business set up by both spouses/partners/family members). The results obtained indicate that firms with recent technologies have higher turnover relative to those who have not updated their production technique. In fact, innovation and technology are directly linked to improved business ***performance***. In addition, family businesses, essentially those enterprises set up by both spouses, perform much better in terms of annual turnover. Businesses with a partnership structure also do well, relative to sole traders. In this respect, the need to find the reasons explaining the low ***performance*** of female-owned enterprises relative to their male counterparts is very important, which this study has attempted.

**Discussion**

The outcome of the first research question regarding whether male-owned enterprises outperform female-owned businesses, confirms that male-owned businesses perform better in terms of annual turnover. Similar results have been observed by Sabarwal *et al.* (2009) for developing countries. In their analysis, sales revenue was lower for female entrepreneurs relative to male businesses. Other individual variables affecting ***performance*** are marital status and education levels while age of the owner and family size are found to be statistically insignificant.

The results obtained indicate that married entrepreneurs are more likely to have their own venture than being in full-time employment. In fact, the business ventures which are jointly owned by husband and wife have higher turnover compared to non-married entrepreneurs. The positive relationship between the probability of being married and higher annual turnover shows that factors such as time flexibility to cope with family responsibilities often encouraged both men and women to start their own business (Fielden and Davidson, 2005). Further, spouses may provide financial assistance and other types of assistance useful in the running of the business (Fairlie and Robb, 2009). However, as per the World, Business and the Law report (World Bank, 2016), marriage actually discourages female entrepreneurship, as with marriage the benefits of the venture goes more usually to men than to the family or the women. However, in Mauritius, compared to many countries, woman can engage in many legal and business transactions in the same way a man does. In fact, the marital status of the woman does not make a difference in terms of business activities that can be carried out. Married and unmarried men and women are able do things in the same way for instance, when, registering for a business, signing a contract and opening up a bank account, amongst others (World Bank, 2016).

Nonetheless, women face greater difficulties to run their business than their male counterparts in terms of finance, additional responsibilities, lack of business knowledge and also their risk-averse behaviour (Tandrayen-Ragoobur and Kasseeah, 2012). Women tend to be concentrated in a few sectors like food products ranging from pickle making, ice-cream, pastry and snacks among others where they compete amongst themselves. This is similar to previous studies on women entrepreneurs where the small enterprise of the female owner is just an extension of her previous activity where she was the employee or in activities which she has some prior knowledge (Ayres-Williams and Brotherton, 1999; Bailyn, 1989; Biggart, 1989; Brodie and Stanworth, 1998). The Mauritian women entrepreneurs tend to focus mainly on familiar activities and transfer into the same sectors of business ownership from the mainstream labour market sector. Competition among women entrepreneurs, themselves, have a negative impact on their ***performance*** and it becomes difficult for them to secure a constant demand or market share unless they innovate or invest in new production techniques.

The link between access to finance and firm ***performance*** pertains to the second research question that this study analyses. For instance, Kwong *et al.* (2012) find that a greater proportion of women in the UK are solely constrained by financial barriers compared to their male counterparts. This is also in line with other studies in the African region. Access to finance is important and is particularly acute for women because they lack capital for start-up and lack collateral for loans amongst others. For instance, Carter and Rosa (1998) find that there are “quantifiable gender differences in certain areas of business financing, although intra-sectoral similarities demonstrate that gender is only one of a number of variables that affect the financing process”. Further, as proposed by Davidson *et al.* (2005), there is a need to redesign appropriate “mainstream” business support and financial services that cater especially to women entrepreneurs. Unfortunately, this study does not find significant effect of access to finance on firm ***performance***.

Third, the study also investigates if ethnicity and culture affect firm ***performance***. The results reveal that ethnicity plays an important part in explaining the business ***performance*** of small businesses in Mauritius. It is noted that those business owners of Chinese and Muslim origins perform well relative to the benchmark ethnic group (Christian). In fact, business culture has long been a traditional survival income-generating activity for the Chinese community in Mauritius. Shinnar *et al.* (2012) specified that social and cultural values have an important influence on motivational backgrounds of entrepreneurial intention and business ***performance***. This is the case of Mauritius, where the Chinese community has a long business tradition. Gradually, the Muslim community has seen that business ventures provide a means of decent living standard. In essence, they have started to set up small businesses in different sectors of the economy. The cultural dimension is indeed well anchored in the Mauritian society as small businesses tend to operate in food services where Chinese and Muslim food products are very much in demand by the local community.

**Conclusion**

Across the world today, the contribution of small businesses is viewed in terms of wider economic and social goals such as growth, productivity, innovation, competition and foreign exchange generation, price stability, regional development, social and economic equality and poverty alleviation. Since independence, Mauritius has pursued a consistent policy to encourage the creation and promotion of small and medium enterprises. The origins of small businesses in Mauritius can be traced back to the 1960s when Mauritius was witnessing the beginning of a timid industrialisation process with an import-substitution strategy with the main objective of supplying the local market and giving certain autonomy to the country. Recently, the government has implemented various measures for the small business sector, namely fiscal incentives, such that, registered small businesses are exempted from the payment of corporate income tax and exempted from the submission of financial statements and annual returns to the registrar of companies for the first eight years.

It is observed from the survey of 256 entrepreneurs that gender matters when the ***performance*** of small enterprises is considered, hence, directly addressing the first and main research question. The findings reveal that male businesses tend to fare better compared to female enterprises in terms of annual turnover. Additionally, access to finance poses major obstacles to enterprise development for women. In Mauritius, several business facilitation entities provide support and assistance to potential and existing women entrepreneurs. In order to promote economic empowerment of women through small businesses, women entrepreneurs benefit from information dissemination and sensitisation programmes; counselling, international linkage development (trade fairs and workshops), training, marketing and local fairs among others.

However, in spite of all these measures, as shown in our study, women entrepreneurs in Mauritius tend to underperform. This emphasises the need for the implementation of gender-specific policies. Hence, “one-size-fits-all” policies are no longer applicable since these policies are not helping women entrepreneurs, in particular. The approach to counselling, providing business advice and training women entrepreneurs must inherently take into account the differences in personality, risk appetite, education, household conditions and career path, which women entrepreneurs choose for themselves and also their socially and culturally ascribed roles as considered by the third research question of this study. Education plays a major role and must not only be limited to women entrepreneurs themselves, but there is a need to educate the whole family so that women entrepreneurs can reach their full potential. There is a need to take into account not only the specificities of women entrepreneurs, but also consider the cultural environment in which they operate so that gender is no longer an impediment to firm ***performance***.

The main contribution of this paper is that it not only demonstrates that gender matters in firm ***performance***, but it also attempts to explain why gender matters. However, there are obviously limitations to this research. It would be interesting to have a larger sample of firms to obtain more insightful results. This study confirms the female underperformance hypothesis but an area of further research will be to investigate the issues behind the different causes of the female underperformance by adopting a more qualitative approach. Another interesting study will be to conduct a comparative study with other similar country settings to examine the wider applicability of the results.

**Appendix**

Table AI

**Table I**  An overview of studies on the ***performance*** of women entrepreneurs

|  | **Studies** |
| --- | --- |
| Evidence that female entrepreneurs underperform | Watson and Robinson (2003), Devine (1994), Honig (1996, 1998), Bosma *et al.* (2004), Carter and Marlow (2007), Allen *et al.* (2007) |
| Evidence that female entrepreneurs do not underperform | Kalleberg and Leicht (1991), Westhead and Cowling (1995), Hisrich and Brush (1987), Aronson (1991), Carter *et al.* (1997), Fasci and Valdez (1998), Robb and Watson (2012) |

**Sources:** Klapper and Parker (2010), Zolin *et al.* (2013), Marlow and McAdam (2013)

**Table II**  Descriptive statistics

| **Variables** | **Total (number)** | **Total (%)** | **Male (%)** | **Female (%)** |
| --- | --- | --- | --- | --- |
| *Individual characteristics* | | | | |
| Mean age | 256 | na | 45.8 | 41.6 |
| *Marital status* | | | | |
| Married | 215 | 84.0 | 82.9 | 84.8 |
| Not married | 41 | 16.0 | 17.1 | 15.2 |
| *Family size* | | | | |
| 1-2 | 19 | 7.4 | 9.9 | 5.5 |
| 3-4 | 158 | 61.7 | 63.0 | 60.7 |
| 5-6 | 74 | 28.9 | 25.2 | 31.7 |
| &gt;6 | 16 | 1.9 | 1.8 | 2.0 |
| *Number of children* | | | | |
| 0 | 41 | 16.0 | 18.9 | 13.8 |
| 1-2 | 153 | 59.8 | 62.2 | 57.9 |
| 3-4 | 60 | 23.4 | 18.9 | 26.9 |
| &gt;4 | 2 | 0.8 | 0.0 | 1.4 |
| *Education* | | | | |
| Primary | 83 | 32.4 | 31.5 | 33.1 |
| School certificate | 120 | 46.9 | 43.2 | 49.7 |
| Higher school certificate | 26 | 10.2 | 13.5 | 7.6 |
| Diploma | 14 | 5.5 | 4.5 | 6.2 |
| Degrees | 13 | 5.1 | 7.2 | 3.5 |
| *Firm characteristics* | | | | |
| Firm age (mean) | 256 | 10.8 | 14.4 | 8.1 |
| *Location of business* | | | | |
| Urban | 105 | 41.0 | 46.0 | 37.2 |
| *Turnover* | | | | |
| Turnover&lt;Rs50,000 | 122 | 47.7 | 18.0 | 70.3 |
| Turnover Rs50,001-100,000 | 60 | 23.4 | 32.4 | 16.5 |
| Turnover Rs100,001-500,000 | 40 | 15.6 | 21.6 | 11.0 |
| Turnover Rs500,001-1 million | 20 | 7.8 | 17.1 | 0.7 |
| Turnover&gt;Rs1,000,001 | 14 | 5.5 | 11.0 | 1.4 |
| *Loan contracted* | | | | |
| Has a loan? | 100 | 39.1 | 47.8 | 32.4 |
| *Sector of activity* | | | | |
| Food distribution | 59 | 23.1 | 20.7 | 24.8 |
| Arts and crafts | 60 | 23.4 | 18.9 | 26.9 |
| Manufacturing | 82 | 32.0 | 37.8 | 27.8 |
| ***Agriculture*** | 28 | 10.9 | 10.8 | 11.0 |
| Services | 27 | 10.6 | 11.7 | 9.7 |

**Source:** Authors’ computation

**Table III**  Obstacles encountered by male and female small businesses in Mauritius

| ***Obstacles*** | **Total** | **%** | **Male (%)** | **Female (%)** |
| --- | --- | --- | --- | --- |
| *Access to finance* | | | | |
| 1 | 19 | 7.42 | 12.61 | 3.45 |
| 2 | 58 | 22.66 | 27.03 | 19.31 |
| 3 | 51 | 19.92 | 22.52 | 17.93 |
| 4 | 74 | 28.91 | 27.03 | 30.34 |
| 5 | 54 | 21.09 | 10.81 | 28.97 |
| *Corruption* | | | | |
| 1 | 188 | 73.44 | 73.87 | 73.10 |
| 2 | 23 | 8.98 | 4.5 | 12.41 |
| 3 | 25 | 9.77 | 12.61 | 7.59 |
| 4 | 12 | 4.69 | 5.41 | 4.14 |
| 5 | 8 | 3.13 | 3.6 | 2.76 |
| *Business licensing* | | | | |
| 1 | 150 | 58.59 | 62.16 | 55.86 |
| 2 | 41 | 16.02 | 10.81 | 20.00 |
| 3 | 47 | 18.36 | 24.32 | 13.79 |
| 4 | 16 | 6.25 | 2.7 | 8.97 |
| 5 | 2 | 0.78 | 0.0 | 1.38 |
| *Competitors* | | | | |
| 1 | 74 | 28.91 | 23.42 | 33.10 |
| 2 | 30 | 11.72 | 11.71 | 11.72 |
| 3 | 52 | 20.31 | 27.93 | 14.48 |
| 4 | 54 | 21.09 | 18.92 | 22.76 |
| 5 | 46 | 17.97 | 18.02 | 17.93 |

**Notes:** The scales are 1 to 5 showing the extent to which small businesses are affected by these obstacles. “1=very low” to “5=very high” **Source:** Authors’ computation

**Table IV**  Regression analysis on business ***performance*** and gender

|  | **(1) OLS** | **(2) Logit** |
| --- | --- | --- |
| *Independent variables* | | |
| Gender | 0.421 (7.09)\*\*\* | 0.540 (7.69)\*\*\* |
| Ln age | -0.038 (0.30) | -0.028 (0.12) |
| Family size | 0.016 (0.80) | 0.033 (1.04) |
| Married | 0.171 (2.35)\*\* | 0.267 (2.42)\*\* |
| Primary | -0.488 (4.97)\*\*\* | -0.649 (7.51)\*\*\* |
| School certificate | -0.364 (3.90)\*\*\* | -0.584 (4.52)\*\*\* |
| Higher school certificate | -0.190 (1.60) | -0.324 (1.90)\*\*\* |
| Diploma | -0.356 (2.59)\*\* | -0.516 (6.11)\*\*\* |
| Business location | 0.100 (1.96)\* | 0.164 (1.95)\* |
| Ln Firm age | 0.113 (3.27)\*\*\* | 0.202 (3.09)\*\*\* |
| Manufacturing activity | -0.173 (2.26)\*\* | -0.318 (2.82)\*\*\* |
| Arts and crafts | -0.148 (2.09)\*\* | -0.238 (2.17)\*\* |
| ***Agricultural*** activity | -0.197 (1.75)\* | -0.321 (2.08)\*\* |
| Food distribution | 0.112 (1.31) | 0.165 (1.29) |
| Constant | 0.463 (1.04) | ? |
| *R*2 | 0.430 | 0.56 |
| *n* | 256 | 256 |

**Notes:** Dependent variable (*T*j). Dummy variable with value of 1 if annual turnover of the firm exceeds Rs 500,000 (approximately USD13,900) and 0, otherwise. \*,\*\*,\*\*\*Significant at 1, 5 and 10 per cent levels, respectively **Source:** Authors’ computation

**Table V**  Sensitivity analysis on business ***performance*** and gender

|  | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** |
| --- | --- | --- | --- | --- | --- |
| *Independent variables* | | | | | |
| Gender | 0.594 (9.12)\*\*\* | 0.611 (9.82)\*\*\* | 0.612 (9.42)\*\*\* | 0.639 (9.68)\*\*\* | 0.63 (9.24)\*\*\* |
| Ln age | 0.285 (0.96) | 0.233 (0.80) | 0.316 (1.05) | 0.330 (1.00) | 0.336 (0.89) |
| Family size | 0.053 (1.65)\* | 0.039 (1.12) | 0.033 (0.94) | 0.038 (0.91) | 0.025 (0.50) |
| Married | 0.196 (1.67)\* | 0.218 (1.78)\* | 0.144 (1.04) | 0.202 (1.49) | 0.166 (1.11) |
| Primary | -0.752 (8.24)\*\*\* | -0.765 (8.36)\*\*\* | -0.759 (7.76)\*\*\* | -0.797 (8.74)\*\*\* | -0.852 (11.93)\*\*\* |
| School certificate | -0.637 (4.63)\*\*\* | -0.642 (4.44)\*\*\* | -0.685 (4.69)\*\*\* | -0.733 (5.44)\*\*\* | -0.833 (8.36)\*\*\* |
| Higher school certificate | -0.433 (2.72)\*\*\* | -0.447 (2.80)\*\*\* | -0.456 (2.83)\*\*\* | -0.496 (3.50)\*\*\* | -0.581 (5.39)\*\*\* |
| Diploma | -0.593 (9.51)\*\*\* | -0.591 (9.37)\*\*\* | -0.604 (10.32)\*\*\* | -0.614 (10.57)\*\*\* | -0.653 (11.85)\*\*\* |
| Business location | 0.161 (1.74)\* | 0.140 (1.51) | 0.147 (1.58) | 0.165 (1.71)\* | 0.126 (1.05) |
| Ln firm age | 0.157 (2.00)\*\* | 0.178 (2.37)\*\* | 0.149 (1.92)\* | 0.151 (1.85)\* | 0.196 (2.16)\*\* |
| Manufacturing activity | -0.352 (2.37)\*\* | -0.410 (2.43)\*\* | -0.360 (2.07)\*\* | -0.470 (3.20)\*\*\* | -0.360 (1.88)\* |
| Arts and crafts | -0.231 (1.51) | -0.297 (1.76)\* | -0.267 (1.56) | -0.289 (1.54) | -0.298 (1.56) |
| ***Agricultural*** activity | -0.404 (2.57)\*\*\* | -0.428 (2.89)\*\*\* | -0.371 (2.00)\*\* | -0.470 (3.20)\*\*\* | -0.482 (3.29)\*\*\* |
| Food services | 0.079 (0.45) | 0.050 (0.26) | 0.149 (0.74) | 0.145 (0.70) | 0.134 (0.60) |
| Chinese | 0.418 (6.12)\*\*\* | 0.408 (5.51)\*\*\* | 0.411 (5.66)\*\*\* | 0.443 (6.77)\*\*\* | 0.424 (6.77)\*\*\* |
| Muslim | 0.445 (5.56)\*\*\* | 0.440 (5.36)\*\*\* | 0.480 (6.43)\*\*\* | 0.498 (6.72)\*\*\* | 0.496 (6.81)\*\*\* |
| Hindu | 0.144 (1.18) | 0.118 (0.99) | 0.150 (1.21) | 0.183 (1.52) | 0.216 (1.77)\* |
| Contracted a loan | ? | -0.161 (1.45) | -0.155 (1.39) | -0.202 (1.70)\* | -0.137 (1.04) |
| Invested in new technology | ? | ? | 0.250 (2.37)\*\* | 0.285 (2.54)\*\* | 0.292 (2.44)\*\* |
| Family business | ? | ? | ? | 0.049 (0.36) | ? |
| Family business (by heritage) | ? | ? | ? | ? | -0.237 (1.13) |
| Family business (by marriage) | ? | ? | ? | ? | 0.188 (1.76)\* |
| Family business (others) | ? | ? | ? | ? | 0.421 (7.49)\*\*\* |
| Partnership | ? | ? | ? | 0.377 (4.38)\*\*\* | 0.342 (3.42)\*\*\* |
| Predicted effects | 0.56 | 0.56 | 0.56 | 0.56 | 0.58 |
| Number of observations | 256 | 256 | 256 | 256 | 256 |

**Notes:** Dependent variable (*T*j). Dummy variable with value of 1 if annual turnover of the firm exceeds Rs500,000 (approximately USD13,900) and 0, otherwise. \*,\*\*,\*\*\*Significant at 1, 5 and 10 per cent levels, respectively **Source:** Authors’ computation

**Table AI**  Variable definition

| **Variable name** | **Definition** |
| --- | --- |
| Sex | 1 if male, zero otherwise |
| Age | Continuous variable |
| Marital status | 1 if married, zero otherwise |
| Family size | Continuous variable |
| Region | 9 dummy variables: 9 different districts |
| Ethnic | 5 dummy variables: Christian, Chinese, Hindu, Muslim, others |
| Education | 6 dummy variables: primary, school certificate, Higher school certificate, diploma, degree, masters |
| Business location | 1 if urban, zero otherwise |
| Ownership Structure | 6 dummy variables: sole trader, partnership, private company, public company, family business, others |
| Firm?s age | Continuous variable |
| Sector of activity | 6 dummy variables: Manufacturing, Services, arts and crafts, ***agriculture***, jewellery, food & distribution |
| Annual turnover | 6 dummy variables: ranging from ?&lt;50,000? to ?&gt;2 million? |
| Loan | ?Have you taken a loan for your business?? 1 if answer ?yes? to the question and zero otherwise |
| New technology | ?Have you invested in new technology?? 1 if ?yes?, zero otherwise |

**Source:** Authors’ compilation

3USD1=Rs36.00 approximately (as at April 2017).

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**Body**

Brussels: Public Register European Parliament has issued the following document:

Briefing How the EU budget is spent June 2017 EPRS | European Parliamentary Research Service Authors: Magdalena Sapała and Jean Weissenberger Members' Research Service PE 607.254 EN European Maritime and Fisheries Fund In a nutshell The €6 396.6 million European Maritime and Fisheries Fund (EMFF) is the smallest of the European Structural and Investment Funds for the 2014-2020 period, but it is the major financial tool supporting the EU common fisheries policy (CFP). Slightly less than half of the Fund is dedicated to promoting sustainable fisheries and to fostering sustainable aquaculture. Another significant share contributes to proper implementation of the CFP, particularly for data collection and science-based needs, and control and enforcement of rules. A small part of the EMFF is also aimed at supporting an integrated maritime policy (IMP) for the EU. EU Multiannual Financial Framework (MFF) heading and policy area Heading 2 – Sustainable Growth: Natural resources 2014-20 financial envelope (in current prices and as % of total MFF)1 Commitments: €6 396.6 million (0.59 %) 2016 budget (in current prices and as % of total EU budget)2 Commitments: €891.36 million (0.57 %) Payments: €431.85 million (0.32 %) 2017 budget (in current prices and as % of total EU budget) Commitments: €911.74 million (0.58 %) Payments: €577.38 million (0.43 %) Methods of implementation Shared management (European Commission and Member States): €5 749 million Direct management (European Commission): €648 million In this briefing:  EU role in fisheries and maritime affairs: legal basis  EMFF objectives and financing priorities  Financial allocation  Assessment of the EMFF  Other EU programmes and action in the same field EPRS European Maritime and Fisheries Fund Members' Research Service Page 2 of 10 EU role in fisheries and maritime affairs: legal basis The Treaties provide that the Union must define and implement a common ***agriculture*** and fisheries policy.

***Agriculture*** and fisheries are dealt with therein under the same heading and objectives (Title III TFEU). Fisheries products are included as part of the definition of ***agriculture*** products and references to ***agriculture*** shall be understood as also referring to fisheries, having regard to the specific characteristics of this sector. The Treaties provide the Union with exclusive competence concerning 'the conservation of marine biological resources under the common fisheries policy (CFP)', while other fisheries areas fall under shared competence (Articles 3 and 4 TFEU). The first Community rules on a common market organisation (CMO) in the fisheries sector, as well as a structural policy for fisheries, appeared in the 1970's. The CFP not only covers fishing activities at sea, but also aquaculture (the farming of fish, shellfish and other aquatic animals, and the cultivation of algae and aquatic plants), and the processing and marketing of fishery and aquaculture products. The CFP was the object of a fundamental review by the European Parliament and the Council a few years ago, to address some major long-lasting deficiencies, notably over-fishing. The CFP is now subject to the general framework established under a new CFP 'Basic Regulation' (No 1380/2013). Its general objective is to ensure that fishing and aquaculture activities are environmentally sustainable and managed in a way that is consistent with the objectives of achieving economic, social and employment benefits, and of contributing to the availability of food supplies. Regarding management of fishing activities, the reformed CFP must notably be based on the precautionary approach and the ecosystembased approach, and it aims at restoring and maintaining populations of harvested species above levels which can produce the maximum sustainable yield (MSY).3 Another significant shift in fisheries management, decided in this CFP reform, is to gradually eliminate discards and ensure that all catches are actually landed. This new 'CFP Basic Regulation' was adopted in parallel to a new legislative framework on the common organisation of the markets in fishery and aquaculture products (Regulation 1379/2013), and followed by the adoption of a dedicated financial instrument: the European Maritime and Fisheries Fund (EMFF). Governed under Regulation 508/2014, (the EMFF Regulation), this Fund aims at providing the EU and the Member States with the financial means to underpin the objectives of this new CFP. In this regard, this Fund continues the succession of specific EU financial instruments aimed at supporting the EU fisheries sector, the first of which was created in 1994. In 1994-2006, the fund was known as the Financial Instrument for Fisheries Guidance (FIFG). In the 2007-2013 period it was renamed the European Fisheries Fund (EFF), before being entitled the European Maritime and Fisheries Fund (EMFF) under the current 2014-2020 Multiannual Financial Framework. Beyond providing a financial instrument mainly dedicated to supporting the CFP objectives, this EMFF was also set up as a tool to sustain funding for the implementation and development of an integrated maritime policy (IMP) for the EU. The objective of the IMP is to support the sustainable use of seas and oceans and to develop coordinated, coherent and transparent decision-making in relation to the policies affecting the oceans, seas, islands, coastal and outermost regions and maritime sectors. Initiated a decade ago (see Commission communication COM(2007) 574), the IMP for the EU does not develop as such relying on one specific legal base of the Treaties, but touches upon numerous EU policies such as transport, industry competitiveness, research and technological EPRS European Maritime and Fisheries Fund Members' Research Service Page 3 of 10 development, environment, energy and tourism, with impact in terms of economic, social, and territorial cohesion. In the 2014-2020 Multiannual Financial Framework (MFF), the EMFF is one of five European Structural and Investment Funds (ESI Funds), which make up the Union's financial support for the strengthening of its economic, social, and territorial cohesion (Article 174 TFEU) (figure 1). Therefore, the financial management and implementation of the EMFF is not only based on the provisions established in the specific EMFF Regulation (EU) No 508/2014, but is also governed by Regulation (EU) No 1303/2013 laying down common provisions on the ESI Funds, known as the Common Provisions Regulation (CPR). Integration of the EMFF into the legal framework of the ESI Funds aims at improving their coordination and synergies and, thereby, at enhancing their impact on the development of the EU regions. As far as the financial implementation of the EMFF is concerned, part of the Fund is subject to shared management (implementation by the European Commission with Member States), the other part is subject to direct management (implementation by the Commission alone). The CPR, notably Part Four thereof (which provides rules on management and control, financial management, accounts and financial corrections), applies however only to the EMFF budget that is spent under shared management (see box 1). Box 1 – Shared and direct management of the EMFF. About 90 % (€5 749 million) of the EMFF is spent under the shared management (Article 58b and 59 of the Financial Regulation 966/2012), which involves both the European Commission and Member States. The measures financed from this part of the EMFF budget are subject to the provisions of the CPR (the ESI Funds) and the EMFF Regulation. As in the case of the other ESI Funds, the co-financed actions are specified in the operational programmes prepared by the Member States and approved by the European Commission. Roughly 10 % (€648 million) of the total EMFF budget in 2014-2020 is spent under direct management (Article 58a of the Financial Regulation 966/2012), i.e by the European Commission or, on its behalf, by the Executive Agency for Small and Medium-sized Enterprises (EASME). The measures financed from this part of the EMFF budget are outlined in the EMFF Regulation and specified in the Commission's annual work programme. The implementation of the 2017 work programme is supported with €75.6 million from the EU budget.4 EMFF objectives and financing priorities A financial tool supporting the aims of the CFP, the EMFF must also contribute to the thematic objectives of the ESI Funds and more generally to the Europe 2020 ***strategic*** goals.5 The EMFF Regulation provides that this Fund aims at contributing to the achievement of the following objectives: Figure 1 – The European Structural and Investment Funds EPRS European Maritime and Fisheries Fund Members' Research Service Page 4 of 10  Promoting competitive, environmentally sustainable, economically viable and socially responsible fisheries and aquaculture;  Fostering the implementation of the CFP;  Promoting a balanced and inclusive territorial development of fisheries and aquaculture areas;  Fostering the development and implementation of the Union's IMP in a manner complementary to cohesion policy and to the CFP. Measures financed under shared management The part of the Fund under shared management covers six main Union priorities, each of these being divided into several specific objectives: (1) Promoting sustainable fisheries (e.g through ensuring a balance between fishing capacity and available fishing opportunities,6 reduction of the environmental impact of fisheries, notably unwanted catches, and improvement of safety and working conditions); (2) Fostering sustainable aquaculture (e.g through innovation and technological development, professional training and promotion of resource-efficiency, environmental protection, animal health and welfare, and public health and safety in aquaculture); (3) Fostering the implementation of the CFP (notably through improving the science base and support to control and enforcement); (4) Increasing employment and territorial cohesion (e.g through the promotion of job creation, and support for employability and labour mobility, including diversification of activities); (5) Fostering marketing and processing of fishery and aquaculture products (by improving market organisation and encouragement of investment in these sectors); (6) Fostering the implementation of the IMP. The Fund also provides for additional compensations in outermost regions. The EMFF can support numerous types of measures. Depending on the type of measure, the financial support is destined to some categories of beneficiaries, being it private operators (in fishing, aquatic farming, processing and marketing); public bodies; or different types of stakeholder organisations, such as professional or producer organisations (POs), NGOs, and advisory councils (ACs). A community-led local development (CLLD) approach (as set out in Article 32 of the CPR) is also promoted, with specific support for fisheries local action groups (FLAGs) and their networking activities (FARNET). Table 1 below provides a general overview of the main categories of eligible measures under shared management. While some measures are fishing-specific by nature, other types of measures – notably to promote sustainable aquaculture or territorial cohesion in fisheries and aquaculture areas – to some extent mirror measures benefiting from EU funding under the common ***agriculture*** policy (pillar I and pillar II). EPRS European Maritime and Fisheries Fund Members' Research Service Page 5 of 10 Table 1 – Main measures supported by EMFF under shared management7 Priorities and main types of EMFF eligible measures (shared management) Possible beneficiaries Sustainable development of fisheries (see EMFF Regulation: Title V, Chapter I) Operators (vessel owners, fishermen...) Public bodies (incl. scientists) Others (POs, NGOs, FLAGs...) Innovation projects (products, equipment, processes, techniques organisation systems...) ● ● Advisory services, feasibility studies and advice (for sustainability or competitiveness) ● ● Scientists-fishermen partnership (creation of networks and joint activities) ● ● ● Promotion of human capital, job creation, social dialogue (training, best practices exchanges...) ● Diversification and new forms of income (investments), best practices exchanges...) ● Start up support for young fishermen ● Health and safety (investments on board and equipment) ● Cessation of fishing activities under conditions - Temporarily (e.g under emergency closures, non-renewal of a fisheries agreement). - Permanently (scrapping of vessel when part of a plan to reduce fishing capacity) ● Mutual funds compensating losses due to climatic events and environmental incidents ● Support for systems of allocation of fishing opportunities ● ● Support for the design and implementation of conservation measures and regional cooperation ● ● ● Limitation of environmental impact of fishing (equipment, e.g for better selectivity) ● ● Innovation related to conservation of marine resources ● ● Environment protection and compensation regimes (e.g waste collection, Natura 2000 measures) ● ● ● Energy efficiency and climate change mitigation (e.g investment equipment, audits, studies) ● Added value, product quality and use of unwanted catches (investments, e.g for direct sale) ● Fishing ports, landing site auction halls, shelters (improvement of infrastructures) ● ● Inland fishing (investments for operators) and protection of aquatic fauna and flora (Natura 2000) ● ● Sustainable development of aquaculture (see EMFF Regulation: Title V, Chapter II) Operators (aquaculture enterprises...) Public bodies (incl. scientists) Others (POs, NGOs, FLAGs...) Innovation (for more sustainable production, new farmed species, innovative products ...) ● ● Productive investments ● Management, relief and advisory services (for sustainability or competitiveness) ● ● ● Promotion of human capital and networking (training, working conditions, best practices...) ● ● Increasing aquaculture sites potential (e.g spatial planning, control of predators and diseases) ● ● New aquaculture farmers (setting up of micro and small enterprises ) ● Conversion to eco-management and audit schemes (EMAS) and organic aquaculture (compensation for costs and conversion losses) ● Aquaculture providing environmental services (compensation for costs or income foregone) ● Public health measures (compensation to harvest suspension imposed on mollusc farmers) ● Animal health and welfare (e.g disease control, best practices, health protection groups...) ● ● ● Aquaculture stock insurance (natural disasters, climatic events, sudden water quality changes...) ● Sustainable development of fisheries and aquaculture areas Follows a community-led local development (CLLD) approach (see EMFF Regulation: Title V, Chapter III) Operators Public bodies Others (FLAGs) Support for CLLD (preparatory support, implementation of CLLD strategies, cooperation activities, running costs and animation) ● Marketing and processing related measures concerning fishery and aquaculture products (see EMFF Regulation: Title V, chapter IV) Operators Public bodies Others (primarily POs) Production and marketing plans (preparation and implementation expenditure) ● Storage aid (for fishery products only) ● Marketing measures (e.g creation of POs, traceability measures, promotional campaigns) ● Processing (investments; e.g energy saving, hygiene improvement, new products, organic goods) ● Compensation for additional costs in outermost regions concerning fishery and aquaculture products (see EMM Regulation: Title V, Chapter V) Operators (in fishing, farming, fish processing, marketing) Public bodies Others Compensation of additional costs (resulting from the specific handicap of the region concerned or other type of public ***intervention*** affecting the level of additional costs) ● EPRS European Maritime and Fisheries Fund Members' Research Service Page 6 of 10 Accompanying measures for the CFP (also applicable to operations outside EU territory) (see EMM Regulation: Title V, Chapter VI) Operators Public bodies Others Support for control and enforcement (electronic detection and transmission systems, data exchanges between Member States, control means, including patrol vessels and aircrafts, training...) ● ● ● Support for data collection (for scientific analysis and CFP implementation, including at-sea monitoring and data management systems) ● IMP measures (see EMM Regulation: Title V, Chapter VIII) Operators Public bodies Others Support for operations contributing to integrated maritime surveillance IMS (notably the common information sharing environment CISE) and promoting the protection of marine environment (notably under the Nature Directives and the Marine Strategy Framework Directive ● Notwithstanding some possible specific conditions associated with the above-listed types of measures, certain operations are not eligible under the EMFF (especially in consideration of their possible effects on conservation of aquatic resources). Ineligibility particularly concerns those operations that could lead to an increase in fishing capacity, to construction of new fishing vessels or to transfer of ownership of a business. Similarly, exploratory fishing or direct restocking in general cannot benefit from EMFF support. The EMFF may also support some measures of technical assistance for Member States (see Article 59 of the CPR) and the establishment of national networks between FLAGs. Measures financed under direct management Part of the EMFF is available to the European Commission for direct management. It must contribute to developing the Union's IMP and to facilitating the implementation of the CFP and the IMP (table 2). Table 2 – Main measures supported by the EMFF under direct management Priorities for EMFF budget under direct management (see EMFF Regulation: Title VI and Annex III) Indicative distribution of fund Enhancing the development and implementation of the IMP (45 %) Objectives Eligible operations - Development and implementation of integrated governance of maritime affairs and coastal affairs - Studies and projects - Information and communication, best practice sharing, dissemination activities, conferences, seminars, workshops - Coordination activities - Development and operation of IT systems and networks - Training projects 5 % - Development of cross-sectorial initiatives 33 % - Support for sustainable economic growth, employment, innovation and new technologies 2 % - Promotion of the protection of the marine environment 5 % Accompanying measures for the CFP and IMP (55 %) Objectives Eligible operations - Collection, management and dissemination of scientific advice under the CFP - Studies, provision of scientific advice, expert meetings, atsea surveys, support services, cooperation activities... 11 % - Specific control and enforcement measures under the CFP - Joint purchase or chartering of controls means (patrol vessel, aircraft...), new technologies and exchanges of data, expenditure related to control and evaluation... 19 % - Voluntary contributions to international organisations - Contribution to organisations (or preparation of new organisations) active in the field of the law of the sea and to their work 10 % - Advisory Councils (ACs) and communication activities under the CFP and IMP - Operating costs of the ACs (established by Article 43 of the CFP basic Regulation) - Information and communication actions, stakeholders and experts travel costs when invited to commission meetings... 9 % - Market intelligence, including the establishment of electronic markets - Development and dissemination of market intelligence for fishery and aquaculture products by the Commission 6 % The EMFF may also support some measures of technical assistance at the initiative of the European Commission (see Article 58 of the CPR), as well as some of the costs concerning the external dimension of the CFP (i.e preparation and monitoring of sustainable EPRS European Maritime and Fisheries Fund Members' Research Service Page 7 of 10 fisheries partnership agreements and Union participation in regional fisheries management organisations), and the establishment of a European network of FLAGs. Financial allocation The EMFF allocation represents only about 0.6 % of the total 2014-2020 MFF. It is part of heading 2 'Sustainable growth: natural resources’', which also covers the common ***agricultural*** policy, ***rural*** development, and environment and climate action (LIFE), as well as EU fisheries expenditure not included in the EMFF, such as payments for international fisheries agreements and obligatory contributions to Regional Fisheries Management Organisations (RFMOs). Out of the total €6 396.6 million allocated to the EMFF in 2014-2020, €647.3 million is managed directly by the Commission. Some €5 749.3 million is spent in the framework of the ESI Funds, managed by the Commission and the Member States together. The distribution of the Fund between the Member States was set according to the following criteria:8  the level of employment in the fisheries and marine and fresh water aquaculture sectors, including employment in related processing;  the level of production in the fisheries and marine and fresh water aquaculture sectors, including related processing; and  the share of small-scale coastal fishing fleet in the overall fishing fleet. In the 2014-2020 MFF, all Member States except Luxembourg are eligible for EMFF support. In order to receive support from the Fund, each Member State has to fulfil ex-ante requirements, also known as 'ex-ante conditionalities' (Annex IV of the EMFF Regulation). Member States must have fulfilled their obligations under the CFP Basic Regulation to establish a national ***strategic*** plan on aquaculture and to report, each year, on the balance between the fishing capacity of their fleets and their fishing opportunities. Moreover, they must have the administrative capacity to implement specific aspects of the fisheries policy (data collection, control and enforcement). In accordance with the principle of additionality, the EU contribution from the EMFF has to be matched with additional expenditure by the Member State. Taking into account the EMFF and the Member States' contributions, the total support for the objectives and measures defined under EMFF in 2014-2020 amounts to €7 989.46 million.9 The biggest beneficiary of the Fund is Spain, followed by France, Italy and Poland (figure 2). As with the other ESI Funds, the Member States have to draw up an operational programme including the strategy and arrangements for spending their allocation and actions to be co-financed by the EMFF. The programmes have to be tailored to the priorities of the EU common ***strategic*** framework and in line with the national partnership agreements (agreed with the European Commission and describing how an individual Member State is going to use the ESI Funds). Once the Commission approves the EMFF operational programme, the national authorities can begin the implementation phase. The process is managed in the Member States by a special Managing Authority, which also serves as a central contact point for the bodies interested in the funding.10 EPRS European Maritime and Fisheries Fund Members' Research Service Page 8 of 10 Figure 2 – EMFF allocation per Member State and additional national contributions (€ million, MFF 2014-2020). Data source: European Commission, DG Regio, Cohesion Data, [accessed on 3 April 2017]. Based on the approved operational programmes, almost 48 % of the Fund in the Member States is dedicated to two out of the six main Union priorities, namely the promotion of sustainable fisheries and the fostering of sustainable aquaculture (figure 3). About €1.1 billion supports the implementation of the CFP, notably to improve the scientific basis and to support control and enforcement of rules.11 Figure 3 – EMFF contribution to the Union priorities (shared management) Data source: European Commission Facts and figures on the common fisheries policy, Basic statistical data, 2016 edition. Implementation progress in 2014-2020 Due to the late adoption of the 2014-2020 MFF and the late agreement on the EMFF regulatory framework, the implementation of the Fund has been delayed. According to the Commission's Open Data Platform, in February 2017 only 2.1 % of the total (EU and the Member States) 2014-2020 allocation was decided, i.e distributed among the selected projects, and 0.3 % was reported as spent. The best progress was noted in Denmark (24.8 % of the allocation was decided), Finland (17 %) and Ireland (12.7 %). EPRS European Maritime and Fisheries Fund Members' Research Service Page 9 of 10 In order to address the frequent data gaps that appeared when the previous EU funds in support of the CFP were assessed,12 a new approach to ***indicators*** and evaluation was introduced for the EMFF 2014-2020. Based on a common monitoring and evaluation system, the approach includes a set of common ***indicators***, evaluation plan and bi-annual reporting obligations.13 The Commission must present a first, comprehensive, mid-term review of the implementation of the EMFF to the European Parliament and the Council before 30 June 2017. 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Therefore, €138.4 million under the 2017 budget is dedicated to the EU's participation and contributions to international bodies responsible for the conservation and the management of living resources in certain seas and oceans around the world (Regional Fisheries Management Organisations – RFMOs) and to the Sustainable Fisheries Partnership Agreements (SFPAs) between the EU and some third countries. Endnotes 1 All MFF figures are based on data on the 2014-2020 MFF as established by Council Regulation No 1311/2013 (excluding adjustments) published by the Commission ([*http://ec.europa.eu/budget/mff/figures/index\_en.cfm*](http://ec.europa.eu/budget/mff/figures/index_en.cfm) [accessed on 10 April 2017]). 2 The 2016 and 2017 annual figures, based on data from Annex 3 in: A. D'Alfonso, A. Delivorias, M. Sapala, A. Stuchlik, Economic and budgetary outlook for the EU 2017, EPRS, European Parliament, January 2017. 3 The Maximum Sustainable Yield (MSY) concept on which the new CFP builds is defined as 'the highest theoretical equilibrium yield that can be continuously taken on average from a stock under existing average environmental conditions without significantly affecting the reproduction process'. MSY roughly corresponds to the largest catch of a fish stock that can be taken over an indefinite period without harming it and if other, notably environmental, conditions remain constant. 4 The 2017 allocation is divided between six budget lines: integrated maritime policy (€38.43 million), scientific advice (€8.7 million), control and enforcement (€8.72 million), voluntary contributions to international organisations (€7.97 million), governance and communication (€7.42 million), and market intelligence (€4.37 million). See the Commission implementing decision of 15 December 2016, C(2016) 8422 final. 5 See notably Article 39 TFEU, Article 2 of the CFP Basic Regulation, Article 9 of the CPR Regulation, and the communication 'EUROPE 2020 A strategy for smart, sustainable and inclusive growth' 6 In this regard, the EMFF Regulation also establishes a general condition on the use of the Fund, by providing that the pursuit of its objectives cannot result in an increase in fishing capacity. 7 This table is provided for illustrative purposes only and cannot be considered comprehensive nor accurately reflect all provisions established in the EMFF and for its implementation. 8 See Article 16(a) of the EMFF Regulation: the criteria apply to all measures except those related to control, inspection and the enforcement system, as well as data collection (as specified in Articles 76 and 77 of the EMFF Regulation). 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In its special report published in 2014, the Court stated that overall, the EFF did not offer effective support for the sustainable development of aquaculture. 13 Commission staff working document, 2016 Synthesis of Evaluation Results and Plans under the ESIF Programmes 2014-2020, SWD(2016) 447 final, Brussels, 20 December 2016. 14 See, for example, the Commission services' guidance document on how to explore for synergies and combine EMFF with other funds. Disclaimer and Copyright The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2017.Briefing How the EU budget is spent June 2017 EPRS | European Parliamentary Research Service Authors: Magdalena Sapała and Jean Weissenberger Members' Research Service PE 607.254 EN European Maritime and Fisheries Fund In a nutshell The €6 396.6 million European Maritime and Fisheries Fund (EMFF) is the smallest of the European Structural and Investment Funds for the 2014-2020 period, but it is the major financial tool supporting the EU common fisheries policy (CFP). Slightly less than half of the Fund is dedicated to promoting sustainable fisheries and to fostering sustainable aquaculture. Another significant share contributes to proper implementation of the CFP, particularly for data collection and science-based needs, and control and enforcement of rules. A small part of the EMFF is also aimed at supporting an integrated maritime policy (IMP) for the EU. EU Multiannual Financial Frame

work (MFF) heading and policy area Heading 2 – Sustainable Growth: Natural resources 2014-20 financial envelope (in current prices and as % of total MFF)1 Commitments: €6 396.6 million (0.59 %) 2016 budget (in current prices and as % of total EU budget)2 Commitments: €891.36 million (0.57 %) Payments: €431.85 million (0.32 %) 2017 budget (in current prices and as % of total EU budget) Commitments: €911.74 million (0.58 %) Payments: €577.38 million (0.43 %) Methods of implementation Shared management (European Commission and Member States): €5 749 million Direct management (European Commission): €648 million In this briefing:  EU role in fisheries and maritime affairs: legal basis  EMFF objectives and financing priorities  Financial allocation  Assessment of the EMFF  Other EU programmes and action in the same field EPRS European Maritime and Fisheries Fund Members' Research Service Page 2 of 10 EU role in fisheries and maritime affairs: legal basis The Treaties provide that the Union must define and implement a common ***agriculture*** and fisheries policy. ***Agriculture*** and fisheries are dealt with therein under the same heading and objectives (Title III TFEU). Fisheries products are included as part of the definition of ***agriculture*** products and references to ***agriculture*** shall be understood as also referring to fisheries, having regard to the specific characteristics of this sector. The Treaties provide the Union with exclusive competence concerning 'the conservation of marine biological resources under the common fisheries policy (CFP)', while other fisheries areas fall under shared competence (Articles 3 and 4 TFEU). The first Community rules on a common market organisation (CMO) in the fisheries sector, as well as a structural policy for fisheries, appeared in the 1970's. The CFP not only covers fishing activities at sea, but also aquaculture (the farming of fish, shellfish and other aquatic animals, and the cultivation of algae and aquatic plants), and the processing and marketing of fishery and aquaculture products. The CFP was the object of a fundamental review by the European Parliament and the Council a few years ago, to address some major long-lasting deficiencies, notably over-fishing. The CFP is now subject to the general framework established under a new CFP 'Basic Regulation' (No 1380/2013). Its general objective is to ensure that fishing and aquaculture activities are environmentally sustainable and managed in a way that is consistent with the objectives of achieving economic, social and employment benefits, and of contributing to the availability of food supplies. Regarding management of fishing activities, the reformed CFP must notably be based on the precautionary approach and the ecosystembased approach, and it aims at restoring and maintaining populations of harvested species above levels which can produce the maximum sustainable yield (MSY).3 Another significant shift in fisheries management, decided in this CFP reform, is to gradually eliminate discards and ensure that all catches are actually landed. This new 'CFP Basic Regulation' was adopted in parallel to a new legislative framework on the common organisation of the markets in fishery and aquaculture products (Regulation 1379/2013), and followed by the adoption of a dedicated financial instrument: the European Maritime and Fisheries Fund (EMFF). Governed under Regulation 508/2014, (the EMFF Regulation), this Fund aims at providing the EU and the Member States with the financial means to underpin the objectives of this new CFP. In this regard, this Fund continues the succession of specific EU financial instruments aimed at supporting the EU fisheries sector, the first of which was created in 1994. In 1994-2006, the fund was known as the Financial Instrument for Fisheries Guidance (FIFG). In the 2007-2013 period it was renamed the European Fisheries Fund (EFF), before being entitled the European Maritime and Fisheries Fund (EMFF) under the current 2014-2020 Multiannual Financial Framework. Beyond providing a financial instrument mainly dedicated to supporting the CFP objectives, this EMFF was also set up as a tool to sustain funding for the implementation and development of an integrated maritime policy (IMP) for the EU. The objective of the IMP is to support the sustainable use of seas and oceans and to develop coordinated, coherent and transparent decision-making in relation to the policies affecting the oceans, seas, islands, coastal and outermost regions and maritime sectors. Initiated a decade ago (see Commission communication COM(2007) 574), the IMP for the EU does not develop as such relying on one specific legal base of the Treaties, but touches upon numerous EU policies such as transport, industry competitiveness, research and technological EPRS European Maritime and Fisheries Fund Members' Research Service Page 3 of 10 development, environment, energy and tourism, with impact in terms of economic, social, and territorial cohesion. In the 2014-2020 Multiannual Financial Framework (MFF), the EMFF is one of five European Structural and Investment Funds (ESI Funds), which make up the Union's financial support for the strengthening of its economic, social, and territorial cohesion (Article 174 TFEU) (figure 1). Therefore, the financial management and implementation of the EMFF is not only based on the provisions established in the specific EMFF Regulation (EU) No 508/2014, but is also governed by Regulation (EU) No 1303/2013 laying down common provisions on the ESI Funds, known as the Common Provisions Regulation (CPR). Integration of the EMFF into the legal framework of the ESI Funds aims at improving their coordination and synergies and, thereby, at enhancing their impact on the development of the EU regions. As far as the financial implementation of the EMFF is concerned, part of the Fund is subject to shared management (implementation by the European Commission with Member States), the other part is subject to direct management (implementation by the Commission alone). The CPR, notably Part Four thereof (which provides rules on management and control, financial management, accounts and financial corrections), applies however only to the EMFF budget that is spent under shared management (see box 1). Box 1 – Shared and direct management of the EMFF. About 90 % (€5 749 million) of the EMFF is spent under the shared management (Article 58b and 59 of the Financial Regulation 966/2012), which involves both the European Commission and Member States. The measures financed from this part of the EMFF budget are subject to the provisions of the CPR (the ESI Funds) and the EMFF Regulation. As in the case of the other ESI Funds, the co-financed actions are specified in the operational programmes prepared by the Member States and approved by the European Commission. Roughly 10 % (€648 million) of the total EMFF budget in 2014-2020 is spent under direct management (Article 58a of the Financial Regulation 966/2012), i.e by the European Commission or, on its behalf, by the Executive Agency for Small and Medium-sized Enterprises (EASME). The measures financed from this part of the EMFF budget are outlined in the EMFF Regulation and specified in the Commission's annual work programme. The implementation of the 2017 work programme is supported with €75.6 million from the EU budget.4 EMFF objectives and financing priorities A financial tool supporting the aims of the CFP, the EMFF must also contribute to the thematic objectives of the ESI Funds and more generally to the Europe 2020 ***strategic*** goals.5 The EMFF Regulation provides that this Fund aims at contributing to the achievement of the following objectives: Figure 1 – The European Structural and Investment Funds EPRS European Maritime and Fisheries Fund Members' Research Service Page 4 of 10  Promoting competitive, environmentally sustainable, economically viable and socially responsible fisheries and aquaculture;  Fostering the implementation of the CFP;  Promoting a balanced and inclusive territorial development of fisheries and aquaculture areas;  Fostering the development and implementation of the Union's IMP in a manner complementary to cohesion policy and to the CFP. Measures financed under shared management The part of the Fund under shared management covers six main Union priorities, each of these being divided into several specific objectives: (1) Promoting sustainable fisheries (e.g through ensuring a balance between fishing capacity and available fishing opportunities,6 reduction of the environmental impact of fisheries, notably unwanted catches, and improvement of safety and working conditions); (2) Fostering sustainable aquaculture (e.g through innovation and technological development, professional training and promotion of resource-efficiency, environmental protection, animal health and welfare, and public health and safety in aquaculture); (3) Fostering the implementation of the CFP (notably through improving the science base and support to control and enforcement); (4) Increasing employment and territorial cohesion (e.g through the promotion of job creation, and support for employability and labour mobility, including diversification of activities); (5) Fostering marketing and processing of fishery and aquaculture products (by improving market organisation and encouragement of investment in these sectors); (6) Fostering the implementation of the IMP. The Fund also provides for additional compensations in outermost regions. The EMFF can support numerous types of measures. Depending on the type of measure, the financial support is destined to some categories of beneficiaries, being it private operators (in fishing, aquatic farming, processing and marketing); public bodies; or different types of stakeholder organisations, such as professional or producer organisations (POs), NGOs, and advisory councils (ACs). A community-led local development (CLLD) approach (as set out in Article 32 of the CPR) is also promoted, with specific support for fisheries local action groups (FLAGs) and their networking activities (FARNET). Table 1 below provides a general overview of the main categories of eligible measures under shared management. While some measures are fishing-specific by nature, other types of measures – notably to promote sustainable aquaculture or territorial cohesion in fisheries and aquaculture areas – to some extent mirror measures benefiting from EU funding under the common ***agriculture*** policy (pillar I and pillar II). EPRS European Maritime and Fisheries Fund Members' Research Service Page 5 of 10 Table 1 – Main measures supported by EMFF under shared management7 Priorities and main types of EMFF eligible measures (shared management) Possible beneficiaries Sustainable development of fisheries (see EMFF Regulation: Title V, Chapter I) Operators (vessel owners, fishermen...) Public bodies (incl. scientists) Others (POs, NGOs, FLAGs...) Innovation projects (products, equipment, processes, techniques organisation systems...) ● ● Advisory services, feasibility studies and advice (for sustainability or competitiveness) ● ● Scientists-fishermen partnership (creation of networks and joint activities) ● ● ● Promotion of human capital, job creation, social dialogue (training, best practices exchanges...) ● Diversification and new forms of income (investments), best practices exchanges...) ● Start up support for young fishermen ● Health and safety (investments on board and equipment) ● Cessation of fishing activities under conditions - Temporarily (e.g under emergency closures, non-renewal of a fisheries agreement). - Permanently (scrapping of vessel when part of a plan to reduce fishing capacity) ● Mutual funds compensating losses due to climatic events and environmental incidents ● Support for systems of allocation of fishing opportunities ● ● Support for the design and implementation of conservation measures and regional cooperation ● ● ● Limitation of environmental impact of fishing (equipment, e.g for better selectivity) ● ● Innovation related to conservation of marine resources ● ● Environment protection and compensation regimes (e.g waste collection, Natura 2000 measures) ● ● ● Energy efficiency and climate change mitigation (e.g investment equipment, audits, studies) ● Added value, product quality and use of unwanted catches (investments, e.g for direct sale) ● Fishing ports, landing site auction halls, shelters (improvement of infrastructures) ● ● Inland fishing (investments for operators) and protection of aquatic fauna and flora (Natura 2000) ● ● Sustainable development of aquaculture (see EMFF Regulation: Title V, Chapter II) Operators (aquaculture enterprises...) Public bodies (incl. scientists) Others (POs, NGOs, FLAGs...) Innovation (for more sustainable production, new farmed species, innovative products ...) ● ● Productive investments ● Management, relief and advisory services (for sustainability or competitiveness) ● ● ● Promotion of human capital and networking (training, working conditions, best practices...) ● ● Increasing aquaculture sites potential (e.g spatial planning, control of predators and diseases) ● ● New aquaculture farmers (setting up of micro and small enterprises ) ● Conversion to eco-management and audit schemes (EMAS) and organic aquaculture (compensation for costs and conversion losses) ● Aquaculture providing environmental services (compensation for costs or income foregone) ● Public health measures (compensation to harvest suspension imposed on mollusc farmers) ● Animal health and welfare (e.g disease control, best practices, health protection groups...) ● ● ● Aquaculture stock insurance (natural disasters, climatic events, sudden water quality changes...) ● Sustainable development of fisheries and aquaculture areas Follows a community-led local development (CLLD) approach (see EMFF Regulation: Title V, Chapter III) Operators Public bodies Others (FLAGs) Support for CLLD (preparatory support, implementation of CLLD strategies, cooperation activities, running costs and animation) ● Marketing and processing related measures concerning fishery and aquaculture products (see EMFF Regulation: Title V, chapter IV) Operators Public bodies Others (primarily POs) Production and marketing plans (preparation and implementation expenditure) ● Storage aid (for fishery products only) ● Marketing measures (e.g creation of POs, traceability measures, promotional campaigns) ● Processing (investments; e.g energy saving, hygiene improvement, new products, organic goods) ● Compensation for additional costs in outermost regions concerning fishery and aquaculture products (see EMM Regulation: Title V, Chapter V) Operators (in fishing, farming, fish processing, marketing) Public bodies Others Compensation of additional costs (resulting from the specific handicap of the region concerned or other type of public ***intervention*** affecting the level of additional costs) ● EPRS European Maritime and Fisheries Fund Members' Research Service Page 6 of 10 Accompanying measures for the CFP (also applicable to operations outside EU territory) (see EMM Regulation: Title V, Chapter VI) Operators Public bodies Others Support for control and enforcement (electronic detection and transmission systems, data exchanges between Member States, control means, including patrol vessels and aircrafts, training...) ● ● ● Support for data collection (for scientific analysis and CFP implementation, including at-sea monitoring and data management systems) ● IMP measures (see EMM Regulation: Title V, Chapter VIII) Operators Public bodies Others Support for operations contributing to integrated maritime surveillance IMS (notably the common information sharing environment CISE) and promoting the protection of marine environment (notably under the Nature Directives and the Marine Strategy Framework Directive ● Notwithstanding some possible specific conditions associated with the above-listed types of measures, certain operations are not eligible under the EMFF (especially in consideration of their possible effects on conservation of aquatic resources). Ineligibility particularly concerns those operations that could lead to an increase in fishing capacity, to construction of new fishing vessels or to transfer of ownership of a business. Similarly, exploratory fishing or direct restocking in general cannot benefit from EMFF support. The EMFF may also support some measures of technical assistance for Member States (see Article 59 of the CPR) and the establishment of national networks between FLAGs. Measures financed under direct management Part of the EMFF is available to the European Commission for direct management. It must contribute to developing the Union's IMP and to facilitating the implementation of the CFP and the IMP (table 2). Table 2 – Main measures supported by the EMFF under direct management Priorities for EMFF budget under direct management (see EMFF Regulation: Title VI and Annex III) Indicative distribution of fund Enhancing the development and implementation of the IMP (45 %) Objectives Eligible operations - Development and implementation of integrated governance of maritime affairs and coastal affairs - Studies and projects - Information and communication, best practice sharing, dissemination activities, conferences, seminars, workshops - Coordination activities - Development and operation of IT systems and networks - Training projects 5 % - Development of cross-sectorial initiatives 33 % - Support for sustainable economic growth, employment, innovation and new technologies 2 % - Promotion of the protection of the marine environment 5 % Accompanying measures for the CFP and IMP (55 %) Objectives Eligible operations - Collection, management and dissemination of scientific advice under the CFP - Studies, provision of scientific advice, expert meetings, atsea surveys, support services, cooperation activities... 11 % - Specific control and enforcement measures under the CFP - Joint purchase or chartering of controls means (patrol vessel, aircraft...), new technologies and exchanges of data, expenditure related to control and evaluation... 19 % - Voluntary contributions to international organisations - Contribution to organisations (or preparation of new organisations) active in the field of the law of the sea and to their work 10 % - Advisory Councils (ACs) and communication activities under the CFP and IMP - Operating costs of the ACs (established by Article 43 of the CFP basic Regulation) - Information and communication actions, stakeholders and experts travel costs when invited to commission meetings... 9 % - Market intelligence, including the establishment of electronic markets - Development and dissemination of market intelligence for fishery and aquaculture products by the Commission 6 % The EMFF may also support some measures of technical assistance at the initiative of the European Commission (see Article 58 of the CPR), as well as some of the costs concerning the external dimension of the CFP (i.e preparation and monitoring of sustainable EPRS European Maritime and Fisheries Fund Members' Research Service Page 7 of 10 fisheries partnership agreements and Union participation in regional fisheries management organisations), and the establishment of a European network of FLAGs. Financial allocation The EMFF allocation represents only about 0.6 % of the total 2014-2020 MFF. It is part of heading 2 'Sustainable growth: natural resources’', which also covers the common ***agricultural*** policy, ***rural*** development, and environment and climate action (LIFE), as well as EU fisheries expenditure not included in the EMFF, such as payments for international fisheries agreements and obligatory contributions to Regional Fisheries Management Organisations (RFMOs). Out of the total €6 396.6 million allocated to the EMFF in 2014-2020, €647.3 million is managed directly by the Commission. Some €5 749.3 million is spent in the framework of the ESI Funds, managed by the Commission and the Member States together. The distribution of the Fund between the Member States was set according to the following criteria:8  the level of employment in the fisheries and marine and fresh water aquaculture sectors, including employment in related processing;  the level of production in the fisheries and marine and fresh water aquaculture sectors, including related processing; and  the share of small-scale coastal fishing fleet in the overall fishing fleet. In the 2014-2020 MFF, all Member States except Luxembourg are eligible for EMFF support. In order to receive support from the Fund, each Member State has to fulfil ex-ante requirements, also known as 'ex-ante conditionalities' (Annex IV of the EMFF Regulation). Member States must have fulfilled their obligations under the CFP Basic Regulation to establish a national ***strategic*** plan on aquaculture and to report, each year, on the balance between the fishing capacity of their fleets and their fishing opportunities. Moreover, they must have the administrative capacity to implement specific aspects of the fisheries policy (data collection, control and enforcement). In accordance with the principle of additionality, the EU contribution from the EMFF has to be matched with additional expenditure by the Member State. Taking into account the EMFF and the Member States' contributions, the total support for the objectives and measures defined under EMFF in 2014-2020 amounts to €7 989.46 million.9 The biggest beneficiary of the Fund is Spain, followed by France, Italy and Poland (figure 2). As with the other ESI Funds, the Member States have to draw up an operational programme including the strategy and arrangements for spending their allocation and actions to be co-financed by the EMFF. The programmes have to be tailored to the priorities of the EU common ***strategic*** framework and in line with the national partnership agreements (agreed with the European Commission and describing how an individual Member State is going to use the ESI Funds). Once the Commission approves the EMFF operational programme, the national authorities can begin the implementation phase. The process is managed in the Member States by a special Managing Authority, which also serves as a central contact point for the bodies interested in the funding.10 EPRS European Maritime and Fisheries Fund Members' Research Service Page 8 of 10 Figure 2 – EMFF allocation per Member State and additional national contributions (€ million, MFF 2014-2020). Data source: European Commission, DG Regio, Cohesion Data, [accessed on 3 April 2017]. 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The specific criteria for financial distribution of these measures are listed in Article 16(b). 9 European Commission,   [*www.cohesiondata.ec.europa.eu*](http://www.cohesiondata.ec.europa.eu) [accessed on 30 March 2017]. 10 The list of Managing Authorities for each Member State is available at   [*https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/national\_authorities.pdf*](https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/national_authorities.pdf) . 11 It needs to be recalled in this regard that the support for scientific advice and for control and enforcement measures under the CFP also benefits from a further indicative share of 30 % of the around €650 million allocated from the EMFF under direct management by the European Commission. EPRS European Maritime and Fisheries Fund Members' Research Service Page 10 of 10 12 In the 2007-2013 programming period the EFF had a budget of €4.3 billion. The interim, national evaluations and the Commission’s annual reports on the implementation of the EFF were the basis for the debate on the post-2013 fisheries fund and for the proposal of the EMFF 2014-2020. In November 2016, the Commission presented an ex-post evaluation of the EFF. It analyses the results of the Fund’s ***interventions*** for different spending categories (fisheries, aquaculture, processing, common interest, community development and technical assistance). Notwithstanding the Commission’s evaluations, the European Court of Auditors assessed the effectiveness of EFF support for aquaculture. In its special report published in 2014, the Court stated that overall, the EFF did not offer effective support for the sustainable development of aquaculture. 13 Commission staff working document, 2016 Synthesis of Evaluation Results and Plans under the ESIF Programmes 2014-2020, SWD(2016) 447 final, Brussels, 20 December 2016. 14 See, for example, the Commission services' guidance document on how to explore for synergies and combine EMFF with other funds. Disclaimer and Copyright The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2017. Photo credits: © lucadp / Fotolia. 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HINA Digest

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**Body**

Zagreb, 25 May 2018 (Hina) - PM: It's important to implement national reform programme to strengthen economic potentialZAGREB, May 24(Hina) - Prime Minister Andrej Plenkovic on Thursday commented on the European Commission'srecommendationsto Croatia, saying that it was a good thing that the EC recognised efforts the government had made in the fiscal consolidation sector, adding that it was important to implement the national reform programme in order to strengthen Croatia's economic growth potential.At the start of the government session on Thursday, the prime minister commented on the recommendations the European Commission gave to Croatia, saying that it was good that there this year there were fewer recommendations than the year before."It is good that this year we have fewerrecommendations that the year before.This is a sign that we did a good job on the national reform programme. This time, everything that the European Commission recommended has already been included in our plan, which means that we recognised the trends well," Plenkovic said.He underscored that it was exceptionally important that the European Commission had recognised the efforts the government had made in the fiscal consolidation sector, adding that the results were better than expected. He said that headway had been made in the process of managing the public debt, which was shrinking faster than in other EU member states. Plenkovic also recalled that last year Croatia left the excessive deficit procedure."I believe it is no surprise that in 2017 financial institutions and agencies raised our credit rating for the first time since 2004," Plenkovic said, adding that the government would continue its work on fiscal consolidation and further reform.The PM underscored it was important to achieve three priority objectives from the national reform programme, together with other measures, and in that way strengthen Croatia's economic growth potential.The government in April sent to the European Commission a 130-page National Reform Programme, containing 59 concrete measures in 11 reform areas.

The three key objectives of the document are strengthening Croatia's economy competitiveness, connecting the education system with the labourmarket and achieving the sustainability of public finances.The European Commission on Wednesday gave Croatia four recommendations which Zagreb is expected to carry out this and next year and which are mostly the same as those given in 2017.In the first recommendation, Croatia is required to strengthen its fiscal framework and introduce real estate taxes, based on the value of the real estate.In the second recommendation, Croatia is expected to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme.In the third recommendation, Croatia is expected to reduce the fragmentation and improve the functional distribution of competencies in public administration.In consultation with social partners, it is expected to harmonise the wage-setting frameworks across the public administration and public services.In the fourth recommendation, Croatia is expected to improve corporate governance in the state-owned enterprise sector and speed up the divestment of state-owned enterprises and inactive state assets.Croatia is also expected to significantly reduce the burden on businesses stemming from costs of regulation and from administrative burdens; to remove regulatory restrictions hampering access to and the practice of regulated professions and professional and business services; and to improve the quality and efficiency of the justice system, in particular by reducing the duration of civil and commercial cases.The recommendations are part of the spring package of the European Semester which the Commission publishes each year in May.FinMin says tax revenues up 5% in 2017, expenditure lower than plannedZAGREB, May 24(Hina) - Finance Minister Zdravko Maric said at a government session on Thursday that last year's budget revenues totalled HRK 122.7 billion, 5% more than the year before, which was owing to positive economic trends and the tax reform, while budget expenditures were lowerthan planned.The growth of budget revenues was owing to an increase in GDP of 2.8%, prompted by yet another record tourist season, the growth of household consumption, exports and investments, notably private ones, which grew by more than 7% on the year, Maric said while presenting a report on the budget execution and a report on the application of fiscal rules in 2017.The minister stressed that the goodfiscal and economic ***indicators*** were owing to the tax reform and some other steps taken to improve the investment and business climate.The growth of budget revenues in 2017 was mostly owing to an increase intax revenues, which totalled HRK 75.2 billion.Income tax revenues totalled HRK 2 billion, 9.7% less than in the year before, a change that was owing to lower income taxes.Profit tax revenues were 15% higher, totalling HRK 8.2 billion.VAT revenues amounted to HRK 47.6 billion, 5.3% more than in 2016.Revenues from special levies and excise taxes grew 2.6% to HRK 15.1 billion.Revenues from contributions were 23.2 billion kuna, 4.6% more thanthe year before.Revenues from aid, with revenues from EU funds accounting for most of it, reached HRK 8.5 billion, an annual increase as well.Spending under controlBudget expenditures last year totalled HRK 125 billion, an increase of 4% but less than originally planned."This is owing to strong fiscal discipline and responsible spending of budget money," said Maric.He said that results were good despite several occasions when extra outlays in the amount of more than HRK 1.5 billion, for transfers to the health system, were approved.Maric stressed that last year debt interest was cut by one billion kuna."Over the past two years Croatia has managed to reduce interest expenditures by two billion kuna, and one should continue working on that," he said, explaining that this was owing to the financial restructuring of the road sector's debt.Household benefits, the most important category of expenditures, totalled HRK 45.8 billion, of which 37.7 billion went for pension allowances.Maric stressed that the expenditure growth rate was lower than the potential GDP growth, in line with the Fiscal Accountability Act.He said that planned budget expenditures had not been exceeded for the second consecutive year despite challenging situations.The resultis by about 2.1 billion kuna better, and better results were also achieved by extra-budgetary users and local government units, said Maric.The consolidated general government surplus in 2017 was 2.7 billion kuna, which is the first time a surplus was recorded since record-keeping about those statistics started, while the projection was a HRK 2.2 billion deficit, said Maric."The result is thus better by about five billion kuna," said Maric.Owing to this, 2017 saw a continuation of a decrease in the share of public debt in GDP, and at the end of 2017 it totalled 78%, which is almost 6 percentage points down from the previous year."Regardless of the fact that public debt is still above the 60% of GDP set by the Maasticht criteria, the share of public debt in GDP has been going down almost at twice the rate prescribed by those criteria," said Maric.60% of profit of ***strategic*** companies to be paid into state budgetThe government on Thursday also adopted a proposal on the amount, payment terms and payment deadlines regarding profits of companies of ***strategic*** and special interest to Croatia for 2017, to be paid into the state budget in 2018.Minister Maric said that there were several companies that were exempt from this decision -Hrvatske Ceste, Hrvatske Autoceste, Hrvatska Kontrola Zracne Plovidbe, HZInfrastruktura, Hrvatska Postanska Banka, Jadrolinija, Zracna Luka Dubrovnik, Croatia Airlines, Odasiljaci i Veze, Zracna Luka Split and Drzavne Nekretnine."This decision envisages the payment of 60% of the profit after taxation for 2017 by state-owned companies into the state budget in 2018," Maric said.The only exception from this decision is the Agencija Plan company, which is to pay 100% of its post-tax profit into the state budget.Government approves financial plans of road and motorway operatorsZAGREB, May 24(Hina) - Hrvatske ceste (HC) road operator will invest HRK 2.95 billion in the construction and maintenance of state roads in 2018, while Hrvatske Autoceste motorway operator (HAC) will invest HRK 638.8 million, according to construction and investment plans of the two companies which the government approved at its session on Thursday.The construction and maintenance plan for state roads in 2018 foresees total investments in the amount of HRK 2.95 billion, of which HRK 2.17 billion will be invested in the construction and maintenance of state roads, Maritime, Transport and Infrastructure Minister Oleg Burkovic said, adding that construction investments would amount to HRK 1.2 billion.Other investments amount to HRK 776.9 million, he added.A total of HRK 638.8 million is available to the Croatian motorway operator HAC this year for construction and maintenance.Gov't adjusts energy laws to EU guidelinesZAGREB, May 24 (Hina) - The government on Thursday discussed draft amendments to the Act on the Regulation of Energy Activities and the Electricity Market Act, adjusting the two laws to EU guidelines.The amendments to the Act on the Regulation of Energy Activities will regulate the independence of Croatia's Energy Regulatory Agency (HERA) and enable it to objectively and transparentlydo its job in accordance with EU guidelines, Energy Minister Tomislav Coric said at the government session.The agency must be able to make autonomous decisions so that the energy market could function properly and be entirely independent of any other public or private bodies, including the government, the minister said.Gov't to buy HRK 450mn of bank claims against PetrokemijaZAGREB, May 24 (Hina) - The government on Thursday adopted a decisionto buy bank claims against the Kutina-based Petrokemija mineral fertiliser company in the amount of HRK 450 million, with Prime Minister Andrej Plenkovic underscoring that the decision was important for the company's coming recapitalisation and its long-term, quality business operation.A State Secretary atthe Ministry of Economy, Entrepreneurship and Crafts, Natasa Mikus Zigman, reported that Petrokemija was looking fora ***strategic*** partner that would invest HRK 450 million in cash in the company."However, considering the losses in the preceding periods and estimated losses in 2018, significant investments that need to be made in the company's plants and the lack of operating capital, and in order to secure its long-term sustainability, it is necessary to additionally reduce the company's debt, that is,increase its equity. The government's decision today recommends that the minister ofeconomybuy on its behalf banks' claims from Petrokemija in the amount of HRK 450 million," Mikus Zigman said.She explained that Petrokemija hada significant debt that as of 31 December 2017 amounted to more than HRK 800 million and that it hada negative equity in the amount of HRK 196 million."After the state takes on the claims against Petrokemija, they will be transformed into capital at the company's next assembly and consequently a portion ofthe claims transformed into equity will be used to cover losses incurred in 2017 and partially losses incurred in 2018," she added.Mikus Zigman recalled that in the past the government had adopted decisions under whichthe state guaranteed that the banks' claims would be paid, either with a direct state guarantee or by providing state-ownedshares as collateral.She underscored that once the financial restructuring was completed and the debt decreased and equity increased through recapitalisation, conditions would be created to implement the company's operational restructuring and ensure its long-term sustainability.Petrokemija is the largest mineral fertiliser manufacturer in Croatia and the state has an ownership share of 79.85%.The company generates a turnover of HRK 2 billion a year. Apart from accountingfor one-third of Croatia's consumption of natural gas, Petrokemija hasa dominant impact on the operation of Croatian ports, HZ Cargo, Plinacro, HEP and about a hundredof small suppliers oftransport services, equipment maintenance, trade and services, Mikus Zigman said.EC to help Croatia in absorbing EU fundsZAGREB, May 24 (Hina) -The European Commission has selected five national or regional authorities responsible for cohesionpolicy, including Croatia's Ministry of Regional Development and EU Funds, to participate in a new pilot project on better absorption of EU funds in the budget period beyond 2020.This refers to the Competitiveness and Cohesion programme.To improve the management of EU funded programmes in the post-2020 period, experts from the Commission and the Organisation for Economic Cooperation Development (OECD)will provide tailored support. They will focus on building the right organisational structures and developing the right skills for staff. The experts will also help the authorities coordinate more smoothly with the other players involved in the roll-out of Cohesion Policy programmes, such as business and social partners, development agencies and civil society organisations.Commissioner for Regional Policy Corina Cretu said: "To fully unlock the potential of public investment in terms of growth and jobs, solid institutions and well-functioning administration are as important as the money itself. In the next long term EU budget, lessons drawn from this pilot action will help boost the effectiveness and ***performance*** of EU and public national funds alike in the future," the EC reported on its website.The first phase of the pilot, summer 2018 - March 2019, will be dedicated to establishing a roadmap for administrative capacity-building. With the support of the experts, the authorities will draw up a series of improvements to be made in four areas:organisational set-up and transparency; human resources; internal procedures, tools and ICT systems; and good governance, including interaction with external stakeholders.The programme authorities will implement the roadmap during the second phase of the pilot, as of 2019. The Commission will actively support them, with further expert advice and tools such as the competency framework and the networking instrument PEER 2 PEER.EUR 900,000 has been set aside from the European Regional Development Fund (ERDF) for the development of the first phase of the roadmaps in the five countries. The budget of the second phase will be decided at a later stage.The Commission will evaluate the results of the pilot by the end of 2019. The conclusions drawn will feed into the development of guidance on administrative capacity-building for the authorities in charge of handling EU funds programmes in the next long term funding period, the EC said.Gov't adopts bill to facilitate subsidised housingZAGREB, May 24 (Hina) - The government on Thursday adopted and forwarded to the parliament a final bill on subsidised housing (POS), which, among other things, adjusts the highest price of construction of POS housing to the real situation in the construction sector and facilitates the launchof a new subsidised housing programme.The government-sponsored POS bill was aligned with the Construction Act and defines the reference price of construction as well as all the costs involved in construction - planning, construction, supervision and so on, as well as water utility fees and Value Added Tax. It does not definecosts related to the land, utility infrastructure and connections to the utility infrastructure.Construction and Physical Planning Minister Predrag Stromar (HNS) said that so far the price of POS flats, land, utility infrastructure and connections had significantly differed from the average price in the real sector.According to the State Bureau of Statistics, the average sales price of new apartments which were sold in the second half of 2016 and were not part of the POS schemeamounted to HRK 11,027 per square metre, which is about 41.3% higher than the averagesales price of POS apartments, whichamountsto HRK 7,806 per square metre.Under the bill, the highest price of land and utility infrastructure would be increased from 20% to 25% of the reference price of construction while the highest sales price of an apartment would be increased from 140% to 150% of the reference price of construction.Stromar said that the bill would enablepublic service employees, too, to apply for POS housing in addition to state administration employees as part of special POS programmes for housing to be offered for lease."This bill attempts to resolve the issue of housing for professions in short supply, researches, professors, teachers, doctors and all professions necessary in a city, municipality or county... we know how difficult it is to keep people in small communities. Rent would be paid by local councils, cities, counties and institutions owned by the state," Stromar added.Agreements valued at HRK 470mn signed for 102 ***rural*** development projectsZAGREB, May 24 (Hina) - Local government representatives and the Payment Agency in ***Agriculture***, Fisheries and ***Rural*** Development on Thursday signed agreements valued at HRK 470 million for 102 local government projects from Measure 7 - Basic services and village renewal in ***rural*** areas - of the EU ***Rural*** Development Programme.The funds will be used to build 57 new kindergartens, 18 community centres, 12 fire stations, and two tourist information centres as well as to finance 13 projects for landscaping public spaces in ***rural*** areas. The aidbeing provided accounts for 80% to 100% of total eligiblecosts or between 15,000 and 1 million euros.Agency directorMatilda Copicrecalled thatthe projects were made available to communities of up to 5,000 residents and were advertised in April-May 2017.Shesaid that the total value of the projects was HRK 528 million.Copic announced that a new call for project applications would be advertised early in June providing HRK 500 million in aid- HRK 350 million of which will be earmarked for the construction, reconstruction and equipping of kindergartens in ***rural*** areas.According to ***Agriculture*** Minister Tomislav Tolusic, the new round of projects should result in the construction or reconstruction of 95 to 100 kindergartens.Prime Minister Andrej Plenkovic underscored that the signing of theagreements very clearly showed the benefit of Croatia's membership of the EU."We are sending a message of balanced regional development in Croatia, particularly of our smaller communities where any investment in the infrastructure, whether it be for kindergartens, fire stations or community centres or other infrastructure projects, means job creation... and enablespeople who have homes and familiesthere to stay there," Plenkovic said.He stressed that the policy of balanced regional development had been part of his government's strong activities over the past year and a half."We are dedicating special attention to Slavonia, but that doesn't mean that other counties aren't just as important. We will endeavour to make sure that these measures also help in the demographic revival of the country," the prime minister said.Tolusic expects many of the projects for which agreements were signed todayto be completed by spring next year.He said that he considered the situation in ***rural*** areas to be better now than a few years ago.Tolusic added that in October 2016, ***rural*** development projects signed amounted to HRK 328 million whereas today they amount to HRK 5.15 billion.EduMin: Decision on hiring of school principals in line with Veterans ActZAGREB, May 24 (Hina) -Croatian Science and Education Minister Blazenka Divjak has told Hina that the instruction to schools to give advantage to unemployed veterans when hiring new school principals and dorm heads is not her decision, but rather explains a procedure defined by the Veterans Act.The VeteransAct, which has been in force for six months, defines relevant rules for all public services or institutions."Since the Constitutional Court is being mentioned as the body that should determineif the Veterans Act is in line with the constitution, if thatcourt decides that the law is unconstitutional, we will change our instruction to schools," Divjak, who is on a visit to Paris for a ministerial conference on the Bologna Process, told Hina.She went on to say that with regard to the hiring of education workers, her ministry's bill on education, whichwas currently being discussed by the parliament, would make order in the system of employment by introducing selection procedures that would make the hiring process more transparent also in cases when war veterans were concerned.According to media reports, Divjak on May 16 issued an instruction to primary and secondary schools as well as student dorms to give an advantage to unemployed veterans when hiring new principals. Apart from veterans, other categories to be given advantage in the hiring process are children of Croatian soldiers killed or gone missing in the 1991-95 war, disabled war veterans, war volunteers, and members of the immediate or extended family of soldierskilled or gone missing in the war.Veterans minister: Divjak's decision in line with War Veterans ActCommenting on Divjak's decision for reporters ahead of today's government session, War Veterans Minister Tomislav Medved said that there was nothing disputable about it and that Divjak had only cited in the decisionprovisions of the War Veterans Act that had been put to public consultation and received two parliamentary readings."What has changed in relation to the previous law is that now (veterans) have an advantage also when applying for a management position," Medved said, stressing that the decision was about employment under equal terms and would also coveremployees in the education system whose qualifications were not in line with their position.As for possible lawsuits that are being announced by some associations, Medved said that everyone was entitled to file a lawsuit, stressing that consultations were held on every article of the law and that it should be seen as an integral legal document.The Association of Secondary School Principals is worried about Divjak's instruction which saysthat unemployed veterans with eight years of service in the school system should have the exclusive advantage in the hiring process for school principals."The problem with this is that they are bypassing the selection procedure which makes the employment terms unequal for other candidates. Only unemployed veterans are entitled to that privilege. All the other veterans, including teachers and school principals, do not enjoy that privilege," said Suzana Hitrec of the Association of High School Principals.Opposition says veterans have become caste with greater rights than othersZAGREB, May 24(Hina) - Adecision on the hiring of school principals which gives an advantage to war veterans in the selection and hiring process and which was signed by Science and Education Minister Blazenka Divjak on Thursday elicited much criticism among opposition parties in the parliament, which said that a special, war-veteran caste had been established.Unlike the Opposition, ruling HDZ party member of parliament Josip Djakic, who also heads the HVIDRAassociation of disabled war veterans, believes that the criticism is coming from "those who have enjoyed management positions so far.""There has been no veteran population so far or legal preconditions to enable children of Croatian defenders killed in the war or defenders who have studied until now to apply and enjoy that benefit. The law is clear and I think that the ministeris one of the few to warn all those in decision-making placesthat veterans and children of soldiers killed or gone missing in the warhave an advantage, which is commendable," said Djakic.He believes that there would not be too many candidates interested in the positions concerned or meeting the necessary qualifications, but that a certain number will nonetheless apply."There is no need for fear, competence comes first, but the status of a child of a soldierkilled in the war must be respected, too," said Djakic.Social Democrat MP and former veterans' minister Predrag Matic said that "a regulation giving veterans an advantage in the employment process, except for managerial positions, wasin force earlier, too, meaning that veterans have always had an advantage (in the employment process)but could not be appointed to head the HRT public broadcaster or INA just because they are veterans.""That was one of the protesting veterans' demands, incorporated in the new law adopted last November, and now the country is in big trouble. The (science) minister has given her approval for that law and is now wondering, even though she participated in its drafting," said Matic."School principals are rightfullyworried because there are around 20,000 unemployed veterans, they could take over all positions... The status of a veteran cannot give someone an advantage when a managerial position is concerned, the Partisans themselves did not function that way from the 1940s to the 1990s. We are very good at copying laws from them, we have outdone them in many regards. The latest move doesveterans no credit, and most of them are not responsible for this," said Matic.Croatian Peasant Party (HSS) leader Kreso Beljak said that the law was "disgraceful", adding,"We live in a country where a caste has been formed that believes they have more rights than others.""I think that in 1991 nobody fought for privileges but to defend ourselves from the Great Serbian aggression, and all those who seek to have more rights than other citizens are simply war profiteers," said Beljak, himself a veteran.He went on to say that a vast majority of veterans were not members of any veteran association and did not want to use any privileges and detested the thought of being members of groups claiming to represent veterans.Anka Mrak Taritas of the GLASparty said that the legal provision was "unacceptable because one group of citizens cannot be put above others.""Maybe the veterans should be given an advantage also when ministers are appointed? This is not good for the veterans. We implored the ruling coalition to come totheir senses during the debate on the Veterans Act because now we do not see the end of this, maybe the prime minister, too, should be a veteran?I have veterans in my immediate family but I do not see among them the aggression and the need to stress their status that I see in associations claimingto represent the veterans," said Mrak Taritas, adding that the ruling coalition passed the veterans law to ensure a stable electorate.Opposition parties lash out against LNG terminal billZAGREB, May 24 (Hina) - Opposition parties in the Croatian parliament led by the Social Democratic Party (SDP) on Thursday lashed out against the Liquefied Natural Gas Terminal Bill which should pave the way for the construction of an LNG terminal on the northern Adriatic island of Krk, describing it as "a rape of the constitution and democracy", a waste of taxpayers' money and "a second stage of the sale of Croatia."Presenting the bill to parliament, the State Secretary at the Ministry of Environmental Protection, Ivo Milatic, said that the bill aimed to define the infrastructure of the LNG terminal, which he said was of ***strategic*** interest to Croatia, as well as to maintain the security of natural gas supply and regulate the award of concessions for the use of the maritime domain. He added that concession fees for the use of the maritime domain would be paid to local government.The annual concession fee for the first 25 years would be 1.5 million kuna (200,000 euros) and the central government would waivea third of revenues from concession fees, as a result of which two-thirds, or one million kuna, would be paid to Omisalj Municipality and one third, or 500,000 kuna, to Primorje-Gorski Kotar County."Who are you working for? Why would I have to pay for more expensive gas so that your government could curry favour with the United States and buy their friendship? You pay it out of your own pocket," Branimir Bunjac of the opposition Human Shield party said.SDP leader Davor Bernardic said that his party was with the citizens of Omisalj Municipality and the entire Primorje-Gorski Kotar County and that it supported the construction of an on-shore LNG terminal because if was development based andenvironmentally acceptable and would create jobs.Darko Horvat of the ruling Croatian Democratic Union (HDZ) noted that the LNG terminal project had been included among the ***strategic*** projects by the SDP government headed by Zoran Milanovic.Stjepan Curaj of the Croatian People's Party (HNS), a junior partner in the ruling coalition, said he was confident that the bill would put Croatia on Europe's energy map.SDP MP Zeljko Jovanovic called the bill "a rape of democracy, the constitution and law", whilehis party colleague Arsen Bauk announced a number of amendments to obstruct the passage of the bill, which is being discussed under fast-track procedure.The SDP's Alen Prelec asked how many phases the project hadand why the government insisted that a floating terminal was cheaper than an on-shore one if a study from 2016 showed the opposite."An on-shore terminal is twice as expensive as a floating one, and there will be two phases: first there will be a floating terminal and then an on-shore one," Milatic replied.Romana Jerkovic (SDP) asked in whose interest this was. "Is it in our ***strategic*** interest to invest in floating terminal infrastructure with taxpayers' money while someone else, namely foreigners, will make a profit? Should it not be in our ***strategic*** interest to invest in our own gas fields?" she asked. "This seems to be a second phase of the sale of Croatia," she added.Milatic said that the terminal would be built by the LNG Croatia company, which is owned by the energy companies Plinacro and HEP. "As far as I know, these are Croatian public companies and we are not selling off anything here. This kind of project has to be put up for concession because it concerns the maritime domain and there is an established procedure for that," he responded.Human Shield MP Ivan Pernar warned that LNG terminal lease rates were record low throughout Europe, only 23 percent, and that the state would have to pay the difference in the cost of terminal maintenance, which he claimed would have an impact ongas prices for buyers."Another problem is that Croatia will have to invest at least 275 million euros in the terminal. Insteadof investing in a terminal which we do not need and which is is unprofitable, we should invest this money in renewable energy sources," Pernar said.Milatic rejected the predictions that the terminal would be insufficiently leased. "We estimate that it will operate at full capacity and that there will be no such problems. As for the investment, total investment is currently estimated at 250 million euros, of which 102 million has been secured from the EU. This means that we should ensure 150 million euros for this investment," he explained.The opposition also criticised the ruling coalition for ignoring the local government of Omisalj, but the state secretary dismissed their criticisms saying that the local government was fully included in this process.Meanwhile, local government leaders from Omisalj and Krk, along with SDP MP Zeljko Jovanovic and Istrian Democratic Party (IDS) MP Tulio Demetlika, reiterated their opposition to the LNG Terminal Bill, saying the construction of a floating LNG terminal on Krk island would not benefit the local community and Croatiabut other countries, especially Hungary.Speaking at a press conference in the parliament building, Mirela Ahmetovic from Omisalj said that if the bill was passed, her municipality would ask the Constitutional Court to assess whether it was in line with the constitution. "We will take all the necessary measures to halt this harmful project," she said.Activists from the environmental group Green Action staged a protest outside the parliament building, saying that the bill was in the fast-track procedure to bypass the will of the local and regional community, shorten the procedure for the award of concessions and reduce the time for parliamentary and public debate on the issue. They said that this was unacceptable.They called on the lawmakers to take into account the opinion of the local population and vote against the bill, claiming that it would no doubt have a significant impact on the environment. They said that the bill was not in public interest and that it was environmentally unacceptable and unprofitable.Two SDP MPs report PM to Conflict of Interest CommissionZAGREB, May 24(Hina) - Social Democratic Party (SDP) Presidency member Sinisa Hajdas Doncic told reporters in the parliament on Thursday that he and party vice-president Pedja Grbin had reported Prime Minister Andrej Plenkovic to the parliamentary Conflict of Interest Commission over allegations of conflict of interest in the drafting of the law on emergency administration in systemic companies, dubbed Lex Agrokor."Grbin and I have analysed the materialconcerning Plenkovic's role in the drafting of Lex Agrokor and we reported him today to the Conflict of interest Commission, thus helping it to launch proceedings against him," said Hajdas Doncic, adding that they did it on their own behalf, as members of parliament, and not on behalf of their party.Commenting on Plenkovic's role in the affair, Hajdas Doncic said that it concerned "the hiring of some partners to write Lex Agrokor, as evident from the emails and media reports".Asked where he saw elements of conflict of interest, Hajdas Doncic said that "the law is very clear - ministries, whenever they draft a law, must form an expert task force for that purpose and if they need expert advice, they pay external consultants for it.""The situation in this case is very clear and simple - they avoided forming a task force and instead hired people who later sought remuneration exclusively from Agrokor. As will be seen in the coming months, Lex Agrokor will have major financial repercussions for the state budget, and those repercussions are already visible because pension funds have incurred losses just as thestate-owned banks HBOR and HPB have lost a portion of their claims. So this is definitely an instance of conflict of interest on the part of the Prime Minister and a case of undemocratic and non-transparent drafting of a law," Hajdas Doncic said.Dismissing the government's claims that it had worked under tight deadlines, Hajdas Doncic said that "they (government) could have sought and paid for advice from the Law Faculty or any other expert, and no one cantell me thata law with fewer than 30 articles can cost more than HRK 200,000." He added that Plenkovic's actions were to the benefit ofthe Borg group and to the detriment of public interest.Earlier in the day, SDP whip Arsen Bauk said that the SDP would not report Plenkovic to the Conflict of Interest Commission yet as they "can do it at any time.""The public is now preoccupied with the emails and his (Plenkovic's) relatively unsuccessful attempts to distance himself from the whole affair," Bauk said, adding that the SDP was waiting for more information so it could submit a well-substantiated report.Bauk believes that the Conflict of Interest Commission can also launch proceedings against the PM on its own, but its chair Natasa Novakovic told Nova TV on Wednesday that it would not launch any proceedings until it collected all relevant information.PM: Savoric was invited by government and came in good faithZAGREB, May 24 (Hina) - Prime Minister Andrej Plenkovic told the press after a meeting of the main committee of his HDZ party on Thursday evening that lawyer Boris Savoric had been invited by the government in 2017 and had accepted the invitation in good faith to help in the Agrokor case.Savoric was involved in the drafting of the law concerning the indebted Agrokor food and retail conglomerate and served for a while as an adviser to the former government-appointed emergency administrator of Agrokor.Plenkovic said he had not invited the lawyer personally.The PM was asked whether he could confirm the claim by the leader of the opposition Bridge party, Bozo Petrov, that lawyer Boris Savoric had come to the government as a person enjoying the prime minister's confidence.Petrov has told the Vecernji List newspaper that Savoric had been brought to the government by Prime Minister Andrej Plenkovic."The key question is who is saying this. Bozo Petrov is obviously speaking creatively," Plenkovic told reporters.Plenkovic recalled that it was a time of a looming crisis at Agrokor and that lawyers were engaged along with economic and financial experts."The drafting of the law was not discussed. I think Mr Savoric came in good faith to help in the process. I didn't call him personally, he was called by the government," Plenkovic said.The HDZ's main committee unanimously adopted a draft of the party's new statue ahead of its convention on Saturday.Plenkovic said that the convention would bring together about 2,000 delegates, adding that he did not expect any "dissonant tones" because the HDZ had behind it two years of victories and successes at parliamentary and local elections.He commented on the move by two Social Democratic Party (SDP) lawmakers to report him to the Conflict of Interest Commission over the Agrokor affair."It's their right and it's part of the political match we have been watching lately," Plenkovic said, adding that now it was up to the Commission to decide whether or not it would take action.US Attorney General: We have closest relations with CroatiaZAGREB, May 24 (Hina) - U.S. Attorney General Jeff Sessions on Thursday participated in a regional workshop on trans-national organised crime held at the Police Academy in Zagreb, after which he saidat a joint press conference with Croatia's Interior Minister Davor Bozinovic that the US has the closest relations with Croatia and that it wishes to expand theseachievements to other countries in the region.State prosecutors from Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia took part in the regional workshop.These countries have partnerships with the US that have lasted for decades and can be upgraded in the fight against terrorism, drug and human trafficking, and corruption, Sessions said.The US is investing in those partnerships with its expertise and has deployed several prosecutors and police consultants in its embassies in the countries in the region.That cooperation is already producing results in the fight against organised crime, Sessions said and added that in the past three years118 people had been arrested and drugs and weapons confiscated. In March alone, in cooperation with Croatian police and the DEA, for example, 100 kilosof cocaine was confiscated.Minister Bozinovic said that this is once again confirmation that Croatia is a key ally to the US in this part of Europe and added that he and Sessions discussed deepening this ***strategic*** partnership.Bozinovic added that since his visit to the US in January, whenthe foundations for stronger institutional cooperation were laid, significant progress and results are already visible. Operation Nana,carried out together with DEA, showed that Croatia was capable of coordinating the police from other countries, for example, Columbia, Panama, Germany and Italy.He recalled that Croatia and the US cooperated in the area of the rule of law bilaterally and through Interpol and Europol. Sessions added that the PNR (Passenger Name Record) Directive would soon enter into force in Croatia regarding information exchange on suspiciouspersons in international air transport. Information exchange is an important area of police work and an important element when it comes to America'svisa waiver program, considering the fact that Croatia is one of five EU member states that is still waiting to enter that programme, Bozinovic said.The two officials discussed migrations and in particular focused on the latest migrant route across Bosnia and Herzegovina.Bozinovic added that he was glad that the US supports Croatia's efforts to enter the Schengen Area.Grabar-Kitarovic and Sessions discuss strengthening Croatia-US tiesZAGREB, May 24 (Hina) - Croatian President Kolinda Grabar-Kitarovic met with US Attorney General Jeff Sessions in Zagreb on Thursday, the President's Office said in a press release.They discussed possibilities of further strengthening the good relationship between the two allies. Concluding an agreement on avoidance of double taxation and including Croatia in the US visa waiver programmecould contribute to that, the press release said.Sessions confirmed that the US shared an interest in Southeast Europe and agreed with Grabar-Kitarovic on the importance of permanent US support for the European and Euro-Atlantic future of this region.Sessions spoke of his participation in a workshop on transnational organised crime earlier in the day, and the two officials exchanged views on the political and security situation in Southeast Europe, sharing the views on a number of threats and on the importance of continuous open dialogue and cooperation between relevant institutions and services in Southeast Europe and with those in the EU and the US.Grabar-Kitarovic informed her guest about the ***strategic*** importance of a future LNG terminal on Krk island, which should contribute to energy diversification of Central Europe and strengthening the European cohesion and energy security, the press release said.State secretary Milas visits Ireland to discuss Irish experience with migration after economic crisisZAGREB, May 24(Hina) - The Croatian expatriate community in Ireland, as a bridge connecting the two countries, and Ireland's experience withmigrationfollowing the economic crisis in 2008 were the topics of talks Croatia's delegation, led by State Secretary Zvonko Milas, held with a member of the Irish Parliament and chairman of the Irish-Croatian parliamentary friendship group, John Brassil.The talks, held in the Irish parliament, also focused on the importance of infrastructure projects in encouraging the return of emigrants and the use of EU funds, according to a press release issued by the central office for Croats living abroad.Milas and the delegation of the central office for Croats living abroad also held talks with the Ceann Comhairle of Dáil Éireannis (the chairperson of the lower house of the Oireachtas (parliament) of Ireland),Sean O' Famearghail. At the talks it was agreed that Ireland would take part in a project called Roots, implemented by the central office for Croats living abroad. The project connects students from Croatia, Bosnia and Herzegovina and the United States.During his visit to Ireland, Milas was a guest of honor at a session of Seanad Éireann (upper house of Ireland's legislature) and Dáil Éireann (lower house).Croatian defence minister visits Minnesota National GuardZAGREB, May 24(Hina) - Croatian Defence Minister Damir Krsticevic is on a visit to theMinnesota National Guard which arranged for him a test flight in F-16 aircraft which Croatia has decided to buy."I am honored to have the opportunity to fly in the US F-16 aircraft, which is a truly powerful plane. This flight has confirmed that Croatia made the best decision when it decided to buy the multi-purpose F-16 aircraft, which will be the guarantor of its stability and security forever," Krsticevic said.The Minnesota National Guard commander, Major General Jon Jensen, said that with this flight the Americans wanted to show Krsticevic and Croatia the capabilities of the F-16 aircraft. 20% of workers in Croatia have temporary contract, 14.3% in EUZAGREB, May 25 (Hina) - Last year, over 20% of workers in Croatia had a temporary employment contract while 14.33% of all employees in the EU had a temporary contract, according to figures provided by Eurostat, the statistical office of the EU.This means that 27 million employees aged 15 to 64 in the European Union (EU) had a temporary contract in 2017, Eurostat said.In 2017, this proportion was slightly higher for women (14.8%) than for men (13.8%). It was also higher in the euro area (16.0%) than in the EU.Significant discrepancies can be observed in the use of temporary work contracts across the EU Member States and between age groups.Highest share of employees with a temporary contract in Spain and Poland; lowest in Romania and LithuaniaOver one in four employees in Spain (26.8%) and Poland (26.1%), and more than one in five in Portugal (22.0%), the Netherlands (21.5%) and Croatia (20.6%) had a temporary contract in 2017.In Croatia 20.6% if workers had a temporary contract in 2017.At the opposite end of the scale, temporary employees accounted for less than 2% of all employees in both Romania (1.2%) and Lithuania (1.7%). Low shares were also recorded in Latvia (3.0%), Estonia (3.1%), Bulgaria (4.4%), Malta and the United Kingdom (both 5.6%).Young employees clearly the most affectedYoung people held by far the highest share of temporary contracts. Last year in the EU, nearly 8 million young people, or almost half (43.9%) of employees aged 15 to 24, were employed under a temporary contract.Across the EU Member States, more than seven in ten young employees had a temporary contract in Spain (73.3%) and Slovenia (71.6%). Around two-thirds of them had such contracts in Poland (68.2%) and Portugal (65.9%), while about six in ten were affected in Italy (61.9%), Croatia (60.8%) and France (58.0%).In contrast, the share of young people working under a temporary contract was less than 10% in Romania (4.1%), Latvia (6.7%) and Lithuania (6.8%).It was below 20% in Estonia (10.6%), Bulgaria (12.7%), Malta (13.0%), the United Kingdom (14.5%) and Hungary (17.6%).Venice Commission ends consultations on BH election changes with no resultsZAGREB, May 24(Hina) - Legal experts of the Council of Europe's Venice Commission on Thursday wrapped up consultations with representatives of political parties in Bosnia and Herzegovina about possible amendments to the election law without any concrete results but with a tentative agreement to continue talks at the start of June, at the level of party presidents.Legal experts of the Venice Commission, an expert body of the Council of Europe, arrived in Bosnia at the start of this week to help break an impasse in the negotiation of amendments to the election legislation, which is necessary to be able to implement the results of the election, scheduled for 7 October and form the legislative and executive government."The problem is that we in Bosnia interpret Constitutional Court decisions differently," Lidija Brdana of the Croatian Democratic Union of Bosnia and Herzegovina (HDZ BiH) said after the consultations, adding that talks needed to continue, as it was the only way to a solution to this problem.Sefik Dzaferovic of the Party of Democratic Action (SDA) said his party also wanted to resume the talks.In other news:ZSE indices down slightlyZAGREB, May 24 (Hina) - The main Zagreb Stock Exchange (ZSE) indices fell slightly on Thursday amid a modest turnover.The Crobex dropped by 0.14% to 1,848.73 points and the Crobex10 by 0.06% to 1,073.45 points.Turnover at the close of regular trading was a mere HRK 2.65 million, about 6.3 million lower than on Wednesday.None of the stocks crossed the one million kuna mark. The stock that generated the highest turnover was that of the Jadran hotel company, turning over HRK 393,000. Its price increased by 0.34% to HRK 5.94 per share.(EUR 1 = HRK 7.379415)THIS BULLETIN INCLUDES ITEMS RELEASED BY 0830 HOURS FRIDAY. (Hina) vm Masthead Brief News Bulletin is published by the Croatian News Agency HINA Marulicev trg 1610 000 ZagrebCroatia web:[*www.hina.hr*](http://www.hina.hr) mail: [*hina@hina.hr*](mailto:hina@hina.hr) phone: (+385 1) 48 08 660; fax (+385 1) 48 08 822 Publisher: Branka Gabriela Valentic, DirectorEditor in Chief: Serdo Obratov Bulletin Editor: Marija Sestan

ZAGREB, May 24(Hina) - Prime Minister Andrej Plenkovic on Thursday commented on the European Commission'srecommendationsto Croatia, saying that it was a good thing that the EC recognised efforts the government had made in the fiscal consolidation sector, adding that it was important to implement the national reform programme in order to strengthen Croatia's economic growth potential.

ZAGREB, May 24(Hina) - Finance Minister Zdravko Maric said at a government session on Thursday that last year's budget revenues totalled HRK 122.7 billion, 5% more than the year before, which was owing to positive economic trends and the tax reform, while budget expenditures were lowerthan planned.

ZAGREB, May 24(Hina) - Hrvatske ceste (HC) road operator will invest HRK 2.95 billion in the construction and maintenance of state roads in 2018, while Hrvatske Autoceste motorway operator (HAC) will invest HRK 638.8 million, according to construction and investment plans of the two companies which the government approved at its session on Thursday.

ZAGREB, May 24 (Hina) - The government on Thursday discussed draft amendments to the Act on the Regulation of Energy Activities and the Electricity Market Act, adjusting the two laws to EU guidelines.

ZAGREB, May 24 (Hina) - The government on Thursday adopted a decisionto buy bank claims against the Kutina-based Petrokemija mineral fertiliser company in the amount of HRK 450 million, with Prime Minister Andrej Plenkovic underscoring that the decision was important for the company's coming recapitalisation and its long-term, quality business operation.

ZAGREB, May 24 (Hina) -The European Commission has selected five national or regional authorities responsible for cohesionpolicy, including Croatia's Ministry of Regional Development and EU Funds, to participate in a new pilot project on better absorption of EU funds in the budget period beyond 2020.

ZAGREB, May 24 (Hina) - The government on Thursday adopted and forwarded to the parliament a final bill on subsidised housing (POS), which, among other things, adjusts the highest price of construction of POS housing to the real situation in the construction sector and facilitates the launchof a new subsidised housing programme.

ZAGREB, May 24 (Hina) -Croatian Science and Education Minister Blazenka Divjak has told Hina that the instruction to schools to give advantage to unemployed veterans when hiring new school principals and dorm heads is not her decision, but rather explains a procedure defined by the Veterans Act.

ZAGREB, May 24(Hina) - Adecision on the hiring of school principals which gives an advantage to war veterans in the selection and hiring process and which was signed by Science and Education Minister Blazenka Divjak on Thursday elicited much criticism among opposition parties in the parliament, which said that a special, war-veteran caste had been established.

ZAGREB, May 24 (Hina) - Opposition parties in the Croatian parliament led by the Social Democratic Party (SDP) on Thursday lashed out against the Liquefied Natural Gas Terminal Bill which should pave the way for the construction of an LNG terminal on the northern Adriatic island of Krk, describing it as "a rape of the constitution and democracy", a waste of taxpayers' money and "a second stage of the sale of Croatia."

ZAGREB, May 24(Hina) - Social Democratic Party (SDP) Presidency member Sinisa Hajdas Doncic told reporters in the parliament on Thursday that he and party vice-president Pedja Grbin had reported Prime Minister Andrej Plenkovic to the parliamentary Conflict of Interest Commission over allegations of conflict of interest in the drafting of the law on emergency administration in systemic companies, dubbed Lex Agrokor.

ZAGREB, May 24 (Hina) - U.S. Attorney General Jeff Sessions on Thursday participated in a regional workshop on trans-national organised crime held at the Police Academy in Zagreb, after which he saidat a joint press conference with Croatia's Interior Minister Davor Bozinovic that the US has the closest relations with Croatia and that it wishes to expand theseachievements to other countries in the region.

ZAGREB, May 24 (Hina) - Croatian President Kolinda Grabar-Kitarovic met with US Attorney General Jeff Sessions in Zagreb on Thursday, the President's Office said in a press release.

ZAGREB, May 24(Hina) - The Croatian expatriate community in Ireland, as a bridge connecting the two countries, and Ireland's experience withmigrationfollowing the economic crisis in 2008 were the topics of talks Croatia's delegation, led by State Secretary Zvonko Milas, held with a member of the Irish Parliament and chairman of the Irish-Croatian parliamentary friendship group, John Brassil.

ZAGREB, May 24(Hina) - Croatian Defence Minister Damir Krsticevic is on a visit to theMinnesota National Guard which arranged for him a test flight in F-16 aircraft which Croatia has decided to buy.

ZAGREB, May 24(Hina) - Legal experts of the Council of Europe's Venice Commission on Thursday wrapped up consultations with representatives of political parties in Bosnia and Herzegovina about possible amendments to the election law without any concrete results but with a tentative agreement to continue talks at the start of June, at the level of party presidents.

ZAGREB, May 24 (Hina) - The main Zagreb Stock Exchange (ZSE) indices fell slightly on Thursday amid a modest turnover.

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[***BISICHI MINING - Annual Financial Report***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5SBJ-CWS1-JB72-13JV-00000-00&context=1516831)

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**Body**

BISICHI MINING PLC

Results for the year ended 31 December 2017

Summary:

|  |  |
| --- | --- |
| Reported EBITDA: | £3,700,000 (2016: £2,400,000) |
| Adjusted EBITDA: | £5,800,000 (2016: £1,500,000) |

·          Improved ***performance*** in the second half of the year from Black Wattle, the group's South African coal mining operation.

·          Investment in significant infrastructure improvements allowed Black Wattle to mine at a sustainably higher rate of production and achieve an increased yield from its washing plant.

·          Black Wattle was able to benefit from the significantly improved coal prices during the second half of the year.

·          UK property portfolio continues to perform well with average rental yields for the portfolio remaining stable during the year.

·          In light of the strong results achieved for the year, a special dividend of 1p (2016: Nil) per share proposed in addition to a final dividend of 3p (2016: 3p) taking full year dividend to 5p (2016: 4p) per share.

·          Dividend yield of 7.1% at year end share price.

Chairman, Sir Michael Heller, comments:

"The permanent infrastructure improvements at Black Wattle will have a positive impact on the returns achievable from our existing coal reserves and should open up new opportunities to mine similar coal reserves in the surrounding area. Accordingly, we remain confident about the ability of our South African coal mining operations to continue to contribute to our group earnings and cash generation for the foreseeable future."

For further information, please call:

Andrew Heller or Garrett Casey, Bisichi Mining PLC 020 7415 5030

BISICHI MINING PLC

ANNUAL REPORT 2017

Building on success at Black Wattle

Earnings before interest, tax, depreciation and amortisation (EBITDA) of

£3.7million

(2016: £2.4 million)

Operating profit before depreciation, fair value adjustments and exchange movements (Adjusted EBITDA) of

£5.8million

(2016: £1.5 million)

Dividend yield of

7.1%

at year end share price.

***Strategic*** report

The directors present the ***Strategic*** Report of the company for the year ending 31 December 2017. The aim of the ***Strategic*** Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the company for the collective benefit of shareholders.

Chairman's Statement

For the year ended 31 December 2017, we are very pleased to report that your company achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of £3.7million (2016: £2.4 million) and operating profit before depreciation, fair value adjustments and exchange movements (Adjusted EBITDA) of £5.8million (2016: £1.5million).

These results can be attributed mainly to an improved ***performance*** in the second half of the year from Black Wattle, our South African coal mining operation. The decision by your management in the first half of the year to invest in significant infrastructure improvements to the mine's washing plant has allowed Black Wattle to mine at a higher rate of production and achieve an increased yield. In addition, the mine was able to benefit from significantly improved coal prices during the second half of the year. The permanent infrastructure improvements at Black Wattle will have a positive impact on the returns achievable from our existing coal reserves and should open up new opportunities to mine similar coal reserves in the surrounding area. Accordingly, we remain confident about the ability of our South African coal mining operations to continue to contribute to our group earnings and cash generation for the foreseeable future.

In other mining news, we are pleased to announce the appointment of Millicent Zvarayi to the Board of Black Wattle Colliery (Pty) Ltd. Since 2012, Ms Zvarayi has had a major role in the management of Black Wattle's export sales via Richards Bay Coal Terminal under the Quattro programme. As a member of its Board, we look forward to Ms Zvarayi's direct contribution to the development of Black Wattle's long term strategy.

A fuller explanation on the ***performance*** of our mining operations for the year can be found within the Mining Review and Financial & ***Performance*** Review sections of this report.

The company's UK retail property portfolio, which underpins the group and which is managed actively by London & Associated Properties Plc, continues to perform well, with average rental yields for the portfolio remaining stable during the year. A fuller explanation of the portfolio's valuation results and financial position are discussed in the Financial & ***Performance*** Review and Directors report.

Looking forward, management is currently investigating other major investment opportunities in both the mining sector and the domestic property sector and is conserving the group's cash reserves accordingly. This is in line with the company's stated strategy of balancing the high risk of our mining operations with a dependable cash flow from our UK property investment operations.

Finally, in light of the strong results achieved for the year, your directors recommend a special dividend of 1p (2016: Nil) per share in addition to a final dividend of 3p (2016: 3p). Both dividends will be payable on Friday 27 July 2018 to shareholders registered at the close of business on 6 July 2018. This takes the total dividends per share for the year to 5p (2016: 4p). Based on the 2017 year end share price, this represents a 7.1% yield.

On behalf of the Board and shareholders, I would like to thank all of our staff for their hard work during the course of the year.

Sir Michael Heller

Chairman

20 April 2018

Principal activity, strategy & business model

The company carries on business as a mining company and its principal activity is coal mining in South Africa. The company's strategy is to create and deliver long term sustainable value to all our stakeholders through our business model which can be broken down into three key areas

|  |  |  |
| --- | --- | --- |
| **1 Acquisition & investment** | **2 Production & sustainability** | **3 Processing & marketing** |
| **Strategy**  The group actively seeks new opportunities to extend the life of mine of its existing mining operations or develop new independent mining operations in South Africa. The group aims to achieve this through new commercial arrangements and the acquisition of additional coal reserves nearby to or independent from our existing mining operations. | **Strategy**  The group strives to mine its coal reserves in an economical and sustainable manner that delivers long term value to all our stakeholders. | **Strategy**  The group seeks to achieve additional value from its mining investments through the washing, transportation and marketing of coal into both the domestic and export markets. |

In addition to the three key areas outlined above, we seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations. The company invests in retail property across the UK. The UK property portfolio is managed by London & Associated Properties PLC whose responsibility is to actively manage the portfolio to improve rental income and thus enhance the value of the portfolio over time.

Mining Review

The strong ***performance*** of Black Wattle, our South African coal mining operation, can be attributed to increased mining production from our opencast reserves and the successful completion of coal infrastructure improvements to our washing plant. This allowed the group to benefit from the higher prices achievable for our coal, particularly in the second half of the year.

Production and operations

For the first half of 2017 production at Black Wattle was impacted by higher than expected seasonal rains as well as ongoing stone contamination issues at our opencast areas. Overall, the mine achieved mining production of 582,000 metric tonnes (2016 H1: 795,000 metric tonnes) during the first half of the year. The stone contamination issues affected both yield and mining production through the washing plant, thus impacting on sales volumes and earnings in the first half of the year.

During the second half of the year, further development of our opencast areas and the successful completion of infrastructure improvements to our washing plant allowed the mine to increase mining production to 714,000 metric tonnes (2016 H2: 465,000 tonnes) during the period. In addition, the completion of infrastructure improvements assisted in reducing the stone contamination through the washing plant and increasing our overall yield.

As a result of the higher production in the second half of the year, overall mining production from Black Wattle increased in 2017, with total mining production for the year of 1.30million metric tonnes (2016: 1.26million metric tonnes). As part of Black Wattle's mining plan, the opencast areas that were mined in 2017 will continue to be mined throughout 2018. We expect mining production levels achieved in the second half of 2017 to be maintained in 2018.

As mentioned in the Chairman's statement, the infrastructure improvements completed at Black Wattle in 2017 will continue to have a positive impact on the returns achievable from our remaining reserves. In addition, the new machinery will allow Black Wattle to mine or buy in coal from similar reserves within the area that may be affected by stone contamination issues thus broadening the scope of new opportunities for the group to extend the life of mine of our mining operations in South Africa.

Main trends/markets

During 2017 management continued to sell coal into both the export and domestic market. Black Wattle's export sales were via Richards Bay Coal Terminal and primarily under the Quattro programme, which allows junior black-economic empowerment coal producers direct access to the coal export market via Richards Bay Coal Terminal. We would like to thank Vunani Limited, our black economic empowered shareholders at Black Wattle, for managing and developing this opportunity.

Although International coal prices fell in the first half of 2017, a surge in the international price in the second half of the year ensured an overall improvement in prices achievable for our coal for the year. At the beginning of 2017, the average weekly price of Free on Board (FOB) Coal from Richards Bay Coal Terminal (API4) was $85. During the year the API4 price steadily decreased to around $70 by May 2017 before rebounding and steadily increasing to $95 by the end of the year. A less volatile South African Rand against the US Dollar ensured that the movements in the Rand prices achievable for our export coal as a result of exchange movements remained limited. Overall, the group achieved an average Rand price of R773 per tonne of export coal sold in 2017 from the mine compared to R632 in 2016.

In the domestic market, a continued high demand impacted positively on prices achievable for our coal in 2017. In the last quarter of 2016, the average Rand price achievable per tonne of coal sold was R276 increasing to R390 by the second quarter of 2017 and over R400 by the last quarter of 2017. Overall, the group achieved an average price of R397 per tonne of domestic coal sold in 2017 compared to R279 in 2016. Looking forward, domestic prices are expected to remain stable as long as the shortage of coal in the domestic market continues.

Overall, the increase in group revenue, compared to the prior year, can mainly be attributed to the higher volume of coal sold at Black Wattle as well as the higher prices achieved for our coal.

Looking forward into 2018, both the export and domestic coal prices have continued to remain stable at these higher levels and we continue to see strong demand for our coal in both markets.

Sustainable development

Black Wattle continues to strive to conduct business in a safe, environmentally and socially responsible manner. Some highlights of our Health, Safety and Environment ***performance*** in 2017:

· Black Wattle Colliery recorded one Lost Time Injury during 2017 (2016: One).

· No cases of Occupational Diseases were recorded.

· Zero claims for the Compensation for Occupational Diseases were submitted.

We continue to adhere and make progress in terms of our Social and Labour Plan and our various BEE initiatives. A fuller explanation of these can be found in our Sustainable Development Report on page 8.

Prospects

Looking forward to 2018, management will focus on maintaining production at the higher levels achieved in the second half of 2017 and increasing our life of mine through the acquisition of additional reserves. With strong demand and improved prices achievable for our coal, we believe the group is in a strong position to achieve significant value from our South African mining operations in 2018.

Andrew Heller

Managing Director

20 April 2018

Sustainable development

The group is fully committed to ensuring the sustainability of both our UK and South African mining operations and delivering long term value to all our stakeholders.

Health, Safety & Environment (HSE)

Black Wattle is committed to creating a safe and healthy working environment for its employees and the health and safety of our employees is of the utmost importance.

HSE ***performance*** in 2017:

No cases of Occupational Diseases were recorded.Zero claims for the Compensation for Occupational Diseases were submitted.No machines operating at Black Wattle exceeded the regulatory noise level.Black Wattle Colliery recorded one Lost time Injury during 2017.

In addition to the required personnel appointments and assignment of direct health and safety responsibilities on the mine, a system of Hazard Identification and Risk Assessments has been designed, implemented and maintained at Black Wattle.

Health and Safety training is conducted on an on going basis. We are pleased to report all relevant employees to date have received training in hazard identification and risk assessment in their work areas.

A medical surveillance system is also in place which provides management with information used in determining measures to eliminate, control and minimise employee health risks and hazards and all Occupational Health hazards are monitored on an on going basis.

Various systems to enhance the current HSE strategy have been introduced as follows:

In order to improve hazard identification before the commencing of tasks, mini risk assessment booklets have been distributed to all mine employees and long term contractors on the mine.Dover testing is conducted for all operators. Dover testing is a risk detection and accident reduction tool which identifies employees' problematic areas in their fundamental skills in order to receive appropriate training.On going basic rigging training is being conducted for all washing plant personnel.A Job Safety Analysis form is utilised to ensure effective identification of hazards in the workplace.In order to capture and record investigation findings from incidents, an incident recording sheet is utilised by line management and contractors.Black Wattle Colliery utilises ICAM (Incident Cause Analysis Method).On going training on conveyor belt operation is being conducted with all employees involved with this discipline.

Black wattle colliery social and labour plan (slp) progress

Black Wattle Colliery is committed to true transformation and empowerment as well as poverty eradication within the surrounding and labour providing communities.

Black Wattle is committed to providing opportunities for the sustainable socio-economic development of its stakeholders, such as:

Employees and their families, through Skills Development, Education Development, Human Resource Development, Empowerment and Progression Programmes.Surrounding and labour sending communities, through Local Economic Development, ***Rural*** and Community Development, Enterprise Development and Procurement Programmes.Empowering partners, through Broad-Based Black Economic Empowerment (BBBEE) and Joint Ventures with Historically Disadvantaged South African (HDSA) new mining entrants and enterprises.The company engages in on going consultation with its stakeholders to develop strong company-employee relationships, strong company-community relationships and strong company-HDSA enterprise relationships.

The key focus areas in terms of the detailed SLP programmes were updated as follows:

Implementation of new action plans, projects, targets and budgets were established through regular workshops with all stakeholders.A comprehensive desktop socio-economic assessment was undertaken on baseline data of the Steve Tshwete Local Municipality (STLM) and Nkangala District Municipality (NDM).Black Wattle has drawn up a new SLP Plan for the next five years (2017 - 2021).The current Black Wattle Colliery Local Economic Development (LED) programmes were upgraded, and new LED projects were selected in consultation with the key stakeholders from the STLM.An appropriate forum was established on the mine and a process initiated for the consultation, empowerment and participation of the employee representatives in the Black Wattle Colliery SLP process.Included within the new SLP Plan is a new LED project which includes the upgrading of Phumelele Secondary School in the Rockdale Township. The primary focus is to build additional facilities, including classrooms to cater for the growing population in the area.Black Wattle Colliery has concluded extensive work on various ***Agricultural*** projects as well as the E-Bag Recycling projects. The E-Bag Recycling project aims to minimize the environmental impact of post-consumer Polyethylene Terephthalate plastic (PET) on the South African landscape. The project was awarded the PET Entrepreneur award for 2013. To date in 2017, the E-Bag recycling project has initiated up to 70 local community jobs in the region. Black Wattle Colliery has entered into a joint venture project with Enviroserve Waste Management to further develop and ensure the future sustainability of this project.Various upgrades were initiated at the Evergreen School nearby to Black Wattle including the erection of new toilet facilities for the boys and girls, which formed part of the mines portable skills development programme for our employees.

Social, community and human rights issues

The group believes that it is in the shareholders' interests to consider social and human rights issues when conducting business activities both in the UK and South Africa.

Environment & Environment Management Programme

South Africa

Under the terms of the mine's Environmental Management Programme approved by the Department of Mineral Resource ("DMR"), Black Wattle undertakes a host of environmental protection activities to ensure that the approved Environmental Management Plan is fully implemented. In addition to these routine activities, Black Wattle regularly carries out environmental monitoring activities on and around the mine, including evaluation of ground water quality, air quality, noise and lighting levels, ground vibrations, air blast monitoring, and assessment of visual impacts. In addition to this Black Wattle also does quarterly monitoring of all boreholes around the mine to ensure that no contaminated water filters through to the surrounding communities.

Black Wattle is fully compliant with the regulatory requirements of the Department of Water Affairs and Forestry and has an approved water use licence.

Black Wattle Colliery has substantially improved its water management by erecting and upgrading all its pollution control dams in consultation with the Department of Water Affairs and Forestry.

A ***performance*** assessment audit was conducted to verify compliance to our Environmental Management Programme and no significant deviations were found.

United Kingdom

The group's UK activities are principally property investment whereby we provide premises which are rented to retail businesses. We seek to provide those tenants with good quality premises from which they can operate in an efficient and environmentally sound manner.

Procurement

Black Wattle is a level 7 contributor to B-BBEE and has achieved a 50% BEE procurement recognition level. In compliance with the Mining Charter and the Mineral and Petroleum Resource Development Act, Black Wattle has implemented a BBBEE-focussed procurement policy which strongly encourages our suppliers to establish and maintain BBBEE credentials. At present, BBBEE companies provide approximately 88 percent of Black Wattle's equipment and services.

We closely monitor our monthly expenditure and welcome potential BBBEE suppliers to compete for equipment and service contracts at Black Wattle.

Employment

As part of Black Wattle's commitment to the South African government Mining Charter, the company seeks to:

Expand opportunities for historically disadvantaged South Africans (HDSAs), including women, to enter the mining and minerals industry and benefit from the extraction and processing of the country's resources;Utilise the existing skills base for the empowerment of HDSAs; andExpand the skills base of HDSAs in order to serve the community.

In addition Black Wattle is committed to achieving the goals of the South African Employment Equity Act and is pleased to report the following:

Black Wattle Colliery has exceeded the 10 percent women in management and core mining target.Black Wattle Colliery has achieved 12 percent women in core mining.94 percent of the women at Black Wattle Colliery are HDSA females.

Black Wattle Colliery has successfully submitted their annual Employment Equity Report to the Department of Labour.

In terms of staff training some highlights for 2017 were:

11 employees were trained in ABET (Adult Basic Educational Training) on various levels;An additional 5 disabled women continued their training on ABET level one and two.2 HDSA Females have completed and qualified in their respective apprenticeships at the mine.Black Wattle had several of the staff of Silver Solutions CC, a black owned private contractor on the mine, trained to become competent to perform plastic pipe welding. The mine makes extensive use of their services in this area.

Employment terms and conditions for our employees based at our UK office and at our South African mining operations are regulated by and are operated in compliance with all relevant prevailing national and local legislation. Employment terms and conditions provided to mining staff meet or exceed the national average. The group's mining operations and coal washing plant facility are labour intensive and unionised. During the year no labour disputes, strikes or wage negotiations disrupted production or had a significant impact on earnings. The group's relations to date with labour representatives and labour related unions continue to remain strong.

In terms of directors, employees and gender representation, at the year end the group had 6 directors (6 male, 0 female), 7 senior managers (6 male, 1 female) and 196 employees (143 male, 53 female).

Green House Gas reporting

We have reported on all of the emission sources required under the Companies Act 2006 (***Strategic*** Report and Directors' Reports) Regulations.

The group has employed the Operational Control boundary definition to outline our carbon footprint boundary. Included within that boundary are Scope 1 & 2 emissions from coal extraction and onsite mining processes for Black Wattle Colliery. We have not measured and reported on our Scope 3 emissions sources. Excluded from the footprint boundary are emission sources considered non material by the group, including refrigerant use onsite.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and a methodology adapted from the Intergovernmental Panel on Climate Change (2006) to calculate fugitive emissions from surface coal mining activities. Further emission factors were used from UK Government's GHG Conversion Factors for company Reporting 2017.

|  |  |  |
| --- | --- | --- |
| The group's carbon footprint: | **2017**  **CO2e**  **Tonnes** | 2016  CO2e  Tonnes |
| **Emissions source:** |  |  |
| Scope 1 Combustion of fuel & operation of facilities | **15,575** | 11,860 |
| Scope 1 Emissions from coal mining activities | **22,683** | 22,171 |
| Scope 2 Electricity, heat, steam and cooling purchased for own use | **11,210** | 8,530 |
| **Total** | **49,468** | 42,561 |
| **Intensity:** |  |  |
| Intensity 1 Tonnes of CO2 per pound sterling of revenue | **0.0013** | 0.0019 |
| Intensity 2 Tonnes of CO2 per tonne of coal produced | **0.038** | 0.034 |

Principal risks & uncertainties

|  |  |
| --- | --- |
| **PRINCIPAL RISK** | ***PERFORMANCE* AND MANAGEMENT OF THE RISK** |
| **COAL PRICE RISK**  The group is exposed to coal price risk as its future revenues will be derived based on contracts or agreements with physical off-take partners at prices that will be determined by reference to market prices of coal at delivery date.  The group's South African mining operational earnings are significantly dependent on movements in both the export and domestic coal price.  The price of export sales is derived from a US Dollar-denominated export coal price and therefore the price achievable in South African Rands can be influenced by movements in exchange rates and overall global demand and supply.  The domestic market coal prices are denominated in South African Rand and are primarily dependant on local demand and supply. | The group primarily focuses on managing its underlying production costs to mitigate coal price volatility as well as from time to time entering into forward sales contracts with the goal of preserving future revenue streams. The group has not entered into any such contracts in 2017 and 2016.  The group's export and domestic sales are determined based on the ability to deliver the quality of coal required by each market and Quattro programme quotas, together with the market factors set out opposite. Volumes of export sales achieved during the year were primarily dependent on the mine's ability to produce the higher quality of coal required for export as well as allowable quotas under the Quattro programme and overall global demand. The volume of domestic market sales achieved during the year were primarily dependant on local demand and supply as well as the mine's ability to produce the lower overall quality of coal required. |
| **MINING RISK**  As with many mining operations, the reserve that is mined has the risk of not having the qualities and accessibility expected from geological and environmental analysis. This can have a negative impact on revenue and earnings as the quality and quantity of coal mined and sold by our mining operations may be lower than expected. | This risk is managed by engaging independent geological experts, referred to in the industry as the "Competent Person", to determine the estimated reserves and their technical and commercial feasibility for extraction. In addition, management engage Competent Persons to assist management in the production of detailed life of mine plans as well as in the monitoring of actual mining results versus expected ***performance*** and management's response to variances. The group continued to engage an independent Competent Person in the current year. Refer to page 6 for details of mining ***performance***. |
| **CURRENCY RISK**  The group's operations are sensitive to currency movements, especially those between the South African Rand, US Dollar and British Pound. These movements can have a negative impact on the group's mining operations revenue as noted above, as well as operational earnings.  The group is exposed to currency risk in regard to the Sterling value of inter-company trading balances with its South African operations. It arises as a result of the retranslation of Rand denominated inter-company trade receivable balances into Sterling that are held within the UK and which are payable by South African Rand functional currency subsidiaries.  The group is exposed to currency risk in regard to the retranslation of the group's South African functional currency net assets to the Sterling reporting functional currency of the group. A weakening of the South African Rand against Sterling can have a negative impact on the financial position and net asset values reported by the group. | Export sales within the group's South African operations are derived from a US Dollar-denominated export coal price. A weakening of the US Dollar can have a negative impact on the South African Rand prices achievable for coal sold by the group's South African mining operations. This in turn can have a negative impact on the group's mining operations revenue as well as operational earnings as the group's mining operating costs are Rand denominated. In order to mitigate this, the group may enter into forward sales contracts in local currencies with the goal of preserving future revenue streams. The group has not entered into any such contracts in 2017 and 2016.  Although it is not the group's policy to obtain forward contracts to mitigate foreign exchange risk on inter-company trading balances or on the retranslation of the group's South African functional currency net assets, management regularly review the requirement to do so in light of any increased risk of future volatility.  Refer to the 'Financial Review' for details of significant currency movement impacts in the year. |
| **NEW RESERVES AND MINING PERMISSIONS**  The life of the mine, acquisition of additional reserves, permissions to mine (including ongoing and once-off permissions) and new mining opportunities in South Africa generally are contingent on a number of factors outside of the group's control such as approval by the Department of Mineral Resources, the Department of Water Affairs and Forestry and other regulatory or state owned entities.  In addition, the group's South African operations are subject to the government Mining Charter.  Any regulatory changes to the Mining Charter, or failure to meet existing targets, could adversely affect the mine's ability to retain its mining rights in South Africa. | The maintenance of compliance with permits includes factors such as environmental management, health and safety, labour laws and Black Empowerment legislation; as failure to maintain appropriate controls and compliance may in turn result in the withdrawal of the necessary permissions to mine. The management of these regulatory risks and ***performance*** in the year is noted on page 17 under the headings environmental risk, health & safety risk and labour risk. Additionally, in order to mitigate this risk, the group strives to provide adequate resources to this area including the employment of adequate personnel and the utilisation of third party consultants competent in regulatory compliance related to mining rights and mining permissions  The group also continues to actively seek new opportunities to expand it mining operations in South Africa through the acquisition of additional coal reserves and new commercial arrangements with existing mining right holders. |
| **POWER SUPPLY RISK**  The current utility provider for power supply in South Africa is the government run Eskom. Eskom continues to undergo capacity problems resulting in power cuts and lack of provision of power supply to new projects. Any power cuts or lack of provision of power supply to the group's mining operations may disrupt mining production and impact on earnings. | The group's mining operations have to date not been affected by power cuts. However the group manages this risk through regular monitoring of Eskom's ***performance*** and ongoing ability to meet power requirements. In addition, the group continues to assess the ability to utilise diesel generators as an alternative means of securing power in the event of power outages. |
| **PRINCIPAL RISK** | ***PERFORMANCE* AND MANAGEMENT OF THE RISK** |
| **FLOODING RISK**  The group's mining operations are susceptible to seasonal flooding which could disrupt mining production and impact on earnings. | Management monitors water levels on an ongoing basis and various projects have been completed, including the construction of additional dams, to minimise the impact of this risk as far as possible. |
| **ENVIRONMENTAL RISK**  The group's South African mining operations are required to adhere to local environmental regulations. Any failure to adhere to local environmental regulations, could adversely affect the mine's ability to mine under its mining right in South Africa. | In line with all South African mining companies, the management of this risk is based on compliance with the Environment Management Plan. In order to ensure compliance, the group strives to provide adequate resources to this area including the employment of personnel and the utilisation of third party consultants competent in regulatory compliance related to environmental management.  To date, Black Wattle is fully compliant with the regulatory requirements of the Department of Water Affairs and Forestry and has an approved water use licence. Further details of the group's Environment Management Programme are disclosed in the Sustainable development report on page 9. |
| **HEALTH & SAFETY RISK**  Attached to mining there are inherent health and safety risks. Any such safety incidents disrupt operations, and can slow or even stop production. In addition, the group's South African mining operations are required to adhere to local Health and Safety regulations. | The group has a comprehensive Health and Safety programme in place to mitigate this risk. Management strive to create an environment where Health and safety of our employees is of the utmost importance. Our Health & Safety programme provides clear guidance on the standards our mining operation is expected to achieve. In addition, management receive regular updates on how our mining operations are performing. Further details of the group's Health and Safety Programme are disclosed in the Sustainable development report on page 8. |
| **LABOUR RISK**  The group's mining operations and coal washing plant facility are labour intensive and unionised. Any labour disputes, strikes or wage negotiations may disrupt production and impact earnings. | In order to mitigate this risk, the group strives to ensure open and transparent dialogue with employees across all levels. In addition, appropriate channels of communication are provided to all employment unions at Black Wattle to ensure effective and early engagement on employment matters, in particular wage negotiations and disputes.  Refer to the 'Employment' section on page 12 for further details. |
| **CASHFLOW RISK**  Commodity price risk, currency volatility and the uncertainties inherent in mining may result in favourable or unfavourable cashflows. | In order to mitigate this, we seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations which are actively managed by London & Associated Properties PLC. Due to the long term nature of the leases, the effect on cash flows from property investment activities are expected to remain stable as long as tenants remain in operation. Refer to page 22 for details of the property portfolio ***performance***. |
| **PROPERTY VALUATION RISK**  Fluctuations in property values, which are reflected in the Consolidated Income Statement and Balance Sheet, are dependent on an annual valuation of commercial properties. A fall in UK commercial property can have a marked effect on the profitability and the net asset value of the group as well as impact on covenants and other loan agreement obligations.  The economic ***performance*** of the United Kingdom, including the potential impact of the United Kingdom leaving the European Union ("Brexit"), may impact the level of rental income, yields and associated property valuations of the group's UK property assets. | The group utilises the services of London & Associated Properties PLC whose responsibility is to actively manage the portfolio to improve rental income and thus enhance the value of the portfolio over time. In addition, management regularly monitor banking covenants and other loan agreement obligations as well as the ***performance*** of our property assets in relation to the overall market over time.  Management continue to monitor and evaluate the impact of Brexit on the future ***performance*** of the Group's existing UK portfolio. In addition, the group assesses on an ongoing basis the impact of Brexit on the group's banking covenants, loan obligations and future investment decisions.  Refer to page 22 for details of the property portfolio ***performance***. |

Financial & ***performance*** review

The movement in the Group's Adjusted EBITDA from £1.5million in 2016 to £5.8million in 2017 can mainly be attributed to the higher prices achieved for our coal and increased mining production at Black Wattle offsetting the impact of higher mining and washing costs. As we continue into 2018, the group's financial position remains strong and we expect to achieve significant value from our existing mining operations as noted in the Mining Review.

EBITDA, adjusted EBITDA and mining production are used as key ***performance*** ***indicators*** for the group and its mining activities as the group has a ***strategic*** focus on the long term development of its existing mining reserves and the acquisition of additional mining reserves in order to realise shareholder value. Mining production can be defined as the coal quantity in metric tonnes extracted from our reserves during the period and held by the mine before any processing through the washing plant. Whilst profit/(loss) before tax is considered as one of the key ***performance*** ***indicators*** of the group, the profitability of the group and the group's mining activities can be impacted by the volatile and capital intensive nature of the mining sector. Accordingly, EBITDA and adjusted EBITDA are primarily used as key ***performance*** ***indicators*** as they are indicative of the value associated with the group's mining assets expected to be realised over the long term life of the group's mining reserves. In addition, for the group's property investment operations, the net property valuation and net property revenue are utilised as key ***performance*** ***indicators*** as the group's substantial property portfolio reduces the risk profile for shareholders by providing stable cash generative UK assets and access to capital appreciation.

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| **Key *performance* *indicators***  The key ***performance*** ***indicators*** for the group are: | **2017**  **£'000** | 2016  £'000 |
| **For the group:** |  |  |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **5,819** | 1,516 |
| EBITDA | **3,734** | 2,415 |
| Profit/(loss) before tax | **1,485** | 346 |
| **For our property investment operations:** |  |  |
| Net property valuation (excluding joint ventures) | **13,245** | 13,245 |
| Net property revenue (excluding joint ventures) | **1,125** | 1,084 |
| **For our mining activities:** |  |  |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **4,894** | 755 |
| EBITDA | **2,811** | 1,204 |

|  |  |  |
| --- | --- | --- |
|  | **Tonnes**  **'000** | Tonnes  '000 |
| Mining production | **1,296** | 1,260 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| The key ***performance*** ***indicators*** of the group can be reconciled as follows: | Mining  £'000 | Property  £'000 | Other  £'000 | **2017**  **£'000** |
| **Revenue** | **36,300** | **1,125** | **34** | **37,459** |
| Mining and washing costs | (25,664) | - | - | **(25,664)** |
| Other operating costs excluding depreciation | (5,742) | (228) | (6) | **(5,976)** |
| **Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA)** | **4,894** | **897** | **28** | **5,819** |
| Exchange movements | (256) | - | - | **(256)** |
| Fair value adjustments | - | (13) | - | **(13)** |
| Gain on disposal of other investments | - | - | 3 | **3** |
| Operating profit excluding depreciation | 4,638 | 884 | 31 | **5,553** |
| Share of (loss)/profit and write off's in joint venture | (1,827) | 8 | - | **(1,819)** |
| **EBITDA** | **2,811** | **892** | **31** | **3,734** |
| Net interest movement |  |  |  | **(459)** |
| Depreciation |  |  |  | **(1,790)** |
| **Profit/(loss) before tax** |  |  |  | **1,485** |

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| --- | --- | --- | --- | --- |
| The key ***performance*** ***indicators*** of the group can be reconciled as follows: | Mining  £'000 | Property  £'000 | Other  £'000 | **2016**  **£'000** |
| **Revenue** | **21,703** | **1,084** | **28** | **22,815** |
| Mining and washing costs | (16,184) | - | - | **(16,184)** |
| Other operating costs excluding depreciation | (4,764) | (348) | (3) | **(5,115)** |
| **Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA)** | **755** | **736** | **25** | **1,516** |
| Exchange movements | 449 | - | - | **449** |
| Fair value adjustments | - | 445 | 12 | **457** |
| Operating profit excluding depreciation | 1,204 | 1,181 | 37 | **2,422** |
| Share of (loss)/profit in joint venture | - | (7) | - | **(7)** |
| **EBITDA** | **1,204** | **1,174** | **37** | **2,415** |
| Net interest movement |  |  |  | **(284)** |
| Depreciation |  |  |  | **(1,785)** |
| **Profit/(loss) before tax** |  |  |  | **346** |

Adjusted EBITDA is used as a key ***indicator*** of the trading ***performance*** of the group and its operating segments representing operating profit  before the impact of depreciation, fair value adjustments, gains/(losses) on disposal of other investments and foreign exchange movements. The group's operating segments include its South African mining operations and UK property investments. The ***performance*** of these two operating segments are discussed in more detail below.

The group achieved EBITDA for the year of £3.7 million (2016: £2.4million). The movement compared to the prior year can mainly be attributed to increased operating profits before depreciation from our mining activities of £4.9million (2016: £1.2million) offset by the group's share of losses in joint venture mining assets of £1.8million (2016: £nil). The share of losses in joint ventures can be attributed to the write off of our joint venture mining investment in Ezimbokodweni Mining (Pty) LTD of £1.8million which is discussed in further detail below.

Depreciation for the year, related to our mining operations, remained stable at £1.8million (2016: £1.8million) with the group reporting an overall profit before tax of £1.5million (2016: £0.3million).

SOUTH AFRICAN MINING OPERATIONS

***Performance***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| The key ***performance*** ***indicators*** of the group's South African mining operations are presented in South African Rand and UK Sterling as follows: | South African Rand | UK Sterling |  |  |
| **2017**  **R'000** | 2016  R'000 | **2017**  **£'000** | 2016  £'000 |  |
| Revenue | **622,691** | 432,481 | **36,300** | 21,703 |
| Mining and washing costs | **(440,241)** | (322,505) | **(25,664)** | (16,184) |
| Operating profit before other operating costs and depreciation | **182,450** | 109,976 | **10,636** | 5,519 |
| Other operating costs (excluding depreciation) |  |  | **(5,742)** | (4,764) |
| **Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA)** |  |  | **4,894** | 755 |
| Exchange movements |  |  | **(256)** | 449 |
| Share of loss in joint ventures |  |  | **(1,827)** | - |
| **EBITDA** |  |  | **2,811** | 1,204 |

|  |  |  |
| --- | --- | --- |
|  | **2017**  **'000** | 2016  '000 |
| **Mining production in tonnes** | **1,296** | 1,260 |

|  |  |  |
| --- | --- | --- |
|  | **2017**  **R** | 2016  R |
| Revenue per tonne of mining production | **480** | 343 |
| Mining and washing costs per tonne of mining production | **(340)** | (256) |
| Operating profit per tonne of mining production before other operating costs and depreciation | **140** | 87 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A breakdown of the quantity of coal sold and revenue of the group's South African mining operations are presented in metric tonnes and South African Rand as follows: |  |  |  |  |  |  |
|  | **Domestic**  **'000** | **Export**  **'000** | **2017**  **'000** | Domestic  '000 | Export  '000 | 2016  '000 |
| **Quantity of coal sold in tonnes** | **1,267** | **155** | **1,422** | 1,219 | 147 | 1,366 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Domestic**  **R'000** | **Export**  **R'000** | **2017**  **R'000** | Domestic  R'000 | Export  R'000 | 2016  R'000 |
| **Total Revenue** | **502,818** | **119,873** | **622,691** | 339,611 | 92,870 | 432,481 |
|  | **R** | **R** | **R** | R | R | R |
| **Revenue per tonne of coal sold** | **397** | **773** | **438** | 279 | 632 | 317 |

The quantity of coal sold can be defined as the quantity of coal sold in metric tonnes from the mine in any given period. Revenue per tonne of coal sold can be defined as the net revenue price achieved per metric tonne of coal sold.

Total revenue for the group's mining operations increased for the year from R317 per tonne of coal sold in 2016 to R438 in 2017, attributable to the average price increases achieved in both the domestic and export market. As a result of the overall higher mining production, the quantity of coal sold for the year increased to 1.422million tonnes (2016: 1.366million tonnes). Overall, the revenue for the group's South African mining operations increased in the year to R622.7million (2016: R432.5 million).

The overall increase in cost per tonne from R256 per tonne to R340 per tonne can mainly be attributed to the movement of mining operations to new opencast reserves at Black Wattle which have higher inherent mining costs. As a result of the higher mining cost per tonne and the increase in total mining production, total mining and washing costs for the group increased from R322.5million in 2016 to R440.2million in 2017.

Other operating costs (excluding depreciation) of £5.7million (2016: £4.8million) include general administrative costs as well as administrative salaries and wages related to our South African mining operations that are incurred both in South Africa and in the UK. These costs are not significantly impacted by movements in mining production and the increase during the year can mainly be attributed to exchange movements on the translation of South African Rand costs into Sterling. Overall costs were in line with management's expectations and local inflation.

Overall, the group's South African mining operations achieved an adjusted EBITDA of £4.9million (2016: £0.8million) attributable to the increase in mining production for the year and higher prices achievable for our coal offsetting the higher mining cost per tonne of our new opencast reserves.

The group's EBITDA for mining activities of £2.8million (2016: £1.2million) for the year, in comparison to the result achieved for adjusted EBITDA were negatively impacted by the share of loss in joint ventures of £1.8million (2016: £nil) related to the write off of our investment in Ezimbokodweni Mining (Pty) Ltd as well as an exchange rate loss of £0.3million in the current year compared to an exchange rate gain of £0.4million incurred during the prior year. These exchange movements can mainly be attributable to the retranslation of Rand denominated inter-company trade receivable balances with our South African mining operations that are held within the UK.

A further explanation of the mines operational ***performance*** can be found in the Mining Review on page 6.

Other mining Investments

During the year the group wrote off its £1.8million investment in Ezimbokodweni Mining (Pty) Limited ("Ezimbokodweni") made up of a £1.4million loan (2016: £1.4million) and a £0.4million (2016: £0.4million) joint venture investment.

The carrying value of the investment was dependent upon the completion of the acquisition of the Pegasus coal project ("the project") in South Africa. Although a proposed sale and purchase agreement had been negotiated and a deposit paid for the project, the conclusion of the transaction had been delayed pending the commercial transfer of the prospecting right from the current owners of the project to Ezimbokodweni. Although the group has always remained committed to completing the transaction, previous negotiations to complete the commercial acquisition of the project had been beset by various delays outside of its control and at the beginning of 2017, the current owners of the project notified Ezimbokodweni that they no longer wished to divest the project. More recently, the group was notified that an agreement was reached between the current owners of the project and the directors of Ezimbokodweni for the deposit for the project to be returned and any further negotiations with Ezimbokodweni to acquire the project to be terminated. Although, a legal claim by the group has been issued against Ezimbokodweni and its representatives, in order for the group to recover some of the investment, the Board has considered it to be appropriate to write off the investment in full in the 2017 year end.

Uk property investment

***Performance***

The group's portfolio is managed actively by London & Associated properties plc and continues to perform well with net property revenue (excluding joint ventures) across the portfolio increasing marginally during the year to £1.125million (2016: £1.084million). The property portfolio was externally valued at 31 December 2017 and the value of UK investment properties attributable to the group at year end remained unchanged at £13.25 million (2016: £13.25million).

Joint venture property investments

The group holds a £0.9million (2016: £0.9million) joint venture investment in Dragon Retail Properties Limited, a UK property investment company. The open market value of the company's share of investment properties included within its joint venture investment in Dragon Retail Properties remained unchanged at £1.3million (2016: £1.3million).

Overall, the group achieved net property revenue of £1.21million (2016: £1.17million) for the year which includes the company's share of net property revenue from its investment in joint ventures of £83,000 (2016: £86,000).

Loans

South Africa

In July 2017, the group increased its South African structured trade finance facility with Absa Bank Limited from R80million (South African Rand) to R100million. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. This facility comprises of a R80million revolving facility to cover the fluctuating working capital requirements of the group's South African operations, and a fully drawn R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The Board anticipate the facility will be renewed again this year.

United Kingdom

In December 2014, the group signed a £6 million term loan facility with Santander. The Loan is secured against the group's UK retail property portfolio. The facility has a five year term, and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR. No covenants were breached during the year.

|  |  |  |
| --- | --- | --- |
| **Cashflow & financial position**  The following table summarises the main components of the consolidated cashflow for the year: | **Year ended**  **31 December**  **2017**  **£'000** | Year ended  31 December  2016  £'000 |
| **Cash flow generated from operations before working capital and other items** | **5,819** | 1,625 |
| **Cash flow from operating activities** | **7,270** | 2,614 |
| **Cash flow from investing activities** | **(1,936)** | (1,691) |
| **Cash flow from financing activities** | **(429)** | (521) |
| **Net (decrease) / increase in cash and cash equivalents** | **4,905** | 402 |
| Cash and cash equivalents at 1 January | **(890)** | (626) |
| Exchange adjustment | **50** | (666) |
| **Cash and cash equivalents at 31 December** | **4,065** | (890) |
| **Cash and cash equivalents at 31 December comprise:** |  |  |
| Cash and cash equivalents as presented in the balance sheet | **5,327** | 2,444 |
| Bank overdrafts (secured) | **(1,262)** | (3,334) |
|  | **4,065** | (890) |

Cash flow generated from operating activities increased compared to the prior year to £7.3million (2016: £2.6 million) mainly due to the improved operating ***performance*** of our South African mining operations, as outlined above. Overall the group achieved an increase in operating profit during the year of £3.8million (2016: £0.6million). In addition to operating profit, the increase in cashflow generation from operating activities can also be attributed to a cashflow increase from trade receivables of £0.9million (2016: £0.2million), as a result of an decrease in the trade receivables balances of our South African domestic coal customers, and a cashflow increase from inventories of £0.9million (2016: decrease of £0.26million), as a result of improved coal sales from our South African mining operations in the last quarter of 2017.

Investing cashflows primarily reflect the net effect of capital expenditure during the year of £1.8million (2016: £2.9million) which can mainly be attributable to the new infrastructure improvements to the washing plant facility at Black Wattle, as outlined in the Mining Review. As at year end the group's mining reserves, plant and equipment had a net asset value of £8.6million (2016: £8.5million) with capital expenditure being offset by depreciation of £1.8million (2016: £1.8milion) for the year.

Cash outflows from financing activities included dividends paid to shareholders of £0.4million (2016: 0.4 million).

Overall, the group managed to achieve an overall increase in cash and cash equivalents of £4.9million (2016: £0.4million) for the year. After taking into account an exchange gain of £0.05million (2016: loss of £0.7million) on the translation of the group's year end net balance of cash and cash equivalents that were held in South African Rands, the group's net balance of cash and cash equivalents (including bank overdrafts) at year end was £4.1 million (2016: balance owing of: £0.9million).

The group has considerable financial resources available at short notice including cash and cash equivalents (excluding bank overdrafts) of £5.3million (2016: £2.4million), investments available for sale of £1.1million (2016: £0.8million) and its £2m loan to Dragon Retail Properties Limited which accrues annual interest at 6.875 per cent. The above financial resources totalling £8.4million (2016: £5.2million).

The net assets of the group reported as at year end were £17.7million (2016: £17.0million). Total assets remained stable at £36.6million (2016: £36.9million) mainly due to a decrease in inventory and trade receivables balances at year end, as outlined above, and the write off of the groups' joint venture investment in Ezimbokodweni Mining (Pty) Ltd of £1.8million offsetting the increase in the groups' cash and cash equivalents balance from £2.4million to £5.3million during the year. Liabilities decreased from £19.9million to £18.8million during the year primarily due to a decrease in current borrowings from £3.4million in 2016 to £1.3million in 2017. This decrease can mainly be attributed to a decrease in borrowings drawn from the groups' South African structured trade facility utilised by the groups' mining operations. The overall exchange gain recorded through the translation reserve on translation of the group's South African net assets at year end decreased to £0.1million (2016: £1.0million) as a result of the reduced movement of the South African Rand against UK sterling year to year.

Further details on the group's cashflow and financial position are stated in the Consolidated Cashflow Statement on page 59 and the Consolidated Balance Sheet on page 56.

FUTURE PROSPECTS

As we continue into 2018, the group's financial position remains strong and we expect to achieve significant additional value from our existing mining operations. The group continues to seek to expand its operations in South Africa through the acquisition of additional coal reserves, in particular in areas surrounding Black Wattle where additional value can be achieved through the use of our existing infrastructure. In addition, management is currently investigating other major investment opportunities in the domestic property sector in line with the groups' overall strategy of balancing the high risk of our mining operations with a dependable cash flow and capital appreciation from our UK property investment operations.

Further information on the outlook of the company can be found in both the Chairman's Statement on page 2 and the Mining Review on page 6 which form part of the ***Strategic*** Report.

Signed on behalf of the Board of Directors

Garrett Casey

Finance Director

20 April 2018

Governance

Management team

1Sir Michael Heller

   Chairman

   Bisichi Mining PLC

2Andrew Heller

   Managing Director

   Bisichi Mining PLC

   Managing Director

   Black Wattle Colliery

3Christopher Joll

Senior Independent Director

Chairman Audit and Remuneration Committees

4Garrett Casey

Finance Director

Bisichi Mining PLC

Director Black Wattle Colliery

5Robert Grobler

Director of Mining

Bisichi Mining PLC

Director Black Wattle Colliery

6Ethan Dube

   Director

   Black Wattle Colliery

7Millicent Zvarayi

Director

Black Wattle Colliery

8Nico Serfontein

   Mine Manager

   Black Wattle Colliery

Directors and advisors

\*    Sir Michael Heller

      MA, FCA (Chairman)

      Andrew R Heller

      MA, ACA

      (Managing Director)

     Garrett Casey

      CA (SA)

      (Finance Director)

      Robert Grobler

      Pr Cert Eng

      (Director of mining)

O+ Christopher A Joll

          MA (Non-executive)

Christopher Joll was appointed a Director on 1 February 2001. He has held a number of non-executive directorships of quoted and un-quoted companies and is currently senior partner of MJ2 Events LLP an event management business.

O \*John A Sibbald

          BL (Non-executive)

John Sibbald has been a Director since 1988. After qualifying as a Chartered Accountant he spent over 20 years in stockbroking, specialising in mining and international investment.

\*Member of the nomination committee

+Senior independent director

O Member of the audit, nomination and remuneration committees.

Secretary andregistered office

Garrett Casey CA (SA)

24 Bruton Place

London W1J 6NE

Black Wattle CollieryDirectors

Andrew Heller

(Managing Director)

Ethan Dube

Robert Grobler Millicent Zvarayi

Garrett Casey

Property portfolio asset manager

James Charlton BSc MRICS

Company Registration

Company registration No. 112155 (Incorporated in England and Wales)

Website

[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk)

E-mail

[*admin@bisichi.co.uk*](mailto:admin@bisichi.co.uk)

Auditor

BDO LLP

Principal bankers

United Kingdom

Santander UK PLC

National Westminster Bank PLC

Investec PLC

South Africa

ABSA Bank (SA)

First National Bank (SA)

Standard Bank (SA)

Corporate solicitors

United Kingdom

Fladgate LLP, London

Memery Crystal, London

Olswang LLP, London

South Africa

Brandmullers Attorneys, Middelburg

Herbert Smith Freehills, Johannesburg

Hogan Lovells, Johannesburg

Tugendhaft Wapnick Banchetti and Partners, Johannesburg

Stockbrokers

Shore Capital & Corporate Ltd

Registrars and transfer office

Link Asset Services

65 Gresham Street

London

EC2V 7NQ

Telephone 0871 664 0300

(Calls cost 12p per minute + network extras) or

+44 (0) 371 664 0300 for overseas callers

[*http://www.linkassetservices.com*](http://www.linkassetservices.com)

[*Email:shareholderenquiries@linkgroup.co.uk*](mailto:Email:shareholderenquiries@linkgroup.co.uk)

Five year summary

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 | 2014  £'000 | 2013  £'000 | 2012  £'000 |
| **Consolidated income statement items** |  |  |  |  |  |
| Revenue | **37,459** | 22,815 | 25,655 | 26,500 | 35,105 |
| Operating profit/(loss) | **3,763** | 637 | 150 | 1,364 | 123 |
| Profit/(loss) before tax | **1,485** | 346 | (147) | 1,568 | 102 |
| Trading profit/(loss) before tax | **3,317** | (74) | (188) | 1,157 | 17 |
| Revaluation and impairment profit/(loss) before tax | **(1,832)** | 420 | 41 | 411 | 85 |
| EBITDA | **3,734** | 2,415 | 1,365 | 4,609 | 3,039 |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **5,819** | 1,516 | 1,717 | 4,276 | 3,834 |
|  |  |  |  |  |  |
| **Consolidated balance sheet items** |  |  |  |  |  |
| Investment properties | **13,245** | 13,245 | 12,800 | 11,575 | 11,559 |
| Fixed asset investments | **925** | 2,703 | 2,112 | 4,090 | 4,370 |
|  | **14,170** | 15,948 | 14,912 | 15,665 | 15,929 |
| Available for sale investments | **1,050** | 781 | 594 | 796 | 822 |
|  | **15,220** | 16,729 | 15,506 | 16,461 | 16,751 |
| Other assets less liabilities less non-controlling interests | **1,922** | (72) | (196) | 854 | (123) |
| **Total equity attributable to equity shareholders** | **17,142** | 16,657 | 15,310 | 17,315 | 16,628 |
| **Net assets per ordinary share (attributable)** | **160.6p** | 156.0p | 143.4p | 162.2p | 156.3p |
| **Dividend per share** | **5.00p** | 4.00p | 4.00p | 4.00p | 4.00p |

Financial calendar

|  |  |
| --- | --- |
| **6 June 2018** | Annual General Meeting |
| **27 July 2018** | Payment of final and special dividend for 2017 (if approved) |
| **Late August 2018** | Announcement of half-year results to 30 June 2018 |
| **Late April 2019** | Announcement of results for year ending 31 December 2018 |

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

Review of business, future developments and post balance sheet events

The group continues its mining activities. Income for the year was derived from sales of coal from its South African operations. The group also has a property investment portfolio for which it receives rental income.

The results for the year and state of affairs of the group and the company at 31 December 2017 are shown on pages 54 to 94 and in the ***Strategic*** Report on pages 2 to 23. Future developments and prospects are also covered in the ***Strategic*** Report and further details of any post balance sheet events can be found in note 31 to the financial statements. Over 99 per cent. of staff are employed in the South African coal mining industry - employment matters and health and safety are dealt with in the ***Strategic*** Report.

The management report referred to in the Director's responsibilities statement encompasses this Directors' Report and ***Strategic*** Report on pages 2 to 23.

Corporate responsibility

Environment

The environmental considerations of the group's South African coal mining operations are covered in the ***Strategic*** Report on pages 2 to 23.

The group's UK activities are principally property investment whereby premises are provided for rent to retail businesses. The group seeks to provide those tenants with good quality premises from which they can operate in an efficient and environmentally friendly manner. Wherever possible, improvements, repairs and replacements are made in an environmentally efficient manner and waste re-cycling arrangements are in place at all the company's locations.

Greenhouse Gas Emissions

Details of the group's greenhouse gas emissions for the year ended 31 December 2017 can be found on page 12 of the ***Strategic*** Report.

Employment

The group's policy is to attract staff and motivate employees by offering competitive terms of employment. The group provides equal opportunities to all employees and prospective employees including those who are disabled. The ***Strategic*** Report gives details of the group's activities and policies concerning the employment, training, health and safety and community support and social development concerning the group's employees in South Africa.

Dividend policy

An interim dividend for 2017 of 1p was paid on 9 February 2018 (Interim 2016: 1p). The directors recommend the payment of a final dividend for 2017 of 3p per ordinary share (2016: 3p) as well as a special dividend of 1p (2016: Nil) making a total dividend for 2017 of 5p (2016: 4p).

Subject to shareholder approval, the total dividend per ordinary share for 2017 will be 5p per ordinary share.

The final dividend and the special dividend will be payable on Friday 27 July 2018 to shareholders registered at the close of business on 6 July 2018.

Investment properties

The investment property portfolio is stated at its open market value of £13,245,000 at 31 December 2017 (2016: £13,245,000) as valued by professional external valuers. The open market value of the company's share of investment properties included within its investments in joint ventures is £1,315,000 (2016: £1,315,000).

Financial instruments

Note 21 to the financial statements sets out the risks in respect of financial instruments. The Board reviews and agrees overall treasury policies, delegating appropriate authority to the managing director. Financial instruments are used to manage the financial risks facing the group. Treasury operations are reported at each Board meeting and are subject to weekly internal reporting.

Directors

The directors of the company for the whole year were Sir Michael Heller, A R Heller, G J Casey, C A Joll, R J Grobler (a South African citizen), and J A Sibbald.

The directors retiring by rotation are Mr A R Heller and Mr R J Grobler who offers themselves for re-election.

Mr A R Heller has been an executive director of the company since 1998. He is a Chartered Accountant and has been employed by the group since 1994 under a contract of employment determinable at three months' notice. The board recommends the re-election of AR Heller.

Mr R J Grobler was appointed as General Mine Manager by Black Wattle Colliery (Proprietary) Ltd on 1 May 2000. He was appointed to the Board of Bisichi Mining PLC as Director of Mining on 22 August 2008. He has over 40 years' experience in the South African coal mining industry. The board recommends the re-election of RJ Grobler.

No director had any material interest in any contract or arrangement with the company during the year other than as shown in this report.

Directors' shareholdings

The interests of the directors in the shares of the company, including family and trustee holdings where appropriate, are shown on

page 38 of the Annual Remuneration Report.

Substantial interests

The following have advised that they have an interest in 3 per cent. or more of the issued share capital of the company as at 16 April 2018:

London & Associated Properties PLC - 4,432,618 shares representing 41.52 per cent. of the issued capital. (Sir Michael Heller is a director and shareholder of London & Associated Properties PLC).

|  |  |
| --- | --- |
| Sir Michael Heller - | 330,117 shares representing 3.09 per cent. of the issued capital. |
| A R Heller - | 785,012 shares representing 7.35 per cent. of the issued capital. |
| Cavendish Asset Management  Limited - | 1,892,654 shares representing 17.73 per cent. of the issued share capital. |
| James Hyslop - | 351,126 shares representing 3.29 per cent. of the issued share capital. |

Disclosure of information to auditor

The directors in office at the date of approval of the financial statements have confirmed that as far as they are aware that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all reasonable steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

INDEMNITIES AND INSURANCE

The Articles of Association and Constitution of the company provide for them to indemnify, to the extent permitted by law, directors and officers (excluding the Auditor) of the companies, including officers of subsidiaries, and associated companies against liabilities arising from the conduct of the Group's business. The indemnities are qualifying third-party indemnity provisions for the purposes of the UK Companies Act 2006 and each of these qualifying third-party indemnities was in force during the course of the financial year ended 31 December 2017 and as at the date of this Directors' report. No amount has been paid under any of these indemnities during the year.

The Group has purchased directors' and officers' insurance during the year. In broad terms, the insurance cover indemnifies individual directors and officers against certain personal legal liability and legal defence costs for claims arising out of actions taken in connection with Group business.

CORPORATE GOVERNANCE

The Board acknowledges the importance of the guidelines set out in the Quoted Companies Alliance (QCA) published Corporate Governance Code and complies with these so far as is appropriate having regard to the size and nature of the company. The paragraphs below set out how the company has applied this guidance during the year.

Principles of corporate governance

The group's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management, but also as a positive contribution to business prosperity. The Board endeavours to apply corporate governance principles in a sensible and pragmatic fashion having regard to the circumstances of the group's business. The key objective is to enhance and protect shareholder value.

Board structure

During the year the Board comprised the executive chairman, the managing director, two other executive directors and two non-executive directors. Their details appear on page 27. The Board is responsible to shareholders for the proper management of the group. The Directors' responsibilities statement in respect of the accounts is set out on page 46. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the group. The Board has a formal schedule of matters reserved to it and meets bi-monthly.

The Board is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following Board committees, which have written terms of reference, deal with specific aspects of the group's affairs:

The nomination committee is chaired by Christopher Joll and comprises the non-executive directors and the executive chairman. The committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist the process. Each director is subject to re-election at least every three years.The remuneration committee is responsible for making recommendations to the Board on the company's framework of executive remuneration and its cost. The committee determines the contractual terms, remuneration and other benefits for each of the executive directors, including ***performance*** related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The committee comprises the non-executive directors. It is chaired by Christopher Joll. The company's executive chairman is normally invited to attend meetings. The report on directors' remuneration is set out on pages 35 to 42.The audit committee comprises the two non-executive directors and is chaired by Christopher Joll. Its prime tasks are to review the scope of external audit, to receive regular reports from the company's auditor and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the group's internal control and risk management systems and processes. The committee also considers annually the need for an internal audit function. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The committee, which meets formally at least twice a year, provides a forum for reporting by the group's external auditors.

Meetings are also attended, by invitation, by the company chairman, managing director and finance director.

The audit committee also undertakes a formal assessment of the auditors' independence each year which includes:

a review of non-audit services provided to the group and related fees;discussion with the auditors of a written report detailing consideration of any matters that could affect independence or the perception of independence;a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; andobtaining written confirmation from the auditors that, in their professional judgement, they are independent.

The audit committee report is set out on page 43.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 4 to the financial statements.

***Performance*** evaluation - board, board committees and directors

The ***performance*** of the board as a whole and of its committees and the non-executive directors is assessed by the chairman and the managing director and is discussed with the senior independent director. Their recommendations are discussed at the nomination committee prior to proposals for re-election being recommended to the Board. The ***performance*** of executive directors is discussed and assessed by the remuneration committee. The senior independent director meets regularly with the chairman and both the executive and non-executive directors individually outside of formal meetings. The directors will take outside advice in reviewing ***performance*** but have not found this necessary to date.

Independent directors

The senior independent non-executive director is Christopher Joll. The other independent non-executive director is John Sibbald.

Christopher Joll has been a non-executive director for over fifteen years and John Sibbald has been a non-executive director for over twenty five years. The Board encourages Christopher Joll and John Sibbald to act independently. The board considers that their length of service and connection with the company's public relations advisers, does not, and has not, resulted in their inability or failure to act independently. In the opinion of the Board, Christopher Joll and John Sibbald continue to fulfil their role as independent non-executive directors.

The independent directors regularly meet prior to Board meetings to discuss corporate governance issues.

Board and board committee meetings

The number of meetings during 2017 and attendance at regular Board meetings and Board committees was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Meetings  held | Meetings Attended |
| Sir Michael Heller | Board  Nomination committee | 5  1 | 5  1 |
| A R Heller | Board  Audit committee | 5  2 | 5  2 |
| G J Casey | Board  Audit committee | 5  2 | 5  2 |
| R J Grobler | Board | 5 | 1 |
| C A Joll | Board  Audit committee  Nomination committee  Remuneration committee | 5  2  1  1 | 5  2  1  1 |
| J A Sibbald | Board  Audit committee  Nomination committee  Remuneration committee | 5  2  1  1 | 5  2  1  1 |

Internal control

The directors are responsible for the group's system of internal control and review of its effectiveness annually. The Board has designed the group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility and with appropriate delegation of authority;there are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the group's financial ***performance*** against approved budgets and forecasts;UK property and financial operations are closely monitored by members of the Board and senior managers to enable them to assess risk and address the adequacy of measures in place for its monitoring and control. The South African operations are closely supervised by the UK based executives through daily, weekly and monthly reports from the directors and senior officers in South Africa. This is supplemented by monthly visits by the UK based finance director to the South African operations which include checking the integrity of information supplied to the UK. The directors are guided by the internal control guidance for directors issued by the Institute of Chartered Accountants in England and Wales.

During the period, the audit committee has reviewed the effectiveness of internal control as described above. The Board receives periodic reports from its committees.

There are no significant issues disclosed in the Annual Report for the year ended 31 December 2017 (and up to the date of approval of the report) concerning material internal control issues. The directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period.

Communication with shareholders

Communication with shareholders is a matter of priority. Extensive information about the group and its activities is given in the Annual Report, which is made available to shareholders. Further information is available on the company's website,[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk). There is a regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the group are dealt with informatively and promptly.

Takeover directive

The company has one class of share capital, ordinary shares. Each ordinary share carries one vote. All the ordinary shares rank pari passu. There are no securities issued in the company which carry special rights with regard to control of the company. The identity of all substantial direct or indirect holders of securities in the company and the size and nature of their holdings is shown under the "Substantial interests" section of this report above.

A relationship agreement dated 15 September 2005 (the "Relationship Agreement") was entered into between the company and London & Associated Properties PLC ("LAP") in regard to the arrangements between them whilst LAP is a controlling shareholder of the company. The Relationship Agreement includes a provision under which LAP has agreed to exercise the voting rights attached to the ordinary shares in the company owned by LAP to ensure the independence of the Board of directors of the company.

Other than the restrictions contained in the Relationship Agreement, there are no restrictions on voting rights or on the transfer of ordinary shares in the company. The rules governing the appointment and replacement of directors, alteration of the articles of association of the company and the powers of the company's directors accord with usual English company law provisions. Each director is re-elected at least every three years. The company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid. The company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Bribery Act 2010

The Bribery Act 2010 came into force on 1 July 2011, and the Board took the opportunity to implement a new Anti-Bribery Policy. The company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance of the code is closely monitored.

Annual General Meeting

The annual general meeting of the company ("Annual General Meeting") will be held at 24 Bruton Place, London W1J 6NE on Wednesday, 6 June 2018 at 11.00 a.m. Resolutions 1 to 9 will be proposed as ordinary resolutions. More than 50 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed. Resolutions 10 to 12 will be proposed as special resolutions. At least 75 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed.

The directors consider that all of the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole. The Board recommends that shareholders vote in favour of all resolutions.

Please note that the following paragraphs are only summaries of certain resolutions to be proposed at the Annual General Meeting and not the full text of the resolutions. You should therefore read this section in conjunction with the full text of the resolutions contained in the notice of Annual General Meeting.

Directors' authority to allot shares (Resolution 9)

In certain circumstances it is important for the company to be able to allot shares up to a maximum amount without needing to seek shareholder approval every time an allotment is required. Paragraph 9.1.1 of resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to an aggregate nominal value of £355,894. This represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report). Paragraph 9.1.2 of resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to a further aggregate nominal value of £355,894, in connection with a pre-emptive rights issue. This amount represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report).

Therefore, the maximum nominal value of shares or rights to subscribe for, or convert any security into, shares which may be allotted or granted under resolution 9 is £711,788.

Resolution 9 complies with guidance issued by the Investment Association (IA).

The authority granted by resolution 9 will expire on 31 August 2019 or, if earlier, the conclusion of the next annual general meeting of the company. The directors have no present intention to make use of this authority. However, if they do exercise the authority, the directors intend to follow emerging best practice as regards its use as recommended by the IA.

Disapplication of pre-emption rights (Resolution 10)

A special resolution will be proposed at the Annual General Meeting in respect of the disapplication of pre-emption rights.

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. The directors will, at the forthcoming Annual General Meeting seek power to allot equity securities (as defined by section 560 of the Companies Act 2006) or sell treasury shares for cash as if the pre-emption rights contained in Section 561 of the Companies Act 2006 did not apply:

(a)  in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of £355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) and, in relation to rights issues only, up to a maximum additional amount of £355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares), in each case as at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report); and

(b)  in any other case, up to a maximum nominal amount of £53,384 which represents approximately 5 per cent. of the ordinary share capital of the company in issue (excluding treasury shares) as at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report).

In compliance with the guidelines issued by the Pre-emption group, the directors will ensure that, other than in relation to a rights issue, no more than 7.5 per cent. of the issued ordinary shares (excluding treasury shares) will be allotted for cash on a non-pre-emptive basis over a rolling three year period unless shareholders have been notified and consulted in advance.

The power in resolution 10 will expire when the authority given by resolution 9 is revoked or expires.

The directors have no present intention to make use of this authority.

NOTICE OF GENERAL MEETINGS (RESOLUTION 11)

Resolution 11 will be proposed to allow the company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. A resolution in the same terms was passed at the Annual General Meeting in 2017. The notice period required by the Companies Act 2006 for general meetings of the company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. Annual General Meetings must always be held on at least 21 clear days' notice. It is intended that the flexibility offered by this resolution will only be used for time-sensitive, non-routine business and where merited in the interests of shareholders as a whole. The approval will be effective until the company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the company must make a means of electronic voting available to all shareholders for that meeting.

Purchase of own Ordinary Shares (Resolution 12)

The effect of resolution 12 would be to renew the directors' current authority to make limited market purchases of the company's ordinary shares of 10 pence each. The power is limited to a maximum aggregate number of 1,067,683 ordinary shares (representing approximately 10 per cent. of the company's issued share capital as at 16 April 2018 (being the last practicable date prior to publication of this Directors' Report)). The minimum price (exclusive of expenses) which the company would be authorised to pay for each ordinary share would be 10 pence (the nominal value of each ordinary share). The maximum price (again exclusive of expenses) which the company would be authorised to pay for an ordinary share is an amount equal to 105 per cent. of the average market price for an ordinary share for the five business days preceding any such purchase.

The authority conferred by resolution 12 will expire at the conclusion of the company's next annual general meeting or 15 months from the passing of the resolution, whichever is the earlier. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange. If granted, the authority would only be exercised if, in the opinion of the directors, to do so would result in an increase in earnings per share or net asset value per share and would be in the best interests of shareholders generally. In exercising the authority to purchase ordinary shares, the directors may treat the shares that have been bought back as either cancelled or held as treasury shares (shares held by the company itself). No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them.

As at 16 April 2018 (being the last practicable date prior to the publication of this Directors' Report) the total number of new ordinary shares over which options have been granted was 380,000 shares representing 3.56 per cent. of the company's issued share capital (excluding treasury shares) as at that date. Such number of options to subscribe for new ordinary shares would represent approximately 3.95 per cent. of the reduced issued share capital of the company (excluding treasury shares) assuming full use of the authority to make market purchases sought under resolution 12.

Donations

No political or charitable donations were made during the year (2016: Nil).

Going concern

The group's business activities, together with the factors likely to affect its future development are set out in the Chairman's Statement on the preceding page 2, the Mining Review on pages 6 to 7 and its financial position is set out on page 22 of the ***Strategic*** Report. In addition Note 21 to the financial statements includes the group's treasury policy, interest rate risk, liquidity risk, foreign exchange risks and credit risk.

The group has prepared cash flow forecasts which demonstrate that the group has sufficient resources to meet its liabilities as they fall due for at least the next 12 months.

In July 2017, the group increased its South African structured trade finance facility with Absa Bank Limited from R80million (South African Rand) to R100million. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. This facility comprises of a R80million revolving facility to cover the fluctuating working capital requirements of the group's South African operations, and a fully drawn R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The Directors do not foresee any reason why the facility will not continue to be renewed at the next renewal date, in line with prior periods and based on their banking relationships.

The directors expect that the improved coal market conditions experienced by Black Wattle Colliery, its direct mining asset in 2017 and the first quarter of 2018 will be similar for at least the next 12 months. The directors therefore have a reasonable expectation that the mine will continue to achieve positive levels of cash generation for the group for at least the next 12 months. As a consequence, the directors believe that the group is well placed to manage its South African business risks successfully.

In the UK, a £6 million term loan facility repayable in 2019 is held with Santander Bank PLC. The loan is secured against the company's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

If required, the group has sufficient financial resources available at short notice including cash, available-for-sale investments and its £2m loan to Dragon Retail Properties Limited which is repayable on demand. In addition its investment property assets benefit from long term leases with the majority of its tenants.

As a result of the banking facilities held as well as the acceptable levels of profitability and cash generation the group's South African operations are expected to achieve for at least the next 12 months, the Directors believe that the group has adequate resources to continue in operational existence for the foreseeable future and that the group is well placed to manage its business risks. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the board

G.J Casey

Secretary

24 Bruton Place

London W1J 6NE

20 April 2018

Statement of the Chairman of the remuneration committee

The remuneration committee presents its report for the year ended 31 December 2017.

The remuneration committee presents its report for the year ended 31 December 2017.

The Annual Remuneration Report details remuneration awarded to directors and non-executive directors during the year. The shareholders will be asked to approve the Annual Remuneration Report as an ordinary resolution (as in previous years) at the AGM in June 2018.

A copy of the remuneration policy, which details the remuneration policy for directors, can be found at[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk). The current remuneration policy was subject to a binding vote which was approved by shareholders at the AGM in June 2017. The approved policy took effect from 7 June 2017 and will apply for a three year period.

The remuneration committee reviewed the existing policy and deemed no changes necessary to the current arrangements.

Both of the above reports have been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The company's auditors, BDO LLP are required by law to audit certain disclosures and where disclosures have been audited they are indicated as such.

Christopher Joll

Chairman - remuneration committee

24 Bruton Place

London W1J 6NE

20 April 2018

Annual remuneration report

The following information has been audited:

Single total figure of remuneration for the year ended 31 December 2017:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Salaries  and Fees  £'000 | Bonuses  £'000 | Benefits  £'000 | Pension  £'000 | **Total before Share options £'000** | Share  options  £'000 | **Total**  **2017**  **£'000** |
| **Executive Directors** |  |  |  |  |  |  |  |
| Sir Michael Heller | 75 | - | - | - | **75** | - | **75** |
| A R Heller | 450 | 350 | 66 | 32 | **898** | - | **898** |
| G J Casey | 133 | 125 | 14 | 18 | **290** | - | **290** |
| R Grobler | 188 | 122 | 16 | 11 | **337** | - | **337** |
| **Non-Executive Directors** |  |  |  |  |  |  |  |
| C A Joll\* | 30 | - | - | - | **30** | - | **30** |
| J A Sibbald\* | 2 | - | 3 | - | **5** | - | **5** |
| **Total** | **878** | **597** | **99** | **61** | **1,635** | **-** | **1,635** |

\*Members of the remuneration committee for the year ended 31 December 2017

Single total figure of remuneration for the year ended 31 December 2016:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Salaries  and Fees  £'000 | Bonuses  £'000 | Benefits  £'000 | Pension  £'000 | **Total before Share options £'000** | Share  options  £'000 | **Total**  **2016**  **£'000** |
| **Executive Directors** |  |  |  |  |  |  |  |
| Sir Michael Heller | 75 | - | - | - | **75** | - | **75** |
| A R Heller | 450 | 300 | 68 | 32 | **850** | - | **850** |
| G J Casey | 133 | 100 | 14 | 18 | **265** | - | **265** |
| R Grobler | 154 | 60 | 14 | 8 | **236** | - | **236** |
| **Non-Executive Directors** |  |  |  |  |  |  |  |
| C A Joll\* | 30 | - | - | - | **30** | - | **30** |
| J A Sibbald\* | 2 | - | 3 | - | **5** | - | **5** |
| **Total** | **844** | **460** | **99** | **58** | **1,461** | **-** | **1,461** |

\*Members of the remuneration committee for the year ended 31 December 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Summary of directors' terms | Date of contract | Unexpired term | Notice period |
| **Executive directors** |  |  |  |
| Sir Michael Heller | November 1972 | Continuous | 6 months |
| A R Heller | January 1994 | Continuous | 3 months |
| G J Casey | June 2010 | Continuous | 3 months |
| R J Grobler | April 2008 | Continuous | 3 months |
| **Non-executive directors** |  |  |  |
| C A Joll | February 2001 | Continuous | 3 months |
| J A Sibbald | October 1988 | Continuous | 3 months |

Pension schemes and incentives

Three (2016: Three) directors have benefits under money purchase pension schemes. Contributions in 2017 were £61,000 (2016: £58,000), see table above.

Scheme interests awarded during the year

No scheme interests were awarded in the year ended 31 December 2017. Subsequent to year end the company granted options over ordinary shares in the Company of 10 pence (the "Options") to the following directors of the Company, under the Company's Unapproved Executive Share Option Scheme 2012 ("the Scheme"), as set out below:

Andrew Heller: 150,000 options granted on 6 February 2018 at an exercise price of £0.7350 per shareGarrett Casey: 230,000 options granted on 6 February 2018 at an exercise price of £0.7350 per share

The above Options are subject to the terms and conditions set out in the rules of the Scheme, and subject to the memorandum and articles of association of the Company. These Options are exercisable at any time during the next 10 years from the dates of grant stated above. No consideration has been paid for the granting of these Options.

Share option schemes

The company currently has one "Unapproved" Share Option Schemes which is not subject to HM Revenue and Customs (HMRC) approval. The "2010 Scheme" was approved by shareholders on 7 June 2011. The "2012 Scheme" was approved by the remuneration committee of the company on 28 September 2012.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Number of share options |  |  |  |  |  |
|  | Option  price\* | 1 January  2017 | Options  lapsed  in  2017 | 31  December  2017 | Exercisable  from | Exercisable  to |
| **The 2010 Scheme** |  |  |  |  |  |  |
| G J Casey | 202.05p | 80,000 | - | 80,000 | 31/08/2013 | 30/08/2020 |
| **The 2012 Scheme** |  |  |  |  |  |  |
| A R Heller | 87.01p | 150,000 | - | 150,000 | 18/09/2015 | 17/09/2025 |
| G J Casey | 87.01p | 150,000 | - | 150,000 | 18/09/2015 | 17/09/2025 |

\*Middle market price at date of grant

No consideration is payable for the grant of options under the 2012 Unapproved Share Option Scheme. There are no ***performance*** conditions attached to the 2012 Unapproved Share Option scheme.

On the 5 February 2018 the company entered into an agreement with Garrett Casey to surrender the 80,000 Options which were granted on 31 August 2010 under the 2010 Scheme. The aggregate consideration paid by the Company to effect the cancellation was £1.

Payments to past directors

No payments were made to past directors in the year ended 31 December 2017.

Payments for loss of office

No payments for loss of office were made in the year ended 31 December 2017.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTEREST

Directors' interests

The interests of the directors in the shares of the company, including family and trustee holdings where appropriate, were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beneficial | Non-beneficial |  |  |
|  | 31.12.2017 | 1.1.2017 | 31.12.2017 | 1.1.2017 |
| Sir Michael Heller | 148,783 | 148,783 | 181,334 | 181,334 |
| A R Heller | 785,012 | 785,012 | - | - |
| C A Joll | - | - | - | - |
| J A Sibbald | - | - | - | - |
| R J Grobler | - | - | - | - |
| G J Casey | 40,000 | 40,000 | - | - |

The following section is unaudited.

The following graph illustrates the company's ***performance*** compared with a broad equity market index over a ten year period. ***Performance*** is measured by total shareholder return. The directors have chosen the FTSE All Share Mining index as a suitable index for this comparison as it gives an indication of ***performance*** against a spread of quoted companies in the same sector.

The middle market price of Bisichi Mining PLC ordinary shares at 31 December 2017 was 70.5p (2016-74p). During the year the share price ranged between 68.25p and 82.50p.

Remuneration of the Managing Director over the last ten years

The table below demonstrates the remuneration of the holder of the office of Managing Director for the last ten years for the period from 1 January 2008 to 31 December 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Managing  Director | Managing Director  Single total figure of  remuneration  £'000 | Annual bonus payout  against maximum  opportunity\*  % | Long-term incentive  vesting rates against  maximum opportunity\*  % |
| 2017 | A R Heller | 898 | 25% | N/A |
| 2016 | A R Heller | 850 | 22% | N/A |
| 2015 | A R Heller | 912 | 22% | N/A |
| 2014 | A R Heller | 862 | 22% | N/A |
| 2013 | A R Heller | 614 | N/A | N/A |
| 2012 | A R Heller | 721 | N/A | N/A |
| 2011 | A R Heller | 626 | N/A | N/A |
| 2010 | A R Heller | 568 | N/A | N/A |
| 2009 | A R Heller | 817 | N/A | N/A |
| 2008 | A R Heller | 961 | N/A | N/A |

Bisichi Mining PLC does not have a Chief Executive so the table includes the equivalent information for the Managing Director.

\*There were no formal criteria or conditions to apply in determining the amount of bonus payable or the number of shares to be issued prior to 2014.

Percentage change in remuneration of director undertaking role of Managing Director

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Managing Director  £'000 | UK based employees  £'000 |  |  |  |  |  |  |
|  | 2017 | 2016 | % change | 2017 | 2016 | % change |  |  |
| Base salary | 450 | 450 | 0% | 208 | 208 | 0% |  |  |
| Benefits | 66 | 68 | (3.03%) | 14 | 14 | 0% |  |  |
| Bonuses | 350 | 300 | 16.67% | 125 | 100 | 25% |  |  |
|  |  |  |  |  |  |  |  |  |

Bisichi Mining PLC does not have a Chief Executive so the table includes the equivalent information for the Managing Director.

The comparator group chosen is all UK based employees as the remuneration committee believe this provides the most accurate comparison of underlying increases based on similar annual bonus ***performances*** utilised by the group.

Relative importance of spend on pay

The total expenditure of the group on remuneration to all employees (see Notes 28 and 8 to the financial statements) is shown below:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Employee remuneration | 6,396 | 5,321 |
| Distribution to shareholders | **534** | 427 |

Statement of implementation of new remuneration policy

The remuneration policy was approved at the AGM in June 2017. The policy took effect from 7 June 2017 and will apply for 3 years unless changes are deemed necessary by the Remuneration committee. The company may not make a remuneration payment or payment for loss of office to a person who is, is to be, or has been a director of the company unless that payment is consistent with the approved remuneration policy, or has otherwise been approved by a resolution of members.

Consideration by the directors of matters relating to directors' remuneration

The remuneration committee considered the executive directors remuneration and the board considered the non-executive directors remuneration in the year ended 31 December 2017. No increases were awarded and no external advice was taken in reaching this decision.

SHAREHOLDER VOTING

At the Annual General Meeting on 7 June 2017, there was an advisory vote on the resolution to approve the remuneration report, other than the part containing the remuneration policy. In addition, on 7 June 2017 there was a binding vote on the resolution to approve the current remuneration policy the results of which are detailed below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | % of votes  for | % of votes  against | No of votes  withheld |
| Resolution to approve the Remuneration Report (7 June 2017) | 74.75% | 25.18% | - |
| Resolution to approve the Remuneration Policy (7 June 2017) | 74.77% | 25.16% | - |

Service contracts

All executive directors have full-time contracts of employment with the company. Non-executive directors have contracts of service. No director has a contract of employment or contract of service with the company, its joint venture or associated companies with a fixed term which exceeds twelve months. Directors notice periods (see page 37 of the annual remuneration report) are set in line with market practice and of a length considered sufficient to ensure an effective handover of duties should a director leave the company.

All directors' contracts as amended from time to time, have run from the date of appointment. Service contracts are kept at the registered office.

Remuneration policy table

The remuneration policy table below is an extract of the group's current remuneration policy on directors' remuneration, which was approved by a binding vote at the 2017 AGM. The approved policy took effect from 7 June 2017. A copy of the full policy can be found at[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Element | Purpose | Policy | Operation | Opportunity and ***performance*** conditions |
| **Executive directors** |  |  |  |  |
| Base salary | To recognise:  Skills  Responsibility  Accountability  Experience  Value | Considered by remuneration committee on appointment.  Set at a level considered appropriate to attract, retain motivate and reward the right individuals. | Reviewed annually  Paid monthly in cash | No individual director will be awarded a base salary in excess of £700,000 per annum.  No specific ***performance*** conditions are attached to base salaries. |
| Pension | To provide competitive retirement benefits | Company contribution offered at up to 10% of base salary as part of overall remuneration package | The contribution payable by the company is included in the  director's contract of employment.  Paid into money purchase schemes | Company contribution offered at up to 10% of base salary as part of overall remuneration package.  No specific ***performance*** conditions are attached to pension contributions |
| Benefits | To provide a competitive benefits  package | Contractual benefits can include but are not limited to:  Car or car allowance  Group health cover  Death in service cover  Permanent health insurance | The committee retains the discretion  to approve changes in contractual benefits in exceptional circumstances or where factors outside the control of the Group lead to increased  costs (e.g. medical inflation) | The costs associated with benefits offered are closely controlled and reviewed on an annual basis.  No director will receive benefits of a value in excess of 30% of his base salary.  No specific ***performance*** conditions are attached to contractual benefits.  The value of benefits for each director for the year ended 31 December 2017 is shown in the table on page 36. |
| Annual Bonus | To reward and incentivise | In assessing the ***performance*** of the executive team, and in particular to determine whether bonuses are merited the remuneration committee takes into account the overall ***performance*** of the business.  Bonuses are generally offered in cash | The remuneration committee determines the level of bonus on an annual basis applying such ***performance*** conditions and ***performance*** measures as it considers appropriate | The current maximum bonus opportunity will not exceed 200% of base salary in any one year, but the remuneration committee reserves the power to award up to 300% in an exceptional year.  ***Performance*** conditions will be assessed on an annual basis. The ***performance*** measures applied may be financial, non-financial, corporate, divisional or individual and in such proportion as the remuneration committee considers appropriate |
| Share Options | To provide executive directors with a long-term interest in the company | Granted under existing schemes (see page 37) | Offered at appropriate times by the remuneration committee | Entitlement to share options is not subject to any specific ***performance*** conditions.  Share options will be offered by the remuneration committee as appropriate.  The aggregate number of shares over which options may be granted under all of the company's option schemes (including any options and awards granted under the company's employee share plans) in any period of ten years, will not exceed, at the time of grant, 10% of the ordinary share capital of the company from time to time. In determining the limits no account shall be taken of any shares where the right to acquire the shares has been released, lapsed or has otherwise become incapable of exercise.  The company currently has two Share Option Schemes (see page 37). The ***performance*** conditions for the 2010 scheme requires growth in net assets over a three year period to exceed the growth in the retail price index by a scale of percentages. For the 2012 scheme the remuneration committee has the ability to impose ***performance*** criteria in respect of any new share options granted, however there is no requirement to do so. There are no ***performance*** conditions attached to the options already issued under the 2012 scheme. |
| **Non-executive directors** |  |  |  |  |
| Base salary | To recognise:  Skills  Experience  Value | Considered by the board on appointment.  Set at a level considered appropriate to attract, retain and motivate the individual.  Experience and time required for the role are considered on appointment. | Reviewed annually | No individual director will be awarded a base salary in excess of £40,000 per annum.  No specific ***performance*** conditions are attached to base salaries. |
| Pension |  | No pension offered |  |  |
| Benefits |  | No benefits offered except  to one non-executive director who is eligible for health  cover (see annual remuneration report  page 36) | The committee retains the discretion to approve changes in contractual benefits in exceptional circumstances or where factors outside the control of the Group lead to increased costs (e.g. medical inflation) | The costs associated with the benefit offered is closely controlled and reviewed on an annual basis.  No director will receive benefits of a value in excess of 30% of his base salary.  No specific ***performance*** conditions are attached to contractual benefits. |
| Share Options |  | Non-executive directors do not participate in the share option schemes |  |  |

In order to ensure that shareholders have sufficient clarity over director remuneration levels, the company has, where possible, specified a maximum that may be paid to a director in respect of each component of remuneration. The remuneration committee consider the ***performance*** measures outlined in the table above to be appropriate measures of ***performance*** and that the KPI's chosen align the interests of the directors and shareholders.

For details of remuneration of other company employees can be found in Note 28 to the financial statements.

Audit committee report

The committee's terms of reference have been approved by the board and follow published guidelines, which are available from the company secretary. The audit committee comprises the two non-executive directors, Christopher Joll (chairman), an experienced financial PR executive and John Sibbald, a retired chartered accountant.

The Audit Committee's prime tasks are to:

· review the scope of external audit, to receive regular reports from the auditor and to review the half-yearly and annual accounts before they are presented to the board, focusing in particular on accounting policies and areas of management judgment and estimation;

· monitor the controls which are in force to ensure the integrity of the information reported to the shareholders;

· assess key risks and to act as a forum for discussion of risk issues and contribute to the board's review of the effectiveness of the group's risk management control and processes;

· act as a forum for discussion of internal control issues and contribute to the board's review of the effectiveness of the group's internal control and risk management systems and processes;

· consider each year the need for an internal audit function;

· advise the board on the appointment of external auditors and rotation of the audit partner every five years, and on their remuneration for both audit and non-audit work, and discuss the nature and scope of their audit work;

· participate in the selection of a new external audit partner and agree the appointment when required;

· undertake a formal assessment of the auditors' independence each year which includes:

   ~           a review of non-audit services provided to the group and related fees;

   ~           discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence;

   ~           a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and

   ~           obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Meetings

The committee meets prior to the annual audit with the external auditors to discuss the audit plan and again prior to the publication of the annual results. These meetings are attended by the external audit partner, managing director, director of finance and company secretary. Prior to bi-monthly board meetings the members of the committee meet on an informal basis to discuss any relevant matters which may have arisen. Additional formal meetings are held as necessary.

During the past year the committee:

· met with the external auditors, and discussed their reports to the Audit Committee;

· approved the publication of annual and half-year financial results;

· considered and approved the annual review of internal controls;

· decided that due to the size and nature of operation there was not a current need for an internal audit function;

· agreed the independence of the auditors and approved their fees for both audit related and non-audit services as set out in note 4 to the financial statements.

FINANCIAL REPORTING

As part of its role, the Audit Committee assessed the audit findings that were considered most significant to the financial statements, including those areas requiring significant judgment and/or estimation. When assessing the identified financial reporting matters, the committee assessed quantitative materiality primarily by reference to the carrying value of the group's total assets, given that the group operates a principally asset based business. The Board also gave consideration to the value of revenues generated by the group, given the importance of production, and its Adjusted EBITDA, given that it is a key trading KPI, when determining quantitative materiality. The qualitative aspects of any financial reporting matters identified during the audit process were also considered when assessing their materiality. Based on the considerations set out above we have considered quantitative errors individually or in aggregate in excess of approximately £300,000 to £350,000 to be material.

External Auditors

BDO LLP held office throughout the year. In the United Kingdom the company is provided with extensive administration and accounting services by London & Associated Properties PLC which has its own audit committee and employs a separate firm of external auditors, RSM UK Audit LLP (Formerly Baker Tilly UK Audit LLP). In South Africa Grant Thornton (Jhb) Inc. acts as the external auditor to the South African companies, and the work of that firm was reviewed by BDO LLP for the purpose of the group audit.

Christopher Joll

Chairman - audit committee

24 Bruton Place

London W1J 6NE

20 April 2018

Valuers' certificates

To the directors of Bisichi Mining PLC

In accordance with your instructions we have carried out a valuation of the freehold property interests held as at 31 December 2017 by the company as detailed in our Valuation Report dated 20 February 2018.

Having regard to the foregoing, we are of the opinion that the open market value as at 31 December 2017 of the interests owned by the company was £13,245,000 being made up as follows:

|  |  |
| --- | --- |
|  | £'000 |
| Freehold | 10,550 |
| Leasehold | 2,695 |
|  | **13,245** |
| Leeds  20 February 2018 | **Carter Towler**  Regulated by Royal Institute of Chartered Surveyors |

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group for that period.

In preparing these financial statements, the directors are required to:

· select suitable accounting policies and then apply them consistently;

· make judgements and accounting estimates that are reasonable and prudent;

· state with regard to the group financial statements whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;

· state with regard to the parent company financial statements, whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

· prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business; and

· prepare a director's report, a ***strategic*** report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's ***performance***, business model and strategy.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

· the group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.

· the annual report includes a fair review of the development and ***performance*** of the business and the financial position of the group and the parent company, together with a description or the principal risks and uncertainties that they face.

Independent auditor's report

To the members of Bisichi Mining PLC

Opinion

We have audited the financial statements of Bisichi Mining Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash ?ow statement, the parent company balance sheet, the parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

give a true and fair view of the state of the group's and of the parent company's affairs as at  31 December 2017 and of the group's profit for the year then ended;the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; andthe financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; orthe directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matters were identified for the period under review:

The risk that estimates and judgments in the life of mine model may be inappropriate and mining assets require impairment.The risk that investment property valuations are inappropriate.The risk that judgments,  estimates  and disclosure associated with the carrying value of Ezimbokedwini and impairment charges are inappropriate

|  |  |
| --- | --- |
| **Key Audit Matter** | **How the matter was addressed in our audit** |
| ***The risk that estimates and judgments in the life of mine model may be inappropriate and mining assets require impairment.***  The mining assets amounted to £8.6m as at 31 December 2017 (2016: £8.5m) and relate to the South African mining operations. These assets represent a significant part of the Group's balance sheet (See note 11).  Management performed an impairment assessment based on the Board approved Life of Mine plan at 31 December 2017 as detailed in the Key Judgements and Estimates note.  The assessment by management of inputs to the Life of Mine plan requires significant judgment and estimate, including determination of forecast coal prices, production, coal reserves and costs  These factors caused this area to be a significant focus for our audit. | We have evaluated management's discounted cash flow impairment assessment, including the underlying Life of Mine plan.  In doing so, we critically assessed key inputs to the model including forecast coal prices, exchange rates, production, costs and the discount rate.  This included assessment compared to empirical data and trends, pricing information and market data.  In respect of the coal reserves included in the model, we reviewed the independent Competent Person's Report and held discussions with the Competent Person. In relying on the Competent Person we assessed their independence and competence.  We performed sensitivity analysis on the impairment model in respect of factors such as pricing, costs, yields, exchange rates and the discount rate.  We evaluated the disclosures in the Key Judgements and Estimates note based on our audit procedures. |
| **Our findings**  Our work on the impairment test supported management's conclusion that no impairment exists to be appropriate. We found the key assumptions to be balanced and appropriately considered by management and the disclosures in the Key Judgements and Estimates note to be sufficient. |  |

|  |  |
| --- | --- |
| **Key Audit Matter** | **How the matter was addressed in our audit** |
| ***The risk that investment property valuations are inappropriate.***  The Group holds investment property at fair value of £13.2m together with further investment property held at fair value of £2.6m (100% basis) in the Group's Dragon Retail Joint Venture (notes 10 and 13). The assessment of fair value for the property portfolio requires significant judgement and estimates by the Directors, including assessment of independent third party valuations obtained for the portfolio.  Each valuation requires consideration of the individual nature of the property, its location, its cash flows and comparable market transactions. The valuation of these properties requires assessment of the market yield as well as consideration of the current rental agreements.  Any significant input inaccuracies or unreasonable bases used in these judgements (such as in respect of estimated rental value and net initial yield applied) could result in a material misstatement.  There is also an inherent risk that management may influence valuation judgments.  Given these factors, this area was considered to be a significant focus for our audit given the subjective nature of certain assumptions inherent in each valuation. | We obtained an understanding of management's approach to the valuation of investment properties.  We reviewed the independent external valuation reports and confirmed their consistency with the valuations presented in the financial statements. We met with the group's independent external valuers, who valued all of the group's investment properties, to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the period.  We assessed the competency, independence and objectivity of the independent external valuer which included making inquiries regarding interests and relationships that may have created a threat to the valuer's objectivity.  We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics.  We agreed a sample of key observable valuation inputs supplied to and used by the external valuer and Directors to information audited by us, where applicable, or supporting market documentation. |
| **Our findings**  We found the valuations determined by the group for its investment properties in note 10 and investment properties included within the Dragon retain Joint Venture in note 13 to be consistent with the independent external valuation reports. |  |

|  |  |
| --- | --- |
| **Key Audit Matter** | **How the matter was addressed in our audit** |
| ***The risk that judgments, estimates and disclosure associated with the carrying value of Ezimbokedweni and impairment charges are inappropriate.***  As at 31 December 2016 the group's net investment in Ezimbokedweni Mining (Pty) Limited ("Ezimbokedweni"), an equity accounted joint venture was £1.8m. The carrying value was dependent upon the ultimate completion of a sale and purchase agreement to acquire the Pegasus coal project in South Africa, under which a deposit had been paid by Ezimbokedweni.  During the year the joint venture was placed into Business Rescue under the South African Companies Act by the group's joint venture partner. The original deposit has been returned to Ezimbokodweni and as a result, the Board consider there to be no reasonable prospect of the Pegasus coal project transaction completing.  Further to these developments, the Board performed an impairment review of the carrying value of the net investment in Ezimbokedwini and recorded an impairment of the net investment of £1.8m, with any further movements since 31 December 2016 reflecting foreign exchange differences.  The assessment of the carrying value, subsequent impairment and associated disclosure represented a significant focus for our audit.  Additionally, the tax treatment of this transaction was considered to be an area of risk of material misstatement. This was also considered to be an area requiring specialist knowledge and expertise. | We will have made specific inquiries of management and the Board to gain an understanding of the fact pattern and events during the year regarding Ezimbokedweni.  We have reviewed minutes of Board meetings, legal documents and correspondence relating to the joint venture, the Business Rescue and assessments of the resulting financial position and interests of the joint venture.  We have assessed the Board's conclusion that the net investment is impaired based on the facts and circumstances, including assessment of the probability of value being recovered from the joint venture.  We have assessed the tax treatment of the transaction applied by management in conjunction with our valuation specialists and those of the component auditor in South Africa.  We have assessed the accounting entries in respect of the impairment as well as the disclosures in note 13 and the Key Estimates and Judgments note. |
| **Our findings**  We consider the judgements made by management relating to the impairment recorded by the group to be appropriate based on the developments during the year. We consider the disclosures at note 13 and the Key Estimates and Judgments note to be acceptable. |  |

Our application of materiality

The materiality level we applied was calculated based on 1% of total assets reflecting both the significant asset base of the group and the transitionary phase of mining.

Whilst materiality for the Financial Statements as a whole was £300,000 (FY 2016: £350,000), each significant component of the Group was audited to a lower materiality as detailed in the table below.

***Performance*** materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. ***Performance*** materiality was set at £225,000 (2016: £260,000) which represents 75% (2016 75%) of the above materiality levels.

|  |  |  |
| --- | --- | --- |
| **Materiality** | **FY2017** | **FY2016** |
| Materiality for the Financial Statements as a whole | £300,000 | £350,000 |
| Materiality levels used for the audits of the significant components of the audit | £23,000 to £170,000 | £15,000 to £210,000 |
| Audit scope coverage | 100% of total assets, 100% of revenue and 100% of profit before tax |  |

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit in excess of £15,000. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Whilst Bisichi Mining Plc is a company listed on the Standard Segment of the London Stock Exchange, the Group's operations principally comprise investment property in the United Kingdom and an operating mine located in South Africa. We assessed there to be significant components within the group, comprising the mine in South Africa, corporate accounting function and property companies.

We performed a full scope audit of each of the UK property companies, corporate accounting function and consolidation.

A non-BDO member firm performed a full scope audit of the mine in South Africa, under our direction and supervision as group auditors under ISA 600.

As part of our audit strategy, as group auditors:

Detailed group reporting instructions were sent to the component auditor, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed above), and set out the information required to be reported to the group audit team.We performed a review of the component audit files and held meetings with the component audit team during the planning and completion phases of their audit.The group audit team was actively involved in the direction of the audits performed by the component auditors for group reporting purposes, along with the consideration of findings and determination of conclusions drawn. We performed our own additional procedures in respect of the significant risk areas that represented Key Audit Matters in addition to the procedures performed by the component auditor.The remaining non-significant companies within the group were principally subject to analytical review procedures.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

the information given in the ***strategic*** report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; andthe ***strategic*** report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the ***strategic*** report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; orthe parent company financial statements are not in agreement with the accounting records and returns; orcertain disclosures of directors' remuneration specified by law are not made; orwe have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.  Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose.  To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:[*http://www.frc.org.uk/auditorsresponsibilities*](http://www.frc.org.uk/auditorsresponsibilities).  This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 30 years, covering the years ending 1987 to 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Ryan Ferguson

(Senior Statutory Auditor)

For and on behalf of BDO LLP

Statutory Auditor

London, United Kingdom

20 April 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial statements

Consolidated income statement

for the year ended 31 December 2017

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Notes | **2017**  **Trading**  **£'000** | **2017**  **Revaluations**  **and impairment**  **£'000** | **2017**  **Total**  **£'000** | 2016  Trading  £'000 | 2016  Revaluations and  impairment  £'000 | 2016  Total  £'000 |
| **Group revenue** | 1 | **37,459** | **-** | **37,459** | 22,815 | - | 22,815 |
| Operating costs | 2 | **(31,640)** | **-** | **(31,640)** | (21,299) | - | (21,299) |
| Operating profit before depreciation, fair value adjustments and exchange movements |  | **5,819** | **-** | **5,819** | 1,516 | - | 1,516 |
| Depreciation | 2 | **(1,790)** | **-** | **(1,790)** | (1,785) | - | (1,785) |
| Operating profit/(loss) before fair value adjustments and exchange movements | 1 | **4,029** | **-** | **4,029** | (269) | - | (269) |
| Exchange (losses)/gains |  | **(256)** | **-** | **(256)** | 449 | - | 449 |
| Decrease/increase in value of investment properties | 3 | **-** | **(13)** | **(13)** | - | 445 | 445 |
| Gain on disposal of other investments |  | **3** | **-** | **3** | - | - | - |
| Increase in value of other investments |  | **-** | **-** | **-** | - | 12 | 12 |
| **Operating profit/(loss)** | 1 | **3,776** | **(13)** | **3,763** | 180 | 457 | 637 |
| Share of profit/(loss) in joint ventures | 12 | **-** | **8** | **8** | 30 | (37) | (7) |
| Write-off of investment in joint venture | 12 | **-** | **(1,827)** | **(1,827)** | - | - | - |
| **Profit/(loss) before interest and taxation** |  | **3,776** | **(1,832)** | **1,944** | 210 | 420 | 630 |
| Interest receivable |  | **205** | **-** | **205** | 270 | - | 270 |
| Interest payable | 6 | **(664)** | **-** | **(664)** | (554) | - | (554) |
| **Profit/(loss) before tax** | 4 | **3,317** | **(1,832)** | **1,485** | (74) | 420 | 346 |
| Taxation | 7 | **(588)** | **24** | **(564)** | 150 | (89) | 61 |
| **Profit/(loss) for the year** |  | **2,729** | **(1,808)** | **921** | 76 | 331 | 407 |
| **Attributable to:** |  |  |  |  |  |  |  |
| Equity holders of the company |  | **2,557** | **(1,808)** | **749** | 148 | 331 | 479 |
| Non-controlling interest | 26 | **172** | **-** | **172** | (72) | - | (72) |
| Profit/(loss) for the year |  | **2,729** | **(1,808)** | **921** | 76 | 331 | 407 |
| Profit per share - basic | 9 |  |  | **7.02p** |  |  | 4.48p |
| Profit per share - diluted | 9 |  |  | **7.02p** |  |  | 4.48p |

Trading gains and losses reflect all the trading activity on mining and property operations and realised gains from Joint ventures. Revaluation gains and losses reflects the revaluation of investment properties and other assets within the group and any proportion of unrealised gains and losses within Joint Ventures. The total column represents the consolidated income statement presented in accordance with IAS 1.

Consolidated statement of other comprehensive income

for the year ended 31 December 2017

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Profit for the year** | **921** | 407 |
| **Other comprehensive income/(expense):** |  |  |
| **Items that may be subsequently recycled to the income statement:** |  |  |
| Exchange differences on translation of foreign operations | **91** | 1,106 |
| Gain on available for sale investments | **103** | 193 |
| Taxation | **(20)** | (13) |
| **Other comprehensive income for the year net of tax** | **174** | 1,286 |
| **Total comprehensive income for the year net of tax** | **1,095** | 1,693 |
| **Attributable to:** |  |  |
| Equity shareholders | **912** | 1,665 |
| Non-controlling interest | **183** | 28 |
|  | **1,095** | 1,693 |

Consolidated balance sheet

at 31 December 2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | Notes | **2017**  **£'000** | 2016  £'000 |
| **Assets** |  |  |  |
| **Non-current assets** |  |  |  |
| Value of investment properties | 10 | **13,245** | 13,245 |
| Fair value of head lease | 30 | **152** | 181 |
| Investment properties |  | **13,397** | 13,426 |
| Mining reserves, plant and equipment | 11 | **8,613** | 8,520 |
| Investments in joint ventures accounted for using equity method | 12 | **874** | 1,321 |
| Loan to joint venture | 12 | **-** | 1,350 |
| Other investments | 12 | **51** | 32 |
| **Total non-current assets** |  | **22,935** | 24,649 |
| **Current assets** |  |  |  |
| Inventories | 15 | **828** | 1,721 |
| Trade and other receivables | 16 | **6,417** | 7,246 |
| Corporation tax recoverable |  | **-** | 32 |
| Available for sale investments | 17 | **1,050** | 781 |
| Cash and cash equivalents |  | **5,327** | 2,444 |
| **Total current assets** |  | **13,622** | 12,224 |
| **Total assets** |  | **36,557** | 36,873 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Notes | **2017**  **£'000** | 2016  £'000 |
| **Liabilities** |  |  |  |
| **Current liabilities** |  |  |  |
| Borrowings | 19 | **(1,288)** | (3,358) |
| Trade and other payables | 18 | **(7,381)** | (6,950) |
| Current tax liabilities |  | **(356)** | (18) |
| **Total current liabilities** |  | **(9,025)** | (10,326) |
| **Non-current liabilities** |  |  |  |
| Borrowings | 19 | **(5,872)** | (5,876) |
| Provision for rehabilitation | 20 | **(1,349)** | (1,236) |
| Finance lease liabilities | 30 | **(152)** | (181) |
| Deferred tax liabilities | 22 | **(2,485)** | (2,248) |
| **Total non-current liabilities** |  | **(9,858)** | (9,541) |
| **Total liabilities** |  | **(18,883)** | (19,867) |
| **Net assets** |  | **17,674** | 17,006 |
| **Equity** |  |  |  |
| Share capital | 23 | **1,068** | 1,068 |
| Share premium account |  | **258** | 258 |
| Translation reserve |  | **(1,671)** | (1,751) |
| Available for sale reserve |  | **143** | 60 |
| Other reserves | 24 | **683** | 683 |
| Retained earnings |  | **16,661** | 16,339 |
| **Total equity attributable to equity shareholders** |  | **17,142** | 16,657 |
| Non-controlling interest | 26 | **532** | 349 |
| **Total equity** |  | **17,674** | 17,006 |

These financial statements were approved and authorised for issue by the board of directors on 20 April 2018 and signed on its behalf by:

A R Heller              G J Casey                             Company Registration No. 112155

Director                   Director

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2017

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Share**  **capital**  **£'000** | **Share**  **Premium**  **£'000** | **Translation**  **reserves**  **£'000** | **Available- for-sale reserves**  **£'000** | **Other**  **reserves**  **£'000** | **Retained**  **earnings**  **£'000** | **Total**  **£'000** | **Non-**  **controlling**  **interest**  **£'000** | **Total**  **equity**  **£'000** |
| Balance at 1 January 2016 | 1,068 | 258 | (2,757) | (120) | 574 | 16,287 | **15,310** | 321 | **15,631** |
| Revaluation and impairments | - | - | - | - | - | 331 | **331** | - | **331** |
| Trading | - | - | - | - | - | 148 | **148** | (72) | **76** |
| Profit/(loss) for the year | - | - | - | - | - | 479 | **479** | (72) | **407** |
| Other comprehensive expense | - | - | 1,006 | 180 | - | - | **1,186** | 100 | **1,286** |
| Total comprehensive expense for the year | - | - | 1,006 | 180 | - | 479 | **1,665** | 28 | **1,693** |
| Dividend (note 8) | - | - | - | - | - | (427) | **(427)** | - | **(427)** |
| Share options charge | - | - | - | - | 109 | - | **109** | - | **109** |
| Balance at 1 January 2017 | 1,068 | 258 | (1,751) | 60 | 683 | 16,339 | **16,657** | 349 | **17,006** |
| Revaluation and impairments | - | - | - | - | - | (1,808) | **(1,808)** | - | **(1,808)** |
| Trading | - | - | - | - | - | 2,557 | **2,557** | 172 | **2,729** |
| Profit/(loss) for the year | - | - | - | - | - | 749 | **749** | 172 | **921** |
| Other comprehensive income | - | - | 80 | 83 | - | - | **163** | 11 | **174** |
| Total comprehensive income for the year | - | - | 80 | 83 | - | 749 | **912** | 183 | **1,095** |
| Dividend (note 8) | - | - | - | - | - | (427) | **(427)** | - | **(427)** |
| **Balance at 31 December 2017** | **1,068** | **258** | **(1,671)** | **143** | **683** | **16,661** | **17,142** | **532** | **17,674** |

Consolidated cash flow statement

for the year ended 31 December 2017

|  |  |  |
| --- | --- | --- |
|  | **Year ended**  **31 December**  **2017**  **£'000** | Year ended  31 December  2016  £'000 |
| **Cash flows from operating activities** |  |  |
| Operating profit | **3,763** | 637 |
| Adjustments for: |  |  |
| Depreciation | **1,790** | 1,785 |
| Share based payments | **-** | 109 |
| Unrealised loss/(gain) on investment properties | **13** | (445) |
| Realised gain on disposal of other investments | **(3)** | - |
| Unrealised gain on other investments | **-** | (12) |
| Exchange adjustments | **256** | (449) |
| **Cash flow before working capital** | **5,819** | 1,625 |
| Change in inventories | **896** | (258) |
| Change in trade and other receivables | **919** | 224 |
| Change in trade and other payables | **69** | 1,396 |
| **Cash generated from operations** | **7,703** | 2,987 |
| Interest received | **124** | 121 |
| Interest paid | **(546)** | (448) |
| Income tax paid | **(11)** | (46) |
| **Cash flow from operating activities** | **7,270** | 2,614 |
| **Cash flows from investing activities** |  |  |
| Acquisition of reserves, property, plant and equipment | **(1,754)** | (2,859) |
| Share of income from joint ventures | **-** | 30 |
| Disposal of other investments | **14** | - |
| Acquisition of available for sale investments | **(196)** | - |
| Disposal of non-current asset held for sale | **-** | 1,138 |
| **Cash flow from investing activities** | **(1,936)** | (1,691) |
| **Cash flows from financing activities** |  |  |
| Borrowings drawn | **23** | 37 |
| Borrowings repaid | **(25)** | (131) |
| Equity dividends paid | **(427)** | (427) |
| **Cash flow from financing activities** | **(429)** | (521) |
| **Net increase in cash and cash equivalents** | **4,905** | 402 |
| Cash and cash equivalents at 1 January | **(890)** | (626) |
| Exchange adjustment | **50** | (666) |
| **Cash and cash equivalents at 31 December** | **4,065** | (890) |
| Cash and cash equivalents at 31 December comprise: |  |  |
| Cash and cash equivalents as presented in the balance sheet | **5,327** | 2,444 |
| Bank overdrafts (secured) | **(1,262)** | (3,334) |
|  | **4,065** | (890) |

Group accounting policies

for the year ended 31 December 2017

Basis of accounting

The results for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. In applying the group's accounting policies and assessing areas of judgment and estimation materiality is applied as detailed on page 44 of the Audit Committee Report. The principal accounting policies are described below:

The group financial statements are presented in £ sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise stated.

The functional currency for each entity in the group, and for joint arrangements and associates, is the currency of the country in which the entity has been incorporated. Details of which country each entity has been incorporated can be found in Note 14 for subsidiaries and Note 13 for joint arrangements and associates.

The exchange rates used in the accounts were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **£1 Sterling: Rand** | **£1 Sterling: Dollar** |  |  |
|  | **2017** | 2016 | **2017** | 2016 |
| Year-end rate | **16.6686** | 16.9472 | **1.35028** | 1.23321 |
| Annual average | **17.1540** | 19.9269 | **1.29174** | 1.35477 |

Going concern

The group has prepared cash flow forecasts which demonstrate that the group has sufficient resources to meet its liabilities as they fall due for at least the next 12 months.

In South Africa, a structured trade finance facility for R100million is held by Black Wattle Colliery (Pty) Limited ("Black Wattle") with Absa Bank Limited, a South African subsidiary of Barclays Bank PLC. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. The Directors do not foresee any reason why the facility will not continue to be renewed at the next renewal date, in line with prior periods and based on their banking relationships. This facility comprises of a R80million revolving facility to cover the working capital requirements of the group's South African operations, and a R20million loan facility to cover guarantee requirements related to the group's South African mining operations.

The directors expect that that the coal market conditions experienced by Black Wattle Colliery, its direct mining asset, in the second half of 2017 and the first quarter of 2018 will be similar going into the remainder of 2018. The directors therefore have a reasonable expectation that the mine will achieve positive levels of cash generation for the group in 2018. As a consequence, the directors believe that the group is well placed to manage its South African business risks successfully.

In the UK, a £6 million term loan facility repayable in December 2019 is held with Santander Bank PLC. The loan is secured against the company's UK retail property portfolio. The amount repayable on the loan at year end was £5.9million (2016: £5.9million). The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

If required, the group has sufficient financial resources available at short notice including cash, available-for-sale investments and its £2m loan to Dragon Retail Properties Limited which is repayable on demand. In addition its investment property assets benefit from long term leases with the majority of its tenants.

As a result of the banking facilities held as well as the acceptable levels of profitability and cash generation the group's South African operations is expected to achieve for the next 12 months, the Directors believe that the group has adequate resources to continue in operational existence for the foreseeable future and that the group is well placed to manage its business risks. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

International Financial Reporting Standards (IFRS)

The Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are relevant to its operations and effective for accounting periods beginning 1 January 2017. An amendment to IAS 7 "Statement of Cash Flows: Disclosure Initiative", which is mandatory for 2017, requires entities to provide disclosures about changes in liabilities arising from financing activities, including changes from financing cash flows and non-cash changes (such as foreign exchange gains or losses). This amendment has been endorsed by the EU. The adoption of this amendment and other new and revised Standards and Interpretations had no material effect on the profit or loss or financial position of the Group.

The Group has not adopted any Standards or Interpretations in advance of the required implementation dates.

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. It is effective for accounting periods beginning on or after 1 January 2018. The new standard will replace existing accounting standards, and provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the company expects to be entitled to receive. The standard also updates revenue disclosure requirements. The standard was endorsed by the EU on 22 September 2017. The Directors are continuing to assess the impact of IFRS 15 on the results of the Group. Whilst management do not envisage a material impact, the impact of adopting this standard cannot be reliably estimated until the transition review is complete.

IFRS 9 was published in July 2014 and will be effective for the group from 1 January 2018. The standard was endorsed by the EU on 22 November 2017. It is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model. IFRS 9 also introduces the expected credit loss model for impairment of financial assets. Application of the IFRS 9 impairment model is expected to have minimal impact given the Group's credit risk management policies. The Directors are continuing to assess the impact on the results of the Group and will complete the assessment during H1 2018.

IFRS 16 'Leases' - IFRS 16 'Leases' was issued by the IASB in January 2017 and is effective for accounting periods beginning on or after 1 January 2019. The new standard will replace IAS 17 'Leases' and will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The standard, which has been endorsed by the EU, provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. The Directors are currently evaluating the financial and operational impact of this standard including the application to service contracts at the mine containing leases. The review of the impact of IFRS 16 will require an assessment of all leases and the impact of adopting this standard cannot be reliably estimated until this work is substantially complete.

The Directors do not anticipate that the adoption of the other standards and interpretations not listed above will have a material impact on the accounts. Certain of these standards and interpretations will, when adopted, require addition to or amendment of disclosures in the accounts.

We are committed to improving disclosure and transparency and will continue to work with our different stakeholders to ensure they understand the detail of these accounting changes. We continue to remain committed to a robust financial policy

Key judgements and estimates

Areas where key estimates and judgements are considered to have a significant effect on the amounts recognised in the financial statements include:

Life of mine and reserves

The directors consider their judgements and estimates surrounding the life of the mine and its reserves to have significant effect on the amounts recognised in the financial statements and to be an area where the financial statements are at most risk of a significant estimation uncertainty. The life of mine remaining is currently estimated at 4 years. This life of mine is based on the groups existing coal reserves and excludes future coal purchases and coal reserve acquisitions. The group's estimates of proven and probable reserves are prepared and subject to assessment by an independent Competent Person experienced in the field of coal geology and specifically opencast and pillar coal extraction. Estimates of coal reserves impact assessments of the carrying value of property, plant and equipment, depreciation calculations and rehabilitation and decommissioning provisions. There are numerous uncertainties inherent in estimating coal reserves and changes to these assumptions may result in restatement of reserves. These assumptions include geotechnical factors as well as economic factors such as commodity prices, production costs and yield.

Depreciation, amortisation of mineral rights, mining development costs and plant & equipment

The annual depreciation/amortisation charge is dependent on estimates, including coal reserves and the related life of mine, expected development expenditure for probable reserves, the allocation of certain assets to relevant ore reserves and estimates of residual values of the processing plant. The charge can fluctuate when there are significant changes in any of the factors or assumptions used, such as estimating mineral reserves which in turn affects the life of mine or the expected life of reserves. Estimates of proven and probable reserves are prepared by an independent Competent Person. Assessments of depreciation/amortisation rates against the estimated reserve base are performed regularly. Details of the depreciation/amortisation charge can be found in note 11.

Provision for mining rehabilitation including restoration and de-commissioning costs

A provision for future rehabilitation including restoration and decommissioning costs requires estimates and assumptions to be made around the relevant regulatory framework, the timing, extent and costs of the rehabilitation activities and of the risk free rates used to determine the present value of the future cash outflows. The provisions, including the estimates and assumptions contained therein, are reviewed regularly by management. The group engages an independent expert to assess the cost of restoration and decommissioning annually as part of management's assessment of the provision. Details of the provision for mining rehabilitation can be found in note 20.

Impairment

Property, plant and equipment representing the group's mining assets in South Africa are reviewed for impairment at each reporting date. The impairment test is performed using the approved Life of Mine plan and those future cash flow estimates are discounted using asset specific discount rates and are based on expectations about future operations. The impairment test requires estimates about production and sales volumes, commodity prices, proven and probable reserves (as assessed by the Competent Person), operating costs and capital expenditures necessary to extract reserves in the approved Life of Mine plan. Changes in such estimates could impact recoverable values of these assets. Details of the carrying value of property, plant and equipment can be found in note 11.

The impairment test indicated significant headroom as at 31 December 2017 and therefore no impairment is considered appropriate. The key assumptions include: coal prices, including domestic coal prices based on recent pricing and assessment of market forecasts for export coal; production based on proven and probable reserves assessed by the independent Competent Person and yields associated with mining areas based on assessments by the Competent Person and empirical data. A 9% reduction in average forecast coal prices or a 9% reduction in yield would give rise to a breakeven scenario. However, the directors consider the forecasted yield levels and pricing to be achievable.

Fair value measurements of investment properties

An assessment of the fair value of investment properties, is required to be performed. In such instances, fair value measurements are estimated based on the amounts for which the assets and liabilities could be exchanged between market participants. To the extent possible, the assumptions and inputs used take into account externally verifiable inputs. However, such information is by nature subject to uncertainty. The directors note that the fair value measurement of the investment properties, can be considered to be less judgemental where external valuers have been used and as a result of the nature of the underlying assets. The fair value of investment property is set out in note 10, whilst the carrying value of investments in joint ventures which themselves include investment property held at fair value by the joint venture is set out at note 12.

Write off of Ezimbokodweni joint venture

During the year the group wrote off its £1.8million (2016: £1.8million) investment in Ezimbokodweni Mining (Pty) Limited ("Ezimbokodweni") made up of a £1.4million loan (2016: £1.4million) and a £0.4million (2016: £0.4million) joint venture investment.

The carrying value of the investment was dependent upon the completion of the acquisition of the Pegasus coal project ("the project") in South Africa. Although a proposed sale and purchase agreement had been negotiated and a deposit paid for the project, the conclusion of the transaction had been delayed pending the commercial transfer of the prospecting right from the current owners of the project to Ezimbokodweni. Although the group has always remained committed to completing the transaction, previous negotiations to complete the commercial acquisition of the project had been beset by various delays outside of its control and at the beginning of 2017, the current owners of the project notified Ezimbokodweni that they no longer wished to divest the project. More recently, the group was notified that an agreement was reached between the current owners of the project and the directors   of Ezimbokodweni for the deposit for the project to be returned and any further negotiations with Ezimbokodweni to acquire the project to be terminated.

Although, a legal claim by the group has been issued against Ezimbokodweni and its representatives, in order for the group to recover some of the investment, the board has exercised significant judgement in considering it to be appropriate to write off the investment in full in the 2017 year end.

BASIS of consolidation

The group accounts incorporate the accounts of Bisichi Mining PLC and all of its subsidiary undertakings, together with the group's share of the results of its joint ventures. Non-controlling interests in subsidiaries are presented separately from the equity attributable to equity owners of the parent company. On acquisition of a non-wholly owned subsidiary, the non-controlling shareholders' interests are initially measured at the non-controlling interests' proportionate share of the fair value of the subsidiaries net assets. Thereafter, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. For subsequent changes in ownership in a subsidiary that do not result in a loss of control, the consideration paid or received is recognised entirely in equity.

The definition of control assumes the simultaneous fulfilment of the following three criteria:

The parent company holds decision-making power over the relevant activities of the investee,The parent company has rights to variable returns from the investee, andThe parent company can use its decision-making power to affect the variable returns.

Investees are analysed for their relevant activities and variable returns, and the link between the variable returns and the extent to which their relevant activities could be influenced in order to ensure the definition is correctly applied.

Revenue

Revenue comprises sales of coal and property rental income. Revenue is recognised when the customer has a legally binding obligation to settle under the terms of the contract and has assumed all significant risks and rewards of ownership.

Revenue is only recognised on individual sales of coal when all of the significant risks and rewards of ownership have been transferred to a third party. Export revenue is generally recognised when the product is delivered to the export terminal location specified by the customer, at which point the customer assumes risks and rewards under the contract. Domestic coal revenues are generally recognised on collection by the customer from the mine when loaded into transport, where the customer pays the transportation costs.

Rental income which excludes services charges recoverable from tenants, is recognised in the group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives.

Expenditure

Expenditure is recognised in respect of goods and services received. Where coal is purchased from third parties at point of extraction the expenditure is only recognised when the coal is extracted and all of the significant risks and rewards of ownership have been transferred.

Investment properties

Investment properties comprise freehold and long leasehold land and buildings. Investment properties are carried at fair value in accordance with IAS 40 'Investment Properties'. Properties are recognised as investment properties when held for long-term rental yields, and after consideration has been given to a number of factors including length of lease, quality of tenant and covenant, value of lease, management intention for future use of property, planning consents and percentage of property leased. Investment properties are revalued annually by professional external surveyors and included in the balance sheet at their fair value. Gains or losses arising from changes in the fair values of assets are recognised in the consolidated income statement in the period to which they relate. In accordance with IAS 40, investment properties are not depreciated. The fair value of the head leases is the net present value of the current head rent payable on leasehold properties until the expiry of the lease.

Mining reserves, plant and equipment

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in accordance with agreed specifications. Freehold land is not depreciated. Other property, plant and equipment is stated at historical cost less accumulated depreciation. The cost recognised includes the recognition of any decommissioning assets related to property, plant and equipment.

Mine reserves and development cost

The purpose of mine development is to establish secure working conditions and infrastructure to allow the safe and efficient extraction of recoverable reserves. Depreciation on mine development is not charged until production commences or the assets are put to use. On commencement of full commercial production, depreciation is charged over the life of the associated mine reserves extractable using the asset on a unit of production basis. The unit of production calculation is based on tonnes mined as a ratio to proven and probable reserves and also includes future forecast capital expenditure. The cost recognised includes the recognition of any decommissioning assets related to mine development.

Post production stripping

In surface mining operations, the group may find it necessary to remove waste materials to gain access to coal reserves prior to and after production commences. Prior to production commencing, stripping costs are capitalised until the point where the overburden has been removed and access to the coal seam commences. Subsequent to production, waste stripping continues as part of extraction process as a mining production activity. There are two benefits accruing to the group from stripping activity during the production phase: extraction of coal that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. Economic coal extracted is accounted for as inventory. The production stripping costs relating to improved access to further quantities in future periods are capitalised as a stripping activity asset, if and only if, all of the following are met:

it is probable that the future economic benefit associated with the stripping activity will flow to the group;the group can identify the component of the ore body for which access has been improved; andthe costs relating to the stripping activity associated with that component or components can be measured reliably.

In determining the relevant component of the coal reserve for which access is improved, the group componentises its mine into geographically distinct sections or phases to which the stripping activities being undertaken within that component are allocated. Such phases are determined based on assessment of factors such as geology and mine planning.

The group depreciates deferred costs capitalised as stripping assets on a unit of production method, with reference the tons mined and reserve of the relevant ore body component or phase. The cost is recognised within Mine development costs within the balance sheet.

Other assets and depreciation

The cost, less estimated residual value, of other property, plant and equipment is written off on a straight-line basis over the asset's expected useful life. This includes the washing plant and other key surface infrastructure. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively. Heavy surface mining and other plant and equipment is depreciated at varying rates depending upon its expected usage.

The depreciation rates generally applied are:

|  |  |
| --- | --- |
| Mining equipment | 5 - 10 per cent per annum, but shorter of its useful life or the life of the mine |
| Motor vehicles | 25 - 33 per cent per annum |
| Office equipment | 10 - 33 per cent per annum |

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

A provision for rehabilitation of the mine is initially recorded at present value and the discounting effect is unwound over time as a finance cost. Changes to the provision as a result of changes in estimates are recorded as an increase / decrease in the provision and associated decommissioning asset. The decommissioning asset is depreciated in line with the group's depreciation policy over the life of mine. The provision includes the restoration of the underground, opencast, surface operations and de-commissioning of plant and equipment. The timing and final cost of the rehabilitation is uncertain and will depend on the duration of the mine life and the quantities of coal extracted from the reserves.

Employee benefits

Share based remuneration

The company operates a share option scheme. The fair value of the share option scheme is determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. The fair value of options granted is calculated using a binomial or Black-Scholes-Merton model. Payments made to employees on the cancellation or settlement of options granted are accounted for as the repurchase of an equity interest, ie as a deduction from equity. Details of the share options in issue are disclosed in the Directors' Remuneration Report on page 37 under the heading Share option schemes which is within the audited part of that report.

Pensions

The group operates a defined contribution pension scheme. The contributions payable to the scheme are expensed in the period to which they relate.

Foreign currencies

Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are included in the consolidated income statement within the results of operating activities if arising from trading activities, including inter-company trading balances and within finance cost/income if arising from financing.

For consolidation purposes, income and expense items are included in the consolidated income statement at average rates, and assets and liabilities are translated at year end exchange rates. Translation differences arising on consolidation are recognised in other comprehensive income. Foreign exchange differences on intercompany loans are recorded in other comprehensive income when the loans are not considered as trading balances and are not expected to be repaid in the foreseeable future. Where foreign operations are disposed of, the cumulative exchange differences of that foreign operation are recognised in the consolidated income statement when the gain or loss on disposal is recognised.

Transactions in foreign currencies are translated at the exchange rate ruling on transaction date.

Financial instruments

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Bank loans and overdrafts

Bank loans and overdrafts are included as financial liabilities on the group balance sheet at the amounts drawn on the particular facilities net of the unamortised cost of financing. Interest payable on those facilities is expensed as finance cost in the period to which it relates.

Finance lease liabilities

Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent reporting periods by the apportionment of payments to the lessor.

Available for sale investments

Financial assets available for sale are measured at fair value. Any changes in fair value above cost are recognised in other comprehensive income and accumulated in the available-for-sale reserve. For any changes in fair value below cost a provision for impairment is recognised in the profit or loss account.

Other investments classified as non-current available for sale investments comprise of shares in listed companies and are carried at fair value.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated recoverable amounts as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Other financial assets and liabilities

The groups other financial assets and liabilities not disclosed above are accounted for at amortised cost.

Joint ventures

Investments in joint ventures, being those entities over whose activities the group has joint control, as established by contractual agreement, are included at cost together with the group's share of post-acquisition reserves, on an equity basis. Dividends received are credited against the investment. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about relevant ***strategic*** and/or key operating decisions require unanimous consent of the parties sharing control. Control over the arrangement is assessed by the group in accordance with the definition of control under IFRS 10. Loans to joint ventures are classified as non-current assets when they are not expected to be received in the normal working capital cycle. Trading receivables and payables to joint ventures are classified as current assets and liabilities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and overheads relevant to the stage of production. Cost is determined using the weighted average method. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Impairment

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. This includes mining reserves, plant and equipment and net investments in joint ventures. A review involves determining whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs of disposal and its value in use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken on a cash generating unit basis.

If the carrying amount of an asset exceeds its recoverable amount an asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use) if that is less than the asset's carrying amount. Any change in carrying value is recognised in the comprehensive income statement.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of indexation on the historical cost of the properties and any available capital losses.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the group income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case it is also dealt with in other comprehensive income.

Dividends

Dividends payable on the ordinary share capital are recognised as a liability in the period in which they are approved.

Cash and cash equivalents

Cash comprises cash in hand and on-demand deposits. Cash and cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and original maturities of three months or less. The cash and cash equivalents shown in the cashflow statement are stated net of bank overdrafts that are repayable on demand as per IAS 7. This includes the structured trade finance facility held in South Africa as detailed in note 21. These facilities are considered to form an integral part of the treasury management of the group and can fluctuate from positive to negative balances during the period.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs of sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property which continue to be measured in accordance with the group's other accounting policies.

Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investment is no longer equity accounted.

Segmental reporting

For management reporting purposes, the group is organised into business segments distinguishable by economic activity. The group's only business segments are mining activities and investment properties. These business segments are subject to risks and returns that are different from those of other business segments and are the primary basis on which the group reports its segment information. This is consistent with the way the group is managed and with the format of the group's internal financial reporting. Significant revenue from transactions with any individual customer, which makes up 10 percent or more of the total revenue of the group, is separately disclosed within each segment. All coal exports are sales to coal traders at Richard Bay's terminal in South Africa with the risks and rewards passing to the coal trader at the terminal. Whilst the coal traders will ultimately sell the coal on the international markets the Company has no visibility over the ultimate destination of the coal. Accordingly, the export sales are recorded as South African revenue.

Notes to the financial statements

for the year ended 31 December 2017

1. SEGMENTAL REPORTING

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** |  |  |  |
| **Business analysis** | Mining  £'000 | Property  £'000 | Other  £'000 | **Total**  **£'000** |
| Significant revenue customer A | 27,528 | - | - | **27,528** |
| Significant revenue customer B | 7,226 | - | - | **7,226** |
| Significant revenue customer C | 412 | - | - | **412** |
| Other revenue | 1,134 | 1,125 | 34 | **2,293** |
| **Segment revenue** | 36,300 | 1,125 | 34 | **37,459** |
| Operating (loss)/profit before fair value adjustments & exchange movements | 3,104 | 897 | 28 | **4,029** |
| Revaluation of investments & exchange movements | (256) | (13) | 3 | **(266)** |
| **Operating profit and segment result** | 2,848 | 884 | 31 | **3,763** |
| **Segment assets** | 13,500 | 13,803 | 3,050 | **30,353** |
|  |  |  |  |  |
| **Unallocated assets** |  |  |  |  |
| - Non-current assets |  |  |  | **3** |
| - Cash & cash equivalents |  |  |  | **5,327** |
| **Total assets excluding investment in joint ventures and assets held for sale** |  |  |  | **35,683** |
| Segment liabilities | (9,238) | (2,270) | (214) | **(11,722)** |
| Borrowings | (1,329) | (5,832) | - | **(7,161)** |
| **Total liabilities** | (10,567) | (8,102) | (214) | **(18,883)** |
| **Net assets** |  |  |  | **16,800** |
| **Non segmental assets** |  |  |  |  |
| - Investment in joint ventures |  |  |  | **874** |
| **Net assets as per balance sheet** |  |  |  | **17,674** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Geographic analysis** | United  Kingdom  £'000 | South  Africa  £'000 | **Total**  **£'000** |
| Revenue | 1,159 | 36,300 | **37,459** |
| Operating profit/(loss) and segment result | 854 | 2,909 | **3,763** |
| Non-current assets excluding investments | 13,400 | 8,610 | **22,010** |
| Total net assets | 13,416 | 4,258 | **17,674** |
| Capital expenditure | 13 | 1,741 | **1,754** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2016** |  |  |  |
| **Business analysis** | Mining  £'000 | Property  £'000 | Other  £'000 | **Total**  **£'000** |
| Significant revenue customer A | 14,543 | - | - | **14,543** |
| Significant revenue customer B | 4,581 | - | - | **4,581** |
| Significant revenue customer C | 445 | - | - | **445** |
| Other revenue | 2,134 | 1,084 | 28 | **3,246** |
| **Segment revenue** | 21,703 | 1,084 | 28 | **22,815** |
| Operating (loss)/profit before fair value adjustments & exchange movements | (1,030) | 736 | 25 | **(269)** |
| Revaluation of investments & exchange movements | 449 | 445 | 12 | **906** |
| **Operating (loss)/profit and segment result** | (581) | 1,181 | 37 | **637** |
| **Segment assets** | 15,082 | 13,889 | 2,781 | **31,752** |
|  |  |  |  |  |
| **Unallocated assets** |  |  |  |  |
| - Non-current assets |  |  |  | **6** |
| - Cash & cash equivalents |  |  |  | **2,444** |
| **Total assets excluding investment in joint ventures and assets held for sale** |  |  |  | **34,202** |
| Segment liabilities | (8,098) | (2,320) | (215) | **(10,633)** |
| Borrowings | (3,424) | (5,810) | - | **(9,234)** |
| **Total liabilities** | (11,522) | (8,130) | (215) | **(19,867)** |
| **Net assets** |  |  |  | **14,335** |
| **Non segmental assets** |  |  |  |  |
| - Investment in joint ventures |  |  |  | **1,321** |
| - Loan to joint venture |  |  |  | **1,350** |
| **Net assets as per balance sheet** |  |  |  | **17,006** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Geographic analysis** | United  Kingdom  £'000 | South  Africa  £'000 | **Total**  **£'000** |
| Revenue | 1,112 | 21,703 | **22,815** |
| Operating profit/(loss) and segment result | 1,231 | (595) | **636** |
| Non-current assets excluding investments | 13,432 | 8,517 | **21,949** |
| Total net assets | 12,291 | 4,715 | **17,006** |
| Capital expenditure | 1 | 2,858 | **2,859** |

2. OPERATING COSTS

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Mining | **25,664** | 16,184 |
| Property | **151** | 211 |
| Cost of sales | **25,815** | 16,395 |
| Administration | **7,615** | 6,689 |
| **Operating costs** | **33,430** | 23,084 |
| The direct property costs are: |  |  |
| Ground rent | **8** | 10 |
| Direct property expense | **130** | 177 |
| Bad debts | **13** | 24 |
|  | **151** | 211 |

Operating costs above include depreciation of £1,790,000 (2016: £1,785,000).

3. (LOSS)/GAIN ON REVALUATION OF INVESTMENT PROPERTIES

The reconciliation of the investment surplus to the gain on revaluation of investment properties in the income statement is set out below:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Investment surplus | **16** | 458 |
| Loss on valuation movement in respect of head lease payments | **(29)** | (13) |
| **(Loss)/gain on revaluation of investment properties** | **(13)** | 445 |

4. PROFIT/(LOSS) BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Staff costs (see note 28) | **6,396** | 5,321 |
| Depreciation | **1,790** | 1,785 |
| Exchange loss/(gain) | **256** | (449) |
| Fees payable to the company's auditor for the audit of the company's annual accounts | **41** | 40 |
| Fees payable to the company's auditor and its associates for other services: |  |  |
| The audit of the company's subsidiaries pursuant to legislation | **10** | 10 |
| Audit related services | **1** | 32 |
| Non-audit related services | **1** | - |

The directors consider the auditors were best placed to provide the above non-audit and audit related services which refer to regulatory matters. The audit committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

5. DIRECTORS' EMOLUMENTS

Directors' emoluments are shown in the Directors' remuneration report on page 36 which is within the audited part of that report.

6.   INTEREST PAYABLE

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| On bank overdrafts and bank loans | **443** | 395 |
| Unwinding of discount | **92** | 78 |
| Other interest payable | **129** | 81 |
| **Interest payable** | **664** | 554 |

7. TAXATION

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
|  |  |  |
| **(a) Based on the results for the year:** |  |  |
| Current tax - UK | **231** | 10 |
| Current tax - Overseas | **136** | 60 |
| Corporation tax - adjustment in respect of prior year - UK | **(5)** | - |
| Current tax | **362** | 70 |
| Deferred tax | **202** | (131) |
| **Total tax in income statement charge / (credit)** | **564** | (61) |

 The 2016 deferred tax recognised in income of £131,000 includes a credit of £168,000 arising on the correction of an error in the calculation of deferred tax in 2015 related to the accounting of a deferred tax liability incorrectly recognised in respect of management fees. The company adjusted the effect of this error in its 2016 financial statements by reducing the tax charge for the year by £168,000 and reducing the associated deferred tax liability as it was not considered to be material to the current or prior year financial statements.

(b) Factors affecting tax charge for the year:

The corporation tax assessed for the year is different from that at the standard rate of corporation tax in the United Kingdom of 19.25% (2016: 20%).

The differences are explained below:

|  |  |  |
| --- | --- | --- |
| Profit/(Loss) on ordinary activities before taxation | **1,485** | 346 |
| Tax on profit on ordinary activities at 19.25% (2016: 20%) | **286** | 69 |
| Effects of: |  |  |
| Expenses not deductible for tax purposes | **107** | 20 |
| Capital gains on disposal | **-** | 153 |
| Adjustment to tax rate | **201** | (117) |
| Other differences | **(27)** | (32) |
| Adjustment in respect of prior years | **(3)** | (154) |
| **Total tax in income statement (credit) / charge** | **564** | (61) |

 (c) Analysis of United Kingdom and overseas tax:

United Kingdom tax included in above:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Corporation tax | **231** | 10 |
| Adjustment in respect of prior years | **(5)** | - |
| Current tax | **226** | 10 |
| Deferred tax | **(197)** | 8 |
|  | **29** | 18 |
| Overseas tax included in above: |  |  |
| Current tax | **136** | 60 |
| Deferred tax | **399** | (139) |
|  | **535** | (79) |

8. DIVIDENDS PAID

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017**  **Per share** | **2017**  **£'000** | 2016  Per share | 2016  £'000 |
| Dividends paid during the year relating to the prior period | **4.00p** | **427** | 4.00p | 427 |
| Dividends relating to the current period: |  |  |  |  |
| Interim dividend for 2017 paid on 9 February 2018 | **1.00p** | **107** | 1.00p | 107 |
| Proposed final dividend for 2017 | **3.00p** | **320** | 3.00p | 320 |
| Proposed special dividend for 2017 | **1.00p** | **107** | - | - |
|  | **5.00p** | **534** | 4.00p | 427 |

The dividends relating to the current period are not accounted for until they have been approved at the Annual General Meeting. The amount, in respect of 2017, will be accounted for as an appropriation of retained earnings in the year ending 31 December 2018.

9.   PROFIT AND DILUTED PROFIT PER SHARE

Both the basic and diluted profit per share calculations are based on a profit of £749,000 (2016: £479,000). The basic profit per share has been calculated on a weighted average of 10,676,839 (2016: 10,676,839) ordinary shares being in issue during the period. The diluted profit per share has been calculated on the weighted average number of shares in issue of 10,676,839 (2016: 10,676,839) plus the dilutive potential ordinary shares arising from share options of nil (2016: nil) totalling 10,676,839 (2016: 10,676,839).

Share options exercisable as at 31 December 2017 do not have a dilutive effect as the average market price of ordinary shares during the period does not exceed the exercise price of the options.

10. INVESTMENT PROPERTIES

|  |  |  |  |
| --- | --- | --- | --- |
|  | Freehold  £'000 | Long  Leasehold  £'000 | **Total**  **£'000** |
| Valuation at 1 January 2017 | 10,550 | 2,695 | **13,245** |
| Additions | 13 | - | **13** |
| Revaluation | (13) | - | **(13)** |
| **Valuation at 31 December 2017** | **10,550** | **2,695** | **13,245** |
|  |  |  |  |
| Valuation at 1 January 2016 | 10,150 | 2,650 | **12,800** |
| Revaluation | 400 | 45 | **445** |
| **Valuation at 31 December 2016** | **10,550** | **2,695** | **13,245** |
| Historical cost |  |  |  |
| **At 31 December 2017** | **5,836** | **728** | **6,564** |
| At 31 December 2016 | 5,823 | 728 | **6,551** |

Long leasehold properties are those for which the unexpired term at the balance sheet date is not less than 50 years. All investment properties are held for use in operating leases and all properties generated rental income during the period.

Freehold and Long Leasehold properties were externally professionally valued at 31 December on an open market basis by:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |  |
| Carter Towler | **13,245** | 13,245 |  |
|  |  |  |  |

The valuations were carried out in accordance with the Statements of Asset Valuation and Guidance Notes published by The Royal Institution of Chartered Surveyors.

Each year external valuers are appointed by the Executive Directors on behalf of the Board. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the group.

Valuations are performed annually and are performed consistently across all investment properties in the group's portfolio. At each reporting date appropriately qualified employees of the group verify all significant inputs and review the computational outputs. Valuers submit their report to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, EBITDA, discount rates, construction costs including any specific site costs (for example section 106), professional fees, developer's profit including contingencies, planning and construction timelines, lease regear costs, planning risk and sales prices based on known market transactions for similar properties to those being valued.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and likelihood of achieving and implanting this change in arriving at its valuation.

There are often restrictions on Freehold and Leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission or lease extension and renegotiation of use are required or when a credit facility is in place. These restrictions are factored in the property's valuation by the external valuer.

IFRS 13 sets out a valuation hierarchy for assets and liabilities measured at fair value as follows:

Level 1:   valuation based on inputs on quoted market prices in active markets

Level 2:   valuation based on inputs other than quoted prices included within level 1 that maximise the use of observable data directly or from market prices or indirectly derived from market prices.

Level 3:   where one or more Significant inputs to valuations are not based on observable market data

The inter-relationship between key unobservable inputs and the groups' properties is detailed in the table below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Class of property Level 3** | **Valuation technique** | **Key unobservable inputs** | **Carrying/**  **fair value**  **2017**  **£'000** | Carrying/  fair value  2016  £'000 | **Range**  **(weighted**  **average)**  **2017** | Range  (weighted  average)  2016 |
| Freehold - external valuation | Income capitalisation | Estimated rental  value per sq ft p.a | **10,550** | 10,550 | **£7 - £25**  **(£18)** | £7 - £27  (£20) |
|  |  | Equivalent Yield |  |  | **7.1% - 11.0%**  **(8.7%)** | 7.8% - 11.0%  (8.9%) |
| Long leasehold - external valuation | Income capitalisation | Estimated rental  value per sq ft p.a | **2,695** | 2,695 | **£8 - £8**  **(£8)** | £8 - £8  (£8) |
|  |  | Equivalent yield |  |  | **7.7% - 7.7%**  **(7.7%)** | 7.6% - 7.6%  (7.6%) |
| **At 31 December 2017** |  |  | **13,245** | 13,245 |  |  |

There are interrelationships between all these inputs as they are determined by market conditions. The existence of an increase in more than one input would be to magnify the input on the valuation. The impact on the valuation will be mitigated by the interrelationship of two inputs in opposite directions, for example, an increase in rent may be offset by an increase in yield.

The table below illustrates the impact of changes in key unobservable inputs on the carrying / fair value of the group's properties:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Estimated rental value**  **10% increase or decrease** | **Equivalent yield**  **25 basis point contraction or expansion** |  |  |
|  | **2017**  **£'000** | 2016  £'000 | **2017**  **£'000** | 2016  £'000 |
| Freehold - external valuation | **1,055 / (1,055)** | 1,055 / (1,055) | **331 / (311)** | 316 / (298) |
| Long Leasehold - external valuation | **270 / (270)** | 270 / (270) | **90 / (85)** | 92 / (86) |

11. MINING RESERVES, PLANT AND EQUIPMENT

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mining  reserves  £'000 | Mining  equipment and development costs  £'000 | Motor  vehicles  £'000 | Office  equipment  £'000 | **Total**  **£'000** |
| Cost at 1 January 2017 | 1,345 | 23,724 | 235 | 146 | **25,450** |
| Exchange adjustment | 22 | 447 | 3 | 2 | **474** |
| Additions | - | 1,731 | - | 10 | **1,741** |
| Disposals | - | - | (38) | - | **(38)** |
| **Cost at 31 December 2017** | **1,367** | **25,902** | **200** | **158** | **27,627** |
|  |  |  |  |  |  |
| Accumulated depreciation at 1 January 2017 | 1,287 | 15,370 | 154 | 119 | **16,930** |
| Exchange adjustment | 21 | 308 | 2 | 1 | **332** |
| Charge for the year | 1 | 1,763 | 17 | 9 | **1,790** |
| Disposals | - | - | (38) | - | **(38)** |
| **Accumulated depreciation at 31 December 2017** | **1,309** | **17,441** | **135** | **129** | **19,014** |
| **Net book value at 31 December 2017** | **58** | **8,461** | **65** | **29** | **8,613** |
| Cost at 1 January 2016 | 995 | 15,453 | 150 | 120 | **16,718** |
| Exchange adjustment | 350 | 5,858 | 47 | 19 | **6,274** |
| Additions | - | 2,814 | 38 | 7 | **2,859** |
| Disposals | - | (401) | - | - | **(401)** |
| **Cost at 31 December 2016** | **1,345** | **23,724** | **235** | **146** | **25,450** |
|  |  |  |  |  |  |
| Accumulated depreciation at 1 January 2016 | 949 | 10,201 | 99 | 95 | **11,344** |
| Exchange adjustment | 336 | 3,824 | 28 | 14 | **4,202** |
| Charge for the year | 2 | 1,746 | 27 | 10 | **1,785** |
| Disposals | - | (401) | - | - | **(401)** |
| **Accumulated depreciation at 31 December 2016** | **1,287** | **15,370** | **154** | **119** | **16,930** |
| **Net book value at 31 December 2016** | **58** | **8,354** | **81** | **27** | **8,520** |

12. INVESTMENTS HELD AS NON-CURRENT ASSETS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017**  **Net investment in joint**  **ventures**  **assets**  **£'000** | **2017**  **Other**  **£'000** | 2016  Net investment  in joint  ventures  assets  £'000 | 2016  Other  £'000 |
| At 1 January | **1,321** | **36** | 1,198 | 29 |
| Share of gain in investment | **-** | **19** | - | 6 |
| Exchange adjustment | **(8)** | **-** | 130 | 1 |
| Share of (loss)/gain in joint ventures | **8** | **-** | (7) | - |
| Write-off of investment | **(447)** | **-** | - | - |
| **Net assets at 31 December** | **874** | **55** | **1,321** | **36** |
|  |  |  |  |  |
| Loan to joint venture (Ezimbokodweni): |  |  |  |  |
| At 1 January | **1,350** | **-** | 900 | - |
| Exchange adjustments | **(16)** | **-** | 336 | - |
| Additions - interest | **46** | **-** | 114 | - |
| Write-off of loan | **(1,380)** | **-** | - | - |
| **At 31 December** | **-** | **-** | **1,350** | **-** |
| **At 31 December** | **874** | **55** | **2,671** | **36** |
|  |  |  |  |  |
| Provision for diminution in value: |  |  |  |  |
| At 1 January | **-** | **(4)** | - | (15) |
| Exchange adjustment | **-** | **-** | - | (1) |
| Write back/(down) of investment | **-** | **-** | - | 12 |
| **At 31 December** | **-** | **(4)** | **-** | **(4)** |
| **Net book value at 31 December** | **874** | **51** | **2,671** | **32** |

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Net book value of unquoted investments | **-** | - |
| Net book and market value of investments listed on overseas stock exchanges | **51** | 32 |
|  | **51** | **32** |

13. JOINT VENTURES

Dragon Retail Properties Limited

The company owns 50% of the issued share capital of Dragon Retail Properties Limited, an unlisted property investment company. At year end, the carrying value of the investment held by the group was £874,000 (2016: £866,000). The remaining 50% is held by London & Associated Properties PLC. Dragon Retail Properties Limited is incorporated in England and Wales and its registered address is 24 Bruton Place, London, W1J 6NE. It has issued share capital of 500,000 (2016: 500,000) ordinary shares of £1 each. No dividends were received during the period.

Ezimbokodweni Mining (Pty) Ltd

The company owned 49% of the issued share capital of Ezimbokodweni Mining (Pty) Limited ("Ezimbokodweni"), an unlisted coal exploration and development company incorporated in South Africa. During the year the group wrote off its net investment in Ezimbokodweni at a carrying value of £1,827,000. The write-off included a loan at an amount of a £1,380,000 as well as an equity investment of £447,000. At year end, the carrying value of the net investment, as disclosed in joint venture assets in note 12, is a loan to Ezimbokodweni of £nil (2016: £1,350,000) and an equity investment of £nil (2016: £455,000). Refer to page 62 for details regarding the write-off of the asset.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dragon  50%  £'000 | Ezimbokodweni  49%  £'000 | **2017**  **£'000** | 2016  £'000 |
| **Turnover** | **83** | **-** | **83** | 86 |
| **Profit and loss** |  |  |  |  |
| Profit/(loss) before depreciation, interest and taxation | 26 | - | **26** | 12 |
| Depreciation and amortisation | (6) | - | **(6)** | (13) |
| Loss before interest and taxation | 20 | - | **20** | (1) |
| Interest Income | 68 | - | **68** | 69 |
| Interest expense | (83) | - | **(83)** | (85) |
| Loss before taxation | 5 | - | **5** | (17) |
| Taxation | 3 | - | **3** | 10 |
| **Loss after taxation** | **8** | **-** | **8** | (7) |
| **Balance sheet** |  |  |  |  |
| **Non-current assets** | **1,317** | **-** | **1,317** | 2,672 |
| Cash and cash equivalents | 46 | - | **46** | 61 |
| Other current assets | 1,218 | - | **1,218** | 1,165 |
| Current borrowings | - | - | **-** | - |
| Other current liabilities | (1,062) | - | **(1,062)** | (2,388) |
| **Net current assets** | **202** | **-** | **202** | (1,162) |
| Non-current borrowings | (609) | - | **(609)** | (603) |
| Other non-current liabilities | (36) | - | **(36)** | (41) |
| **Share of net assets at 31 December** | **874** | **-** | **874** | 866 |
| **Reconciliation of net assets to carrying value of joint venture assets:** |  |  |  |  |
| **Share of net assets at 31 December** | **874** | **-** | **874** | 866 |
| Pre-acquisition costs capitalised | - | - | **-** | 455 |
| **Carrying value of joint venture assets at 31 December** | **874** | **-** | **874** | 1,321 |

14. SUBSIDIARY COMPANIES

The company owns the following ordinary share capital of the subsidiaries which are included within the consolidated financial statements:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Activity | Percentage of  share capital | Registered address | Country of  incorporation |  |
| Mineral Products Limited | Share dealing | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Bisichi (Properties) Limited | Property | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Bisichi Northampton Limited | Property | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Bisichi Trustee Limited | Property | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Urban First (Northampton) Limited | Property | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Bisichi Mining (Exploration) Limited | Holding company | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Ninghi Marketing Limited | Dormant | 90.1% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Bisichi Mining Managements Services Limited | Dormant | 100% | 24 Bruton Place, London, W1J6NE | England and Wales |  |
| Black Wattle Colliery (Pty) Limited | Coal mining | 62.5% | Samora Machel Street, Bethal Road, Middelburg, Mpumalanga, 1050 | South Africa |  |
| Bisichi Coal Mining (Pty) Limited | Coal mining | 100% | Samora Machel Street, Bethal Road, Middelburg, Mpumalanga, 1050 | South Africa |  |
| Black Wattle Klipfontein (Pty) Limited | Coal mining | 62.5% | Samora Machel Street, Bethal Road,  Middelburg, Mpumalanga, 1050 | South Africa |  |
| Amandla Ehtu Mineral Resource  Development (Pty) Limited | Dormant | 70% | Samora Machel Street, Bethal Road,  Middelburg, Mpumalanga, 1050 | South Africa |  |
|  |  |  |  |  |  |

Details on the non-controlling interest in subsidiaries are shown under note 26.

15. INVENTORIES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Coal** |  |  |
| Washed | **301** | 1,139 |
| Mining Production | **286** | 83 |
| Work in progress | **227** | 458 |
| Other | **14** | 41 |
|  | **828** | 1,721 |

16. TRADE AND OTHER RECEIVABLES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Amounts falling due within one year:** |  |  |
| Trade receivables | **3,908** | 4,076 |
| Amount owed by joint venture | **2,000** | 2,000 |
| Other receivables | **415** | 754 |
| Prepayments and accrued income | **94** | 416 |
|  | **6,417** | 7,246 |

17. AVAILABLE FOR SALE INVESTMENTS

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Market value of listed Investments:** |  |  |
| Listed in Great Britain | **1,003** | 721 |
| Listed outside Great Britain | **47** | 60 |
|  | **1,050** | 781 |
| Original cost of listed investments | **922** | 737 |
| Unrealised surplus / defecit of market value versus cost | **128** | 44 |

The Directors have reviewed the individual investments for impairment and do not consider the investments which are below cost to be impaired.

18. TRADE AND OTHER PAYABLES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Trade payables | **3,771** | 3,610 |
| Amounts owed to joint ventures | **192** | 192 |
| Other payables | **1,402** | 1,422 |
| Accruals | **1,787** | 1,493 |
| Deferred Income | **229** | 233 |
|  | **7,381** | 6,950 |

19. FINANCIAL LIABILITIES - BORROWINGS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Current** | **Non-current** |  |  |
|  | **2017**  **£'000** | 2016  £'000 | **2017**  **£'000** | 2016  £'000 |
| Bank overdraft (secured) | **1,262** | 3,334 | **-** | - |
| Bank loan (secured) | **26** | 24 | **5,872** | 5,876 |
|  | **1,288** | 3,358 | **5,872** | 5,876 |

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Bank overdraft and loan instalments by reference to the balance sheet date: |  |  |
| Within one year | **1,288** | 3,358 |
| From one to two years | **17** | 26 |
| From two to five years | **5,855** | 5,850 |
|  | **7,160** | 9,234 |
| Bank overdraft and loan analysis by origin: |  |  |
| United Kingdom | **5,832** | 5,810 |
| Southern Africa | **1,328** | 3,424 |
|  | **7,160** | 9,234 |

The United Kingdom bank loans and overdraft are secured by way of a first charge over the investment properties in the UK which are included in the financial statements at a value of £13,245,000. The South African bank loans are secured by way of a first charge over specific pieces of mining equipment, inventory and the debtors of the relevant company which holds the loan which are included in the financial statements at a value of £6,123,500. No banking covenants were breached by the group during the year

Consistent with others in the mining and property industry, the group monitors its capital by its gearing levels. This is calculated as the total bank loans and overdraft less remaining cash and cash equivalents as a percentage of equity. At year end the gearing of the group was calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Total bank loans and overdraft | **7,160** | 9,234 |
| Less cash and cash equivalents (excluding overdraft) | **(5,327)** | (2,444) |
| **Net debt** | **1,833** | 6,790 |
| **Total equity attributable to shareholders of the parent** | **17,209** | 16,657 |
| **Gearing** | **10.7%** | 40.8% |

Analysis of the changes in liabilities arising from financing activities:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Bank borrowings  (including  overdraft)  £'000 | Finance  leases  £'000 | **2017**  **£'000** | 2016  £'000 |
| Balance at 1 January | 9,234 | 181 | **9,415** | 8,401 |
| Exchange adjustments | (4) | - | **(4)** | 854 |
| Cash movements excluding exchange adjustments | (2,070) | - | **(2,070)** | 173 |
| Valuation movements | - | (29) | **(29)** | (13) |
| Balance at 31 December | 7,160 | 152 | **7,312** | 9,415 |

20. PROVISION FOR REHABILITATION

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| As at 1 January | **1,236** | 847 |
| Exchange adjustment | **21** | 311 |
| Unwinding of discount | **92** | 78 |
| As at 31 December | **1,349** | 1,236 |

21. FINANCIAL INSTRUMENTS

Total financial assets and liabilities

The group's financial assets and liabilities are as follows, representing both the fair value and the carrying value:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Loans and  receivables  £'000 | Financial Liabilities  measured at  amortised cost  £'000 | Available for sale investments  £'000 | **2017**  **£'000** | 2016  £'000 |
| Cash and cash equivalents | 5,327 | - | - | **5,327** | 2,444 |
| Current available for sale investments | - | - | 1,050 | **1,050** | 781 |
| Non-current available for sale investments | - | - | 51 | **51** | 32 |
| Trade and other receivables | 6,323 | - | - | **6,323** | 6,830 |
| Bank borrowings and overdraft | - | (7,160) | - | **(7,160)** | (9,234) |
| Finance leases | - | (152) | - | **(152)** | (181) |
| Other liabilities | - | (7,152) | - | **(7,152)** | (6,735) |
|  | 11,650 | (14,464) | 1,101 | **(1,713)** | (6,063) |

Available for sale investments are held at fair value and fall under level 1 of the fair value hierarchy into which fair value measurements are recognised in accordance with the levels set out in IFRS 7. The comparative figures for 2016 fall under the same category of financial instrument as 2017.

The carrying amount of short term (less than 12 months) trade receivable and other liabilities approximate their fair values. The fair value of non-current borrowings in note 19 approximates its carrying value and was determined under level 2 of the fair value hierarchy and is estimated by discounting the future contractual cash flows at the current market interest rates for UK borrowings and for the South African overdraft facility. The fair value of the finance lease liabilities in note 30 approximates its carrying value and was determined under level 2 of the fair value hierarchy and is estimated by discounting the future contractual cash flows at the current market interest rates.

Treasury policy

Although no derivative transactions were entered into during the current and prior year, the group may use derivative transactions such as interest rate swaps and forward exchange contracts as necessary in order to help manage the financial risks arising from the group's activities. The main risks arising from the group's financing structure are interest rate risk, liquidity risk, market risk, credit risk, currency risk and commodity price risk. There have been no changes during the year of the main risks arising from the group's finance structure. The policies for managing each of these risks and the principal effects of these policies on the results are summarised below.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and loans to joint ventures. Interest bearing borrowings comprise bank loans, bank overdrafts and variable rate finance lease obligations. The rates of interest vary based on LIBOR in the UK and PRIME in South Africa.

As at 31 December 2017, with other variables unchanged, a 1% increase or decrease in interest rates, on investments and borrowings whose interest rates are not fixed, would respectively change the profit/loss for the year by £82,000 (2016: £56,000). The effect on equity of this change would be an equivalent decrease or increase for the year of £82,000 (2016: £56,000).

Liquidity risk

The group's policy is to minimise refinancing risk. Efficient treasury management and strict credit control minimise the costs and risks associated with this policy which ensures that funds are available to meet commitments as they fall due. As at year end the group held borrowing facilities in the UK in Bisichi Mining PLC and in South Africa in Black Wattle Colliery (Pty) Ltd.

The following table sets out the maturity profile of contractual undiscounted cashlfows of financial liabilities as at 31 December:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Within one year | **9,110** | 10,658 |
| From one to two years | **198** | 239 |
| From two to five years | **6,054** | 6,277 |
| Beyond five years | **105** | 125 |
|  | **15,467** | 17,299 |

The following table sets out the maturity profile of contractual undiscounted cashlfows of financial liabilities as at 31 December maturing within one year:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Within one month | **3,824** | 2,119 |
| From one to three months | **2,278** | 2,926 |
| From four to twelve months | **3,008** | 5,613 |
|  | **9,110** | 10,658 |

In South Africa, an increased structured trade finance facility for R100million was signed by Black Wattle Colliery (Pty) Limited in July 2017 with Absa Bank Limited. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held by Black Wattle Colliery (Pty) Limited. The trade facility, which is repayable on demand, is included in cash and cash equivalents within the cashflow statement.

This trade facility comprises of a R80million revolving facility to cover the working capital requirements of the group's South African operations, and a R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The interest cost of the loan is at the South African prime lending rate.

In December 2014, the group signed a £6 million term loan facility with Santander. The loan is secured against the group's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

As a result of the above agreed banking facilities, the Directors believe that the group is well placed to manage its liquidity risk.

Credit risk

The group is mainly exposed to credit risk on its cash and cash equivalents, trade and other receivables and amounts owed by joint ventures as per the balance sheet. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet which at year end amounted to £11,650,000 (2016: £9,274,000). The group's credit risk is primarily attributable to its trade receivables. The group had amounts due from its significant revenue customers at the year end that represented 93% (2016: 85%) of the trade receivables balance. These amounts have been subsequently settled.

Trade debtor's credit ratings are reviewed regularly. The group only deposits surplus cash with well-established financial institutions of high quality credit standing. As at year end the amount of trade receivables held past due date was £24,000 (2016: £157,000). To date, the amount of trade receivables held past due date that has not subsequently been settled is £18,000 (2016: £134,000). Management have no reason to believe that this amount will not be settled.

Financial assets maturity

On 31 December 2017, cash at bank and in hand amounted to £5,327,000 (2016: £2,444,000) which is invested in short term bank deposits maturing within one year bearing interest at the bank's variable rates. Cash and cash equivalents all have a maturity of less than 3 months.

Foreign exchange risk

All trading is undertaken in the local currencies except for certain export sales which are invoiced in dollars. It is not the group's policy to obtain forward contracts to mitigate foreign exchange risk on these contracts as payment terms are within 15 days of invoice or earlier. Funding is also in local currencies other than inter-company investments and loans and it is also not the group's policy to obtain forward contracts to mitigate foreign exchange risk on these amounts. During 2017 and 2016 the group did not hedge its exposure of foreign investments held in foreign currencies.

The directors consider there to be no significant risk from exchange rate movements of foreign currencies against the functional currencies of the reporting companies within the group, excluding inter-company balances. The principle currency risk to which the group is exposed in regard to inter-company balances is the exchange rate between Pounds sterling and South African Rand. It arises as a result of the retranslation of Rand denominated inter-company trade receivable balances held within the UK which are payable by South African Rand functional currency subsidiaries.

Based on the group's net financial assets and liabilities as at 31 December 2017, a 25% strengthening of Sterling against the South African Rand, with all other variables held constant, would decrease the group's profit after taxation by £34,000 (2016: £435,000). A 25% weakening of Sterling against the South African Rand, with all other variables held constant would increase the group's profit after taxation by £56,000 (2016: £725,000).

The 25% sensitivity has been determined based on the average historic volatility of the exchange rate for 2016 and 2017.

The table below shows the currency profiles of cash and cash equivalents:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Sterling | **3,402** | 1,717 |
| South African Rand | **1,923** | 725 |
| US Dollar | **2** | 2 |
|  | **5,327** | 2,444 |

Cash and cash equivalents earn interest at rates based on LIBOR in Sterling and Prime in Rand.

The tables below shows the currency profiles of net monetary assets and liabilities by functional currency of the group:

|  |  |  |
| --- | --- | --- |
| **2017:** | **Sterling**  **£'000** | **South African**  **Rands**  **£'000** |
| Sterling | **(832)** | **-** |
| South African Rand | **54** | **(1,304)** |
| US Dollar | **13** | **-** |
|  | **(765)** | **(1,304)** |

|  |  |  |
| --- | --- | --- |
| 2016: | Sterling  £'000 | South  African  Rands  £'000 |
| Sterling | (2,522) | - |
| South African Rand | 36 | (2,262) |
| US Dollar | 35 | - |
|  | (2,451) | (2,262) |

22. DEFERRED TAXATION

|  |  |  |
| --- | --- | --- |
|  | **2017 £'000** | 2016  £'000 |
| As at 1 January | **2,248** | 2,002 |
| Recognised in income | **202** | (131) |
| Recognised in comprehensive income | **-** | 13 |
| Exchange adjustment | **35** | 364 |
| As at 31 December | **2,485** | 2,248 |
| The deferred tax balance comprises the following: |  |  |
| Revaluation of properties | **691** | 715 |
| Capital allowances | **2,389** | 2,361 |
| Short term timing difference | **(513)** | (184) |
| Unredeemed capital deductions | **(80)** | (642) |
| Losses and other deductions | **(2)** | (2) |
|  | **2,485** | 2,248 |

Refer to note 7 for details of adjustments in respect of the prior year deferred tax in the current year.

23. SHARE CAPITAL

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Authorised: 13,000,000 ordinary shares of 10p each | **1,300** | 1,300 |

Allotted and fully paid:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017**  **Number of**  **ordinary**  **shares** | 2016  Number of  ordinary  shares | **2017**  **£'000** | 2016  £'000 |
| At 1 January and outstanding at 31 December | **10,676,839** | 10,676,839 | **1,068** | 1,068 |

24. OTHER RESERVES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Equity share options | **597** | 597 |
| Net investment premium on share capital in joint venture | **86** | 86 |
|  | **683** | 683 |

25. SHARE BASED PAYMENTS

Details of the share option scheme are shown in the Directors' remuneration report on page 37 under the heading Share option schemes which is within the audited part of this report. Further details of the share option schemes are set out below.

The Bisichi Mining PLC Unapproved Option Schemes:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year of grant | **Subscription**  **price per share** | **Period within**  **which options**  **exercisable** | Number of share  for which options  outstanding at  31 December 2016 | Number of  share options  lapsed  during year | **Number of share**  **for which options**  **outstanding at**  **31 December 2017** |
| 2010 | **202.5p** | **Aug 2013 - Aug 2020** | 80,000 | - | **80,000** |
| 2016 | **87.0p** | **Sep 2015 - Sep 2025** | 300,000 | - | **300,000** |

On the 5 February 2018 the company entered into an agreement with G.Casey to surrender the 80,000 options which were granted in 2010. The aggregate consideration paid by the group to effect the cancellation was £1. There are no ***performance*** or service conditions attached to 2015 options which are outstanding at 31 December 2017 which vested in 2015.

On 6 February 2018 the company granted additional options to the following directors of the company:

A.Heller 150,000 options at an exercise price of 73.50p per share.G.Casey 230,000 options at an exercise price of 73.50p per share.

The above options vest on date of grant and are exercisable within a period of 10 years from date of grant. There are no ***performance*** or service conditions attached to the options.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017**  **Number** | **2017**  **Weighted**  **average**  **exercise price** | 2016  Number | 2016  Weighted  average  exercise price |
| Outstanding at 1 January | **380,000** | **111.3p** | 705,000 | 133.1p |
| Lapsed during the year | **-** | **-** | (325,000) | 237.5p |
| Outstanding at 31 December | **380,000** | **111.3p** | 380,000 | 111.3p |
| **Exercisable at 31 December** | **380,000** | **111.3p** | 380,000 | 111.3p |

26. NON-CONTROLLING INTEREST

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| As at 1 January | **349** | 321 |
| Share of profit/(loss) for the year | **172** | (72) |
| Exchange adjustment | **11** | 100 |
| As at 31 December | **532** | 349 |

The non-controlling interest comprises of a 37.5% shareholding in Black Wattle Colliery (Pty) Ltd. A coal mining company incorporated in South Africa. Summarised financial information reflecting 100% of the underlying subsidiary's relevant figures, is set out below.

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Revenue | **36,300** | 21,703 |
| Expenses | **(35,150)** | (22,185) |
| **Profit/(loss) for the year** | **1,150** | (482) |
| Other comprehensive Income | **-** | - |
| **Total comprehensive income for the year** | **1,150** | (482) |
| Balance sheet |  |  |
| Non-current assets | **8,613** | 8,516 |
| Current assets | **6,747** | 8,600 |
| Current liabilities | **(8,652)** | (12,151) |
| Non-current liabilities | **(3,155)** | (2,635) |
| **Net assets at 31 December** | **3,553** | 2,330 |

The non-controlling interest relates to the disposal of a 37.5% shareholding in Black Wattle Colliery (Pty) Ltd in 2010 when the total issued share capital in Black Wattle Colliery (Pty) Ltd was increased from 136 shares to 1,000 shares at par of R1 (South African Rand) through the following shares issue:

- a subscription for 489 ordinary shares at par by Bisichi Mining (Exploration) Limited increasing the number of shares held from 136 ordinary shares to a total of 625 ordinary shares;

- a subscription for 110 ordinary shares at par by Vunani Mining (Pty) Ltd;

- a subscription for 265 "A" shares at par by Vunani Mining (Pty) Ltd

Bisichi Mining (Exploration) Limited is a wholly owned subsidiary of Bisichi Mining PLC incorporated in England and Wales.

Vunani Mining (Pty) Ltd is a South African Black Economic Empowerment company and minority shareholder in Black Wattle Colliery (Pty) Ltd.

The "A" shares rank pari passu with the ordinary shares save that they will have no dividend rights until such time as the dividends paid by Black Wattle Colliery (Pty) Ltd on the ordinary shares subsequent to 30 October 2008 will equate to R832,075,000.

A non-controlling interest of 15% in Black Wattle Colliery (Pty) Ltd is recognised for all profits distributable to the 110 ordinary shares held by Vunani Mining (Pty) Ltd from the date of issue of the shares (18 October 2010). An additional non-controlling interest will be recognised for all profits distributable to the 265 "A" shares held by Vunani Mining (Pty) Ltd after such time as the profits available for distribution, in Black Wattle Colliery (Pty) Ltd, before any payment of dividends after 30 October 2008, exceeds R832,075,000.

27. RELATED PARTY TRANSACTIONS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **At 31 December** | **During the year** |  |  |
|  | Amounts  owed  to related  party  £'000 | Amounts  owed  by related  party  £'000 | Costs  recharged  (to)/by  related  party  £'000 | Cash paid  (to)/by  related  party  £'000 |
| **Related party:** |  |  |  |  |
| London & Associated Properties PLC (note (a)) | 33 | - | 138 | (140) |
| Langney Shopping Centre Unit Trust (note (b)) | - | - | - | - |
| Dragon Retail Properties Limited (note (c)) | 147 | (2,000) | (180) | 204 |
| Ezimbokodweni Mining (Pty) Limited (note (d)) | - | - | (46) | - |
| **As at 31 December 2017** | **180** | **(2,000)** | **(88)** | **64** |
|  |  |  |  |  |
| London & Associated Properties PLC (note (a)) | 35 | - | 138 | (162) |
| Langney Shopping Centre Unit Trust (note (b)) | - | - | - | 64 |
| Dragon Retail Properties Limited (note (c)) | 123 | (2,000) | (174) | 150 |
| Ezimbokodweni Mining (Pty) Limited (note (d)) | - | (1,350) | (114) | - |
| **As at 31 December 2016** | **158** | **(3,350)** | **(150)** | **52** |

(a) London & Associated Properties PLC- London & Associated Properties PLC is a substantial shareholder and parent company of Bisichi Mining PLC. Property management, office premises, general management, accounting and administration services are provided for Bisichi Mining PLC and its UK subsidiaries.

(b) Langney Shopping Centre Unit Trust- Langney Shopping Centre Unit Trust is an unlisted property unit trust incorporated in Jersey. On the 11 March 2016, the company disposed of its investment in Langney Shopping Centre Unit Trust.

(c) Dragon Retail Properties Limited- ("Dragon") is owned equally by the company and London & Associated Properties PLC. Dragon is accounted as a joint venture and is treated as a non-current asset investment. During 2012 the company lent £2million to Dragon at 6.875 per cent annual interest which has been classified as a trading balance and which is unsecured and payable on demand.

(d) Ezimbokodweni Mining (Pty) Limited- Ezimbokodweni Mining is a prospective coal production company based in South Africa. Ezimbokodweni Mining (Pty) Limited is a joint venture and a loan to the joint venture is treated as part of the net investment in the joint venture. Further details on the net investment in Ezimbokodweni can be found in note 13.

Details of key management personnel compensation and interest in share options are shown in the Directors' Remuneration Report on pages 36 and 37 under the headings Directors' remuneration, Pension schemes and incentives and Share option schemes which is within the audited part of this report. Refer also to note 25 for details of IFRS 2 charges. The total employers' national insurance paid in relation to the remuneration of key management was £156,000 (2016: 143,000). In 2012 a loan was made to one of the directors, Mr A R Heller, for £116,000. Interest is payable on the Director's Loan at a rate of 6.14 per cent. There is no fixed repayment date for the Director's Loan. The loan amount outstanding at year end was £56,000 (2016: £71,000) and a repayment of £15,000 (2016: £15,000) was made during the year.

The non-controlling interest to Vunani Limited is shown in note 26. In addition, the group holds an investment in Vunani Limited classified as non-current available for sale investments with a fair value of £51,000 (2016: £32,000).

28. EMPLOYEES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| The average weekly numbers of employees of the group during the year were as follows: |  |  |
| Production | **192** | 185 |
| Administration | **15** | 15 |
|  | **207** | 200 |
| Staff costs during the year were as follows: |  |  |
| Salaries | **5,993** | 4,864 |
| Social security costs | **161** | 148 |
| Pension costs | **242** | 200 |
| Share based payments | **-** | 109 |
|  | **6,396** | 5,321 |

29. CAPITAL COMMITMENTS

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Commitments for capital expenditure approved and contracted for at the year end | **-** | 762 |
| Share of commitment of capital expenditure in joint venture | **-** | 1,489 |

30. HEAD LEASE COMMITMENTS AND FUTURE PROPERTY LEASE RENTALS

Present value of head leases on properties

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Minimum lease  payments | Present value of  minimum lease  payments |  |  |
|  | **2017**  **£'000** | 2016  £'000 | **2017**  **£'000** | 2016  £'000 |
| Within one year | **10** | 11 | **10** | 11 |
| Second to fifth year | **38** | 45 | **30** | 36 |
| After five years | **1,199** | 1,436 | **112** | 134 |
|  | **1,247** | 1,492 | **152** | 181 |
| Discounting adjustment | **(1,095)** | (1,311) | **-** | - |
| **Present value** | **152** | 181 | **152** | 181 |

The Company has one finance lease contract for an investment property. The remaining term for the leased investment property is 131 years. The annual rent payable is the higher of £7,500 or 6.25% of the revenue derived from the leased assets.

The group has entered into operating leases on its investment property portfolio consisting mainly of commercial properties. These leases have terms of between 1 and 68 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Within one year | **914** | 981 |
| Second to fifth year | **2,460** | 2,533 |
| After five years | **9,327** | 9,262 |
|  | **12,701** | 12,776 |

31. CONTINGENT LIABILITIES AND POST BLANCE SHEET EVENTS

Bank guarantees have been issued by the bankers of Black Wattle Colliery (Pty) Limited on behalf of the company to third parties. The guarantees are secured against the assets of the company and have been issued in respect of the following:

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Rail siding | **64** | 63 |
| Rehabilitation of mining land | **1,387** | 1,364 |
| Water & electricity | **58** | 57 |

Company balance sheet

at 31 December 2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | Notes | **2017**  **£'000** | 2016  £'000 |
| **Fixed assets** |  |  |  |
| Tangible assets | 34 | **48** | 51 |
| Investment in joint ventures | 35 | **165** | 847 |
| Other investments | 35 | **7,395** | 7,599 |
|  |  | **7,609** | 8,497 |
| **Current assets** |  |  |  |
| Debtors - amounts due within one year | 36 | **3,471** | 3,253 |
| Debtors - amounts due in more than one year | 36 | **-** | 843 |
| Bank balances |  | **2,129** | 1,118 |
|  |  | **5,599** | 5,214 |
| Creditors - amounts falling due within one year | 37 | **(1,406)** | (1,328) |
| **Net current assets** |  | **4,193** | 3,886 |
| **Total assets less current liabilities** |  | **11,802** | 12,383 |
| Provision for liabilities and charges | 38 | **(18)** | (18) |
| **Net assets** |  | **11,784** | 12,365 |
| **Capital and reserves** |  |  |  |
| Called up share capital | 23 | **1,068** | 1,068 |
| Share premium account |  | **258** | 258 |
| Available for sale reserve |  | **25** | 6 |
| Other reserves |  | **598** | 598 |
| Retained earnings | 32 | **9,835** | 10,435 |
| Shareholders' funds |  | **11,784** | 12,365 |

The loss for the financial year, before dividends, was £173,000 (2016: loss of £224,000)

The company financial statements were approved and authorised for issue by the board of directors on 20 April 2018 and signed on its behalf by:

A R Heller                       G J Casey                            Company Registration No. 112155

Director                                   Director

Company statement of changes in equity

for the year ended 31 December 2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Share  capital  £'000 | Share  premium  £'000 | Available for sale reserve  £'000 | Other  reserve  £'000 | Retained  earnings  £'000 | **Shareholders**  **funds**  **£'000** |
| Balance at 1 January 2016 | 1,068 | 258 | - | 489 | 11,086 | **12,901** |
| Dividend paid | - | - | - | - | (427) | **(427)** |
| Share option charge | - | - | - | 109 | - | **109** |
| Profit and total comprehensive income for the year | - | - | 6 | - | (224) | **(218)** |
| **Balance at 1 January 2017** | 1,068 | 258 | 6 | 598 | 10,435 | **12,365** |
| Dividend paid | - | - | - | - | (427) | **(427)** |
| Profit and total comprehensive income for the year | - | - | 19 | - | (173) | **(154)** |
| **Balance at 31 December 2017** | 1,068 | 258 | 25 | 598 | 9,835 | **11,784** |

Company accounting policies for the year ended 31 December 2017

The following are the main accounting policies of the company:

Basis of preperation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below.

The financial statements have been prepared on a historical cost basis, except for the revaluation of investment property and certain financial instruments.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101 as well as disclosure exemptions conferred by IFRS 2, 7 and 13.

Therefore these financial statements do not include:

certain comparative information as otherwise required by EU endorsed IFRS;certain disclosures regarding the company's capital;a statement of cash flows;the effect of future accounting standards not yet adopted;the disclosure of the remuneration of key management personnel; anddisclosure of related party transactions with the company's wholly owned subsidiaries.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the company's Consolidated Financial Statements.

Dividends received

Dividends are credited to the profit and loss account when received.

Depreciation

Provision for depreciation on tangible fixed assets is made in equal annual instalments to write each item off over its useful life. The rates generally used are:

Motor vehicles         25 - 33 per cent

Office equipment     10 - 33 per cent

Joint ventures

Investments in joint ventures, being those entities over whose activities the group has joint control as established by contractual agreement, are included at cost, less impairment.

Other Investments

Investments of the company in subsidiaries are stated in the balance sheet as fixed assets at cost less provisions for impairment.

Other investments comprising of shares in listed companies are classified as non-current available for sale investments and are carried at fair value. Any changes in fair value above cost are recognised in other comprehensive income and accumulated in the available-for-sale reserve. For any changes in fair value below cost a provision for impairment is recognised in the profit or loss account.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies have been translated at the rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Financial instruments

Details on the group's accounting policy for financial instruments can be found on page 64.

Deferred taxation

Details on the group's accounting policy for deferred taxation can be found on page 65.

Leased assets and obligations

All leases are "Operating Leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term. Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease so as to spread the benefit received over the lease term.

Pensions

Details on the group's accounting policy for pensions can be found on page 64.

Share based remuneration

Details on the group's accounting policy for share based remuneration can be found on page 64. Details of the share options in issue are disclosed in the directors' remuneration report on page 37 under the heading share option schemes which is within the audited part of this report.

32. PROFIT & LOSS ACCOUNT

A separate profit and loss account for Bisichi Mining PLC has not been presented as permitted by Section 408(2) of the Companies Act 2006. The loss for the financial year, before dividends, was £173,000 (2016: loss of £224,000)

Details of share capital are set out in note 23 of the group financial statements and details of the share options are shown in the Directors' Remuneration Report on page 37 under the heading Share option schemes which is within the audited part of this report and note 25 of the group financial statements.

33. DIVIDENDS

Details on dividends can be found in note 8 in the group financial statements.

34. TANGIBLE FIXED ASSETS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Leasehold  Property  £'000 | Motor  vehicles  £'000 | Office  equipment  £'000 | **Total**  **£'000** |
| Cost at 1 January 2017 | 45 | 37 | 67 | **149** |
| Revaluation | - | (37) | - | **(37)** |
| Cost at 31 December 2017 | 45 | - | 67 | **112** |
|  |  |  |  |  |
| Accumulated depreciation at 1 January 2017 | - | 37 | 61 | **98** |
| Charge for the year | - | - | 3 | **3** |
| Accumulated depreciation at 31 December 2017 | - | 37 | 64 | **101** |
| **Net book value at 31 December 2017** | **45** | **-** | **3** | **48** |
| Net book value at 31 December 2016 | 45 | - | 6 | **51** |

Leasehold property consists of a single unit with a long leasehold tenant. The term remaining on the lease is 42 years.

35. INVESTMENTS

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Joint**  **ventures**  **shares**  **£'000** | Shares in subsidiaries  £'000 | Loans  £'000 | Other  investments  £'000 | **Total**  **£'000** |
| Net book value at 1 January 2017 | **847** | 6,356 | 1,211 | 32 | **7,599** |
| Repaid during year | **-** | - | (223) | - | **(223)** |
| Write-off of investment | **(682)** | - | - | - | **-** |
| Unrealised surplus of market value versus cost | **-** | - | - | 19 | **19** |
| **Net book value at 31 December 2017** | **165** | **6,356** | **988** | **51** | **7,395** |
|  |  |  |  |  |  |

During the year, the company wrote off its investment in Ezimbokodweni Mining (Pty) Ltd. Further information relating to the write down of Ezimbokodweni Mining (Pty) Ltd can be found in Note 13.

Investments in subsidiaries are detailed in note 14. In the opinion of the directors the aggregate value of the investment in subsidiaries is not less than the amount shown in these financial statements.

Other investments comprise £52,000 (2016: £32,000) shares.

36. DEBTORS

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Amounts due within one year:** |  |  |
| Amounts due from subsidiary undertakings | **1,289** | 1,006 |
| Trade receivables | **16** | 7 |
| Other debtors | **78** | 89 |
| Joint venture | **2,000** | 2,070 |
| Prepayments and accrued income | **88** | 81 |
|  | **3,471** | 3,253 |
|  |  |  |
| **Amounts due in more than one year:** |  |  |
| Amounts due from subsidiary undertakings | **-** | 834 |

37. CREDITORS

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| **Amounts falling due within one year:** |  |  |
| Amounts due to subsidiary undertakings | **279** | 359 |
| Joint venture | **192** | 192 |
| Current taxation | **123** | - |
| Other taxation and social security | **38** | 26 |
| Other creditors | **659** | 592 |
| Accruals and deferred income | **115** | 159 |
|  | **1,406** | 1,328 |
|  |  |  |

38. PROVISIONS FOR LIABILITIES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| Deferred taxation: |  |  |
| Balance at 1 January | **18** | 182 |
| Provision | **-** | (164) |
| Transfer | **-** | - |
|  | **18** | 18 |

39. RELATED PARTY TRANSACTIONS

|  |  |  |  |
| --- | --- | --- | --- |
|  | **At 31 December** | **During the year** |  |
| At 31 December | Amounts owed  by related party  £'000 | Costs recharged /  accrued (to)/ by related party  £'000 | Cash paid (to)/ by  related party  £'000 |
| **Related party:** |  |  |  |
| Black Wattle Colliery (Pty) Ltd (note (a)) | (165) | (999) | 2,768 |
| Ninghi Marketing Limited (note (b)) | (102) | - | - |
| **As at 31 December 2017** | **(267)** | **(999)** | **2,768** |
| Black Wattle Colliery (Pty) Ltd (note (a)) | (1,934) | (1,421) | 644 |
| Ninghi Marketing Limited (note (b)) | (102) | - | - |
| **As at 31 December 2016** | **(2,036)** | **(1,421)** | **644** |

(a)          Black Wattle Colliery (Pty) Ltd- Black Wattle Colliery (Pty) Ltd is a coal mining company based in South Africa.

(b)          Ninghi Marketing Limited- Ninghi Marketing Limited is a dormant coal marketing company incorporated in England & Wales.

Black Wattle Colliery (PTY) Ltd and NInghi Marketing Limited are subsidiaries of the company.

In addition to the above, the company has issued a company guarantee of R17,000,000 (2016: R17,000,000) (South African Rand) to the bankers of Black Wattle Colliery (Pty) Ltd in order to cover bank guarantees issued to third parties in respect of the rehabilitation of mining land.

A provision of £102,000 has been raised against the amount owing by Ninghi Marketing Limited in prior years as the company is dormant.

In 2012 a loan was made to one of the directors, Mr A R Heller, for £116,000. Further details on the loan can be found in Note 27 of the group financial statements.

Under FRS 101, the company has taken advantage of the exemption from disclosing transactions with other wholly owned group companies. Details of other related party transactions are given in note 27 of the group financial statements.

40. EMPLOYEES

|  |  |  |
| --- | --- | --- |
|  | **2017**  **£'000** | 2016  £'000 |
| The average weekly numbers of employees of the company during the year were as follows: |  |  |
| Directors & administration | **5** | 5 |
|  |  |  |
| Staff costs during the year were as follows: |  |  |
| Salaries | **1,227** | 1,125 |
| Social security costs | **161** | 148 |
| Pension costs | **62** | 65 |
| Share based payments | **-** | 109 |
|  | **1,450** | 1,447 |

**Load-Date:** May 16, 2018

**End of Document**



[***Council of the European Union: REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the implementation of the Common Monitoring and Evaluation System for the European Maritime and Fisheries Fund ST 5798 2018 INIT***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RP3-61X1-F0YC-N2GT-00000-00&context=1516831)

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**Body**

Brussels: Council of the European Union has issued the following document:

5798/18 AA/mc DG B 2A EN Council of the European Union Brussels, 31 January 2018 (OR. en) 5798/18 PECHE 32 COVER NOTE From: Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director date of receipt: 30 January 2018 To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union No. Cion doc.: COM(2018) 48 final Subject: REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the implementation of the Common Monitoring and Evaluation System for the European Maritime and Fisheries Fund Delegations will find attached document COM(2018) 48 final. Encl.: COM(2018) 48 final EN EN EUROPEAN COMMISSION Brussels, 30.1.2018 COM(2018) 48 final REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the implementation of the Common Monitoring and Evaluation System for the European Maritime and Fisheries Fund 2 Acronyms: AIR: Annual Implementation Report CFP: Common Fisheries Policy CI: Context ***Indicator*** CMES: Common Monitoring and Evaluation System CPR: Common Provision Regulation EFF: European Fisheries Fund EMFF: European Maritime and Fisheries Fund EP: Evaluation Plan FAME: Fisheries and Aquaculture Monitoring and Evaluation FI: Financial ***Indicator*** FIFG: Financial Instrument for Fisheries Guidance IMP: Integrated Maritime Policy MA: Managing Authority MS: Member State OI: Output ***Indicator*** OP: Operational Programme RI: Result ***Indicator*** SFC: System for Fund Management in the European Union 3 Table of Contents 1 Introduction ........................................................................................................... 4 2 The seven components of the Common Monitoring and Evaluation System ................................................................................................. 5 2.1 EMFF ***Intervention*** Logic ....................................................................................... 5 2.2 Common ***Indicators*** ................................................................................................. 5 2.3 Cumulative Data on Operations (Infosys) .............................................................. 6 2.4 Annual Implementation Report (AIR) .................................................................... 7 2.5 Evaluation Plan ....................................................................................................... 8 2.6 EMFF OPs Evaluations ........................................................................................... 8 2.7 ***Performance*** Framework and Review ..................................................................... 9 3 Findings and recommendations ........................................................................... 9 3.1 EMFF ***Intervention*** Logic ....................................................................................... 9 3.2 Common ***Indicators*** ............................................................................................... 10 3.3 Cumulative Data on Operations selected for Funding (Infosys)........................... 11 3.4 Annual Implementation Report (AIR) .................................................................. 12 3.5 Evaluation Plan ..................................................................................................... 12 3.6 Evaluations ............................................................................................................ 13 3.7 ***Performance*** Framework ....................................................................................... 13 4 Conclusion: are the objectives of the CMES going to be achieved? ............... 14 4 1 Introduction The EMFF Regulation1 requires the establishment of a Common Monitoring and Evaluation System (CMES) for the operations co-financed by the EMFF under shared management2. The purpose of this document is to report to the European Parliament and the Council on the implementation of the CMES.

This report is required every four years, the first time at the end of 20173 . It provides an opportunity to take stock on the strengths and weaknesses of the system, and draw lessons for the future. The objectives of the CMES are spelled out in Article 108 of the EMFF Regulation as follows: a) to demonstrate the progress and achievements of the CFP and the IMP, to consider the general impact and to assess the effectiveness, efficiency and relevance of EMFF operations; b) to contribute to better targeted support for the CFP and the IMP; c) to support a common learning process related to monitoring and evaluation; d) to provide robust, evidence-based evaluations of EMFF operations that feed into the decision-making process. To achieve these objectives, the Common Monitoring and Evaluation System has been defined in the Regulation, and consists of seven elements4: 1) An ***intervention*** logic showing the interactions between priorities, specific objectives and measures5. 2) A set of common indicators6. 3) Cumulative data on operations selected for funding7. 4) The Annual Implementation Report of the Operational Programme8. 5) The Evaluation Plan9. 6) The ex-ante and ex-post evaluations and all other evaluation activities linked to the EMFF programme10. 7) The ***performance*** review11. 1 Regulation (EU) No. 508/2014 of the European Parliament and of the Council of 15 May 2014 on the European Maritime and Fisheries Fund 2 Article 107 of the EMFF Regulation 3 Article 107(4) of the EMFF Regulation 4 These are listed in Article 1 of the Commission Delegated Regulation (EU) No. 1014/2014. 5 Articles 18(1)(a) and 116 of the EMFF Regulation 6 Article 109 of the EMFF Regulation. The list of common ***indicators*** is set out in the Annex of Regulation (EU) No. 1014/2014. 7 Article 97(1)(a) of the EMFF Regulation (Infosys report). 8 Article 114 of EMFF Regulation, complementing Article 50 of the Common Provision Regulation (CPR) 9 Article 115 of the EMFF Regulation in conjunction with Article 56 of the CPR 10 Article 115, 116 and 117 of the EMFF Regulation in conjunction with Articles 55, 56 and 57 of the CPR 11 Article 21(1) of Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, The Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on European 5 Each of these elements has been discussed with the Member States (MS) in expert group meetings12 and adopted in the framework of delegated and implementing regulations. This participative approach was continued after the adoption of the legislative framework and the involvement of the Managing Authorities (MAs) in the further development of the CMES helped to fine-tune the CMES components whilst limiting the associated administrative burden. This ensured the acceptance of the system but also supported the development of monitoring and evaluation capacity in the MAs and the Commission. To reach its objectives, the CMES must be applied consistently across the MS, in order to produce comparable data that can be aggregated and evaluated at European Union (EU) level. To ensure consistency and further develop the CMES, the Commission established a technical assistance facility FAME13 (Fisheries and Aquaculture Monitoring and Evaluation) supported by an external contractor over the seven years of the programming period. 2 The seven components of the Common Monitoring and Evaluation System 2.1 EMFF ***Intervention*** Logic The ***intervention*** logic is supporting the introduction of a reinforced result-orientation in the ESIF for the 2014-2020 period. The EMFF ***intervention*** logic describes the links between different levels of the programme: Union priorities (UPs), Specific Objectives and measures14. A table showing these links was distributed to the MS in an EMFF expert group meeting and this logic was integrated in the 'Operational Programme' module of SFC 201415. 2.2 Common ***Indicators*** A set of common ***indicators*** has been established, aiming at representing the main characteristics of the fisheries and aquaculture sector, reflecting the goals of relevant EU Regional Development Fund, the European Social Fund, The Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. 12 See documents and report on these meeting here: [*https://ec.europa.eu/fisheries/cfp/emff\_en*](https://ec.europa.eu/fisheries/cfp/emff_en) 13 FAME's activities are defined in an Annual Work Plan agreed with the Commission. For further information on FAME, please visit   [*https://ec.europa.eu/fisheries/cfp/emff/fame\_en*](https://ec.europa.eu/fisheries/cfp/emff/fame_en) 14 Article 18(1)(b) and 116 of the EMFF Regulation. 15 SFC2014 is the structured communication channel between the Commission and the MS. Its main function is the electronic exchange of information concerning shared Fund management between Member States and the European Commission. See:   [*https://ec.europa.eu/sfc/en/2014/about-sfc2014*](https://ec.europa.eu/sfc/en/2014/about-sfc2014) 6 policies (CFP, IMP) and providing a connection with the EU 2020 strategy. These also ensure consistent and comparable monitoring and reporting at the EU level. The set of common ***indicators*** used by the EMFF was extensively discussed with the MS in expert group meetings prior to their adoption16. Four types of common ***indicators*** are used in the CMES, addressing different levels of objectives and serving different purposes:  Context ***Indicators*** (CIs) are linked to the overall objectives of the EMFF and establish the baseline at the beginning of the OP implementation. The EMFF uses 25 common CIs.  Output ***indicators*** (OIs) are the direct product of the implemented activities. In the case of the EMFF, they are mostly expressed as a number of operations. The EMFF CMES defines 28 OIs covering the 50 measures.  Result ***Indicators*** (RIs) measure the gross effect of the EMFF. The CMES comprises a set of 28 RIs, some of which are linked to only one EMFF Specific Objective, others to more than one. MS were free to add specific ***indicators*** if they wished.  Financial ***indicators*** (FI) are common to all ESIF and are set at UP level. A working paper has been published in which common ***indicators*** were defined and made more operational by the provision of judgment criteria and the identification of possible sources of information. These definitions were extensively discussed with the MS in two workshops held in March and September 2016. 2.3 Cumulative Data on Operations (Infosys) The mid-term and ex-post evaluations of the European Fisheries Fund (EFF, 2007-2013) were hampered by the lack of robust monitoring data, making the collection of data challenging17. A reporting system was established to address this shortcoming and provide the Commission with detailed information at the level of every single operation18. The aim of this reporting is to create a database of information that can be used to follow the implementation of the OPs, carry out specific analysis required by policy-making and ensure that robust data is available for evaluation. Art. 97 of the EMFF Regulation requires that, at the end of March each year, MAs provide the Commission with cumulative data on operations selected for funding up to the end of the previous calendar year. Two Implementing Regulations19 provide the list and structure of the 16 CDR (EU) No. 1014/2014 defines common Context ***Indicators***, Output ***Indicators*** and Result ***Indicators***. 17 A similar Infosys system was established for monitoring the Financial Instrument for Fisheries Guidance (FIFG), covering the 2000-2006 period. This system was discontinued under the EFF. 18 In order to limit the administrative burden for the MAs, the system uses information which is already available in the MS. 19 Commission Implementing Regulation (EU) No. 1242/2014 of 20 November 2014 laying down rules pursuant to the EMFF Regulation with regard to the presentation of relevant cumulative data on operations and Commission Implementing Regulation (EU) No. 1243/2014 of 20 November 2014 on the information to be sent by Member States, as well as data needs and synergies between potential data sources. 7 operation implementation data required on each operation, including key characteristics of the beneficiary and the operation. A working paper has been developed with support from FAME to help the MS prepare the Infosys reports. The first set of reports were analysed and a feed-back to the MS helped them identify the errors made. The Infosys reporting describes the progress and achievements at operation level by capturing what is happening “on the ground”. It provides key information about the beneficiary (e.g size of enterprise, gender) and the operation (type of activities, budget, number of fishermen concerned, total area concerned, etc.). In order to limit the administrative burden on MAs and on beneficiaries, most of the data requested by the Infosys is already stored in national databases set up to comply with the minimum data to be recorded and stored for each operation20. 2.4 Annual Implementation Report (AIR) The monitoring of OPs implementation involves the drawing up of an AIR by the MS, to be submitted by 31 May each year, covering the period up to the end of the previous calendar year (hence the same period as the Infosys report). The AIR21 provides an overview of the implementation of programmes, including in relation to important issues, such as support for small-scale coastal fisheries or climate change. It is used by the Commission and the MS to review achievements and make adjustments where necessary. It also contains indicative information on finances planned at measure level, which is not included in the OPs. The AIR is divided into three parts: Part A (to be reported every year between 2016 and 2023) provides for, inter alia: • an overview of implementation at programme and UP levels; • cumulative data on the 28 Result ***Indicators*** (RIs) at Specific Objective level; • cumulative data relating to the 28 Output ***Indicators*** (OI) for each of the 50 EMFF measures; • financial data on the OP implementation at measure level; • description of issues affecting the ***performance*** of the programme; and • activities in relation to the Evaluation Plan, including a synthesis of the evaluations finalised in the year. 20 This is established at the level of the CPR by Annex III of Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, The Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on European Regional Development Fund, the European Social Fund, The Cohesion Fund and the European Maritime and Fisheries Fund 21 See Article 114 of Regulation 508/2014 and Commission Implementing Regulation 1362/2014 of 18 December 2014 laying down rules on the simplified procedure for the approval of certain amendments to operational programmes financed under the European Maritime and Fisheries Fund and rules concerning the format and presentation of the annual reports on the implementation of those programmes for the template. 8 Under Part B (only included in the comprehensive reports due in 2017 and 2019), MS are to report additionally on horizontal aspects of the implementation (gender, sustainable development, etc.), and on the support for climate change objectives. Part C (only included in the comprehensive reports due in 2019) should contain further information in relation to the OP’s contribution to the achievement of the objectives of the Union strategy for smart, sustainable and inclusive growth. 2.5 Evaluation Plan In order to strengthen the contribution of evaluations towards effective and efficient programmes, the Common Provisions Regulation (CPR)22 makes it compulsory for MAs to design Evaluation Plans at the beginning of the programming period. This is a new feature for the EMFF MAs, who had to reflect on their evaluation needs over the implementation period and the way these were going to be addressed. The Evaluation Plan includes seven sections: purpose, objectives, activities, governance provisions, data sources, indicative timeline and resources available. Short guidelines on these sections were provided as part of the EMFF OP template. Unlike the other ESI Funds, the evaluation plan is part of the EMFF OPs23, as this allowed the Commission to assess these plans as part of the OP negotiation process. 2.6 EMFF OPs Evaluations Evaluations are necessary to assess the effectiveness, efficiency and impact of the funding in order to improve the implementation of programmes and to determine their impact. The CPR24 lays down the general rules for evaluation in all the ESI funds, whilst the EMFF Regulation specifies that the MS have to conduct an ex-ante evaluation and further evaluations during the implementation period, whilst the Commission has to conduct an ex-post evaluation, to be completed by the end of 2024.25 The ex-ante evaluation is the only evaluation undertaken so far by the MS. Going beyond a simple photography of the situation before the start of the programme, the ex-ante evaluation is seen as a process, including regular interactions between the MA and the evaluators during the different development stages of the OP. This process was documented in a guidance document discussed with the MS in expert group meetings. 22 Article 56 (1) of the CPR 23 Article 18(1)(j) of the EMFF Regulation, and the OP template in Commission Implementing Regulation (EU) No. 771/2014 of 14 July 2014 laying down rules pursuant to Regulation (EU) No 508/2014 of the European Parliament and of the Council on the European Maritime and Fisheries Fund with regard to the model for operational programmes, the structure of the plans for compensation of additional costs incurred by operators in the fishing, farming, processing and marketing of certain fishery and aquaculture products from the outermost regions, the model for the transmission of financial data, the content of the ex-ante evaluation reports and the minimum requirements for the evaluation plan to be submitted under the European Maritime and Fisheries Fund. 24 Articles 54–57 of the CPR. 25 Article 55, 56 and 57 of the CPR and Art. 107, 108, 109, 111, 113, 115, 116, 117 of the EMFF Regulation 9 2.7 ***Performance*** Framework and Review The ***Performance*** Framework is one of the tools used across all ESIF to foster result-orientation26. In the EMFF, it is based on a set of Output and Financial ***indicators***, for which milestones and targets are defined for each Union Priority. ***Performance*** Frameworks ***indicators*** are reported in the AIRs. The assessment of the milestones in 2019 will form the basis for the allocation of the ***performance*** reserve27, whilst the achievement of targets will be assessed in 2024. The Commission issued a guidance document28 to provide MAs with further details on the way this new feature will be implemented. In the EMFF, the ***Performance*** Framework is composed of financial ***indicators*** (payment certified) which provide a clear and classical indication of ***performance*** of the implementation through the level of spending. To reflect the result-orientation given to the ESIF, financial ***indicators*** are complemented by output ***indicators***. Both sets of ***indicators*** must show a good level of progress to allow the release of the ***Performance*** Reserve. 3 Findings and recommendations This report has been drafted with the help of the FAME Support Unit, using feedback from the EMFF MAs collected through workshops held in March and September 2016, a specific stakeholder meeting with the participation of 21 Member States in September 2017, but also questions addressed by the MS to FAME and the Commission during the implementation of the Operational Programmes. The section below summarises the findings in relation to the implementation of each element of the CMES and, where relevant, proposes recommendations to improve the functioning of the CMES. 3.1 EMFF ***Intervention*** Logic The ***intervention*** logic of the EMFF is well suited to the structure of the Fund (Union Priorities - Specific Objectives - Measures), but the late inclusion of the EMFF under the umbrella of the CPR required supplementary reporting at the level of Thematic Objectives 26 Articles 20-22 and Annex II of the CPR. 27 According to Article 20(1) of the CPR, 6% of the resources allocated to measures financed under shared management in the EMFF constitute a ***performance*** reserve which was established in the Partnership Agreement and in the OPs. Guidance document:   [*https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-****performance****-framework\_en.pdf*](https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-performance-framework_en.pdf) 28 This guidance document covering the whole ESI Funds can be found here:   [*https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-****performance****-framework\_en.pdf*](https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/09-performance-framework_en.pdf) 10 common to all ESIF 29. This added an extra layer of complexity to the ***intervention*** logic and made reporting more difficult for the MS. Recommendations: • The ***intervention*** logic is a structuring element in the CMES which should be maintained in the future, although it should be discussed more extensively with the MS in expert group meetings. • It should be simpler and more result oriented, showing clearly which measure or action contributes to which objectives and how is this measured. 3.2 Common ***Indicators*** The following issues appeared during this assessment of the functioning of the CMES: • The working paper providing precise definition of the common ***indicators*** and information on the way these should be used was only made available fairly late during the programming process. This led to misunderstandings for certain MS and some OPs were prepared using different methods for setting targets on the results they were planning to achieve. • Result ***indicators*** are linked to the specific objectives of the EMFF. The MS had the possibility to declare that certain result ***indicators*** under a given specific objective were “non-applicable” to a specific objective. This possibility was used extensively and not as an exception. However since every EMFF specific objective is covered by more than one common result ***indicator***, it is still possible to measure the contribution of the OPs to the EMFF specific objective. • The MS also had the possibility to use their own ***indicators*** instead of selecting them from the common list, leading to a situation where some results cannot be taken properly into account in reporting or aggregated at EU level. • Some measures were poorly covered by common result ***indicator*** (e.g measures related to innovation) and the time needed for an effect to materialise was not always properly taken into account (e.g increase in net profit due to an innovation). This implies that some important effects of the EMFF might not be taken into account. • Some ***indicators*** were expressed in ratios30, their calculation is difficult at operational level, and their aggregation is not meaningful. Recommendations: • Result ***indicators*** should always be expressed in absolute numbers in the monitoring including targets and baselines. Since EMFF result ***indicators*** rely on data from the 29 Article 9 of the CPR. The EMFF contributes to Thematic Objectives 3, 4, 6 and 8. 30 For example: 'Change in the % of unbalanced fleets' or 'Change in unwanted catches (%)'. Both these ***indicators*** require a calculation and a baseline. 11 EMFF beneficiaries before and after the operation, ratios, percentages and arithmetic sign ambiguities should be avoided since they create errors. For example net profit increase should be expressed as 'before' and 'after' values and not as an increase in percentage. • Before starting the programming exercise, MS should receive methodological framing from the Commission on the definitions of the ***indicators*** and on the calculation methods to be used for setting the targets. • In order to provide an overall picture of the use of the funds and to allow for meaningful aggregation at EU level, common ***indicators*** should cover all investments. However, the MS should have the flexibility to use supplementary ***indicators*** to be used at the national level. 3.3 Cumulative Data on Operations selected for Funding (Infosys) The Infosys is a valuable tool for the MAs as it can be used as a 'dashboard' for checking the progress of the implementation. It is useful for the Commission as it provides information on EMFF achievements long before the first RI values can be reported meaningfully. It will be an especially useful tool for the MS when undertaking evaluations from 2018 onwards as it will ensure that a basic but robust set of data is available for the evaluators. Issues with the Infosys include the following: • In the Infosys reports, it is not possible to differentiate fields left intentionally void from negligent omissions, since the structure of Infosys did not allow indicating “non-applicable” as an answer to certain fields. • A baseline is the value of an ***indicator*** before the start of an operation (e.g number of existing Full Time Equivalents in a SME) and forms a reference point against which progress can be measured. Baselines are not available in the Infosys reports, despite the fact that they are always requested from applicants by the MAs to be able to assess the applications for funding and are a compulsory element of the national monitoring system31. • The Infosys requires those applying for funding to provide an estimation of the result they think they will achieve with their operation. This estimate is then verified by the MAs after completion of the project. Methodological support will be provided to MAs for this second step in order to ensure the robustness of the validation. Recommendations: • The Infosys should be continued in the future as it provides very valuable information whilst generating only a limited administrative input from Member State administrations. 31 As requested by CDA 480/2014. 12 • Baselines should be included in the Infosys reports. • Users should have the possibility to use 'non-applicable' when appropriate adding an explanatory note. 3.4 Annual Implementation Report (AIR) Unlike the Infosys, AIRs are submitted through SFC using a structured workflow and have to be accepted by the Commission. Different types of issues may arise during the assessment of these reports by the Commission, which can lead to substantial delay. In particular, there should not be any discrepancies between the disaggregated information provided in the Infosys and the aggregated values included in the AIR since both reports cover the same period. For all the ESI Funds, key information coming from the AIR is made available to the general public on the Open Data Portal provided by the Commission to ensure transparency on the use of the Funds32. Financial data on the implementation of the EMFF is only available annually in the AIR, whilst the Commission receives information on the ERDF, ESF and EAFRD three times per year. The information published on the ODP is therefore more up-to-date for these Funds than for the EMFF. Recommendations: • Guidance should be made available to help the MS with their reporting. • Better complementarity should be ensured between the Infosys and the AIR. • Reporting on financial implementation should be aligned between the Funds. 3.5 Evaluation Plan The Evaluation Plans vary in length, detail and quality, and often present only the minimum information required. The MAs gave priority to other sections of the OP and the Evaluation Plans were sometimes overlooked and drafted rapidly. The budget earmarked for evaluations varies substantially, reflecting proportionality of treatment: MS with numerous regions have a significantly higher budget for evaluation purposes than MS with only a small EMFF OP and smaller or no regional divisions. Recommendations: 32 The ODP is a web site on which key information on the implementation of the ESIF is provided graphically. All data sets used for these illustrations can be downloaded and used by members of the public. See   [*https://cohesiondata.ec.europa.eu*](https://cohesiondata.ec.europa.eu)/ 13 • The Evaluation Plan included in the OP should only emphasise the governance of the evaluation process, provide basic time planning and indicative resource allocation. • To maintain flexibility and avoid numerous OP modifications, more detailed planning should be left for a later stage, using updated plans adopted by the Monitoring Committee as it is the case for the other ESIF. 3.6 Evaluations In April 2017, the majority of the MS had yet to start evaluations, as they considered that the level of implementation was too low to provide a basis for substantial evaluation results. It is therefore too early to draw conclusions on this component of the CMES. The process of the ex-ante evaluation is presented in the OPs but in a very synthetic way which might need to be improved. The ex-ante evaluation teams have generally not been involved in the negotiation phase of the OPs or their finalisation and were not able to provide an assessment of the final version of the OP. A specific issue with evaluation of the EMFF is the difficulty to find evaluators with the right expertise in both fisheries and evaluation methodologies: this can only be found in a team of individuals with complementary skills. Guidance is also needed to support the MS when undertaking effectiveness or impact evaluations. This will be especially important when the Commission will undertake the ex-post evaluation which should be based on a set of robust national evaluations. Recommendations: • Guidance on the ex-ante evaluation should be more detailed and include a definition of the role of the ex-ante evaluators in the finalisation of the OP. • MS should seek to combine the different types of expertise required in an ad-hoc team of evaluators • Methodological framing on evaluation should be made available rapidly. 3.7 ***Performance*** Framework Output ***indicators*** in the ***Performance*** Framework have to be wisely defined in order to avoid misunderstandings: output ***indicators*** are mainly the number of operations selected under certain measures, a number which can be influenced by external factors. The calculation method used for the financial ***indicators*** is defined in the CPR, but raised many questions from the MS. This is probably reflecting the different terminology and reporting methods applied by the different Funds. 14 Recommendations: • The financial ***indicators*** should be similar and comparable throughout all ESIF. • The use of output ***indicators*** should be better assessed • It might be useful to complement the ***Performance*** Framework by explanations. 4 Conclusion: are the objectives of the CMES going to be achieved? The present stock-taking report indicates that progress is being made towards the four objectives of the CMES but that further work is still required to achieve them fully. The CMES has been designed to assess the progress in the implementation of the EMFF and support decision-making in this respect at both national and EU levels. The use of common ***indicators*** and the new monitoring system provide a robust set of data which can be used for monitoring purpose but also for decision-making. Despite a series of small shortcomings and issues at different levels that have prevented an optimal functioning of the system in the initial stages, problems were identified and solved one by one in cooperation with the MS. The cumulative data on operations supplied by MS via Infosys reporting provides a 'dashboard' allowing the Commission and the MS to better monitor the progress in implementation of the EMFF. It also allows the Commission to draw conclusions at EU, sea-basin and cross-MS level, and has already proved very useful to support decision-making. The current set-up of the CMES provides useful data for assessing its contribution to the development of the fisheries sector and to the objectives of EU 2020 as translated in the Thematic Objectives. However, further research and analysis might be required when it comes to assessing the contribution of the EMFF to priorities related to the Common Fisheries Poli

cy or to Maritime Policy, such as the implementation of the landing obligation or the fight against marine litter. Taking cost-effectiveness and the need for proportionality into account it would help if a future CMES would include ***indicators*** that are more closely related to these policies. The objective of fostering a common learning process involving the Commission and the MS has been central to the development of the system from day one. Every element has been discussed extensively with the MS and the FAME Support Unit has been put in place in order to reinforce this dimension. Lastly, evaluations have not yet been finalised due to the delay in the implementation of the EMFF. A working paper is currently being developed that will provide Member States with guidance and explanations for their evaluations, which should start in 2018. Common ***indicators*** and Infosys data should be of great help to obtain robust evaluations in the near future.

**Load-Date:** February 19, 2018

**End of Document**



[***Vietnam: Full text of APEC ministerial meeting's joint statement***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PY0-25Y1-DYRV-34JK-00000-00&context=1516831)

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Text of report in English by state-run Vietnamese news agency VNA website on 11 November

Da Nang, November 11 (VNA) - The APEC ministers issued a Joint Ministerial Statement on the outcomes of the 29th APEC Ministerial Meeting held in the central city of Da Nang on November 8-9.

The following is the full text of the Joint Ministerial Statement.

2017 APEC MINISTERIAL MEETING

Joint Ministerial Statement

We, the Asia-Pacific Economic Cooperation (APEC) Ministers, met on 8 November 2017 in Da Nang, Viet Nam under the chairmanship of H.E. Pham Binh Minh, Deputy Prime Minister, Minister of Foreign Affairs, and H.E. Tran Tuan Anh, Minister of Industry and Trade of the Socialist Republic of Viet Nam.

We welcome the participation of the Director General of the World Trade Organization (WTO), the 2017 Chair of the APEC Business Advisory Council (ABAC), the Association of Southeast Asian Nations (ASEAN), the Pacific Economic Cooperation Council (PECC), and the Pacific Islands Forum (PIF).

The global and regional economies have shown positive signs with growth picking up, and cyclical recovery continues unabated with higher employment rates in many of our economies. In the medium term, the risk of global financial conditions tightening remains and slower productivity gains continue to inhibit sustainable growth. Against this backdrop, it is imperative for APEC to put a high premium on sustaining the momentum of regional cooperation with a view to reinforcing our forum's profile as a driver of economic growth and integration in the Asia-Pacific region.

Against such a backdrop, under the theme "Creating new dynamism, fostering a shared future", we are committed to strengthening cooperation and taking joint actions to foster regional economic linkages and growth for a dynamic, inter-connected and prosperous APEC community and promote an Asia-Pacific partnership for inclusive and sustainable development.

We advance our work with focus on the following APEC 2017 priorities: (i) Promoting sustainable, innovative and inclusive growth; (ii) Deepening regional economic integration; (iii) Strengthening micro, small and medium-sized enterprises' (MSMEs) competitiveness and innovation in the digital age; and (iv) Enhancing food security and sustainable ***agriculture*** in response to climate change. To this end, we pledge to take the following actions:

I. Deepening Regional Economic Integration

We remain committed to achieving the Bogor Goals of free and open trade and investment in the region. We will take concrete actions towards the achievement of the Bogor Goals by 2020.

We recognize the work of the WTO in ensuring international trade is rules-based, free, open, fair, transparent, predictable and inclusive. Members must improve adherence to rules as agreed upon. We commit to cooperate to improve the functioning of the WTO by addressing challenges. We recall our pledge to extend our standstill commitment until the end of 2020 and recommit to fight protectionism, including all unfair trade practices, recognizing the role of legitimate trade defence instruments.

We commit to work with other Members of the WTO towards a successful 11th Ministerial Conference.

We refer to our Leaders' Declaration for an elaboration of our views.

Free Trade Area of the Asia-Pacific (FTAAP)

We commend the efforts of economies to implement the Lima Declaration on FTAAP. We encourage economies to make further progress on advancing the Lima Declaration on FTAAP and develop multi-year work programmes to further enhance APEC economies' ability to participate in high quality, comprehensive free trade agreement negotiations in the future. We instruct officials to advance technical work and related initiatives for the eventual realization of an FTAAP. We look forward to the implementation of the Action Plan Framework for the 3rd REI Capacity Building Needs Initiative (CBNI) and the RTAs/FTAs Information Sharing Mechanism.

Services and Investment

We welcome the progress and encourage further implementation of the APEC Services Competitiveness Roadmap (ASCR). This includes the initiative on developing an index for the APEC region on the regulatory environment of services trade with a view to eventually covering all members based on the outcomes of the pilot programmes and differences of member economies' context in APEC, and the initiative to develop a set of non-binding principles for domestic regulation of the service sector. We stress the importance of capacity building and supporting MSMEs integration into global value chain in services industries.

We welcome the action plan for the interim review to be conducted in 2018 on the Manufacturing Related Services Action Plan (MSAP), and encourage economies to report on regulatory regimes and policy environments in manufacturing-related services.

We encourage the continued implementation of the Investment Facilitation Action Plan. We encourage economies to enhance capacity building, support more investment and policy dialogues, and promote inclusive business and community engagement to highlight the benefits of investment and encourage investment that supports inclusive economic growth.

Internet and Digital Economy

Bearing in mind the role of the Internet and Digital Economy in promoting innovative development and empowering economic participation, we emphasize the opportunities that the Internet and Digital Economy offers to achieve sustainable, inclusive and innovative growth, including businesses' participation, particularly MSMEs' in GVCs and the global market. We commend the achievements of the Ad Hoc Steering Group on the Internet Economy (AHSGIE) and support the APEC Roadmap on Internet and Digital Economy. We encourage member economies to implement the Roadmap effectively.

We encourage economies' initiatives to explore new areas of potential economic growth in the area of digital trade, including identifying building blocks. As building consumer trust in the use of the Internet is critical to the growth of Internet and Digital Economy in the region, we support continued dialogue between the public and private sectors to strengthen that trust through appropriate consumer protection and privacy rules.

To strengthen APEC's leadership in promoting cross-border e-commerce in the region, we endorse the APEC Cross-Border E-commerce Facilitation Framework (Annex A). We emphasize that MSMEs' participation in the digital economy should foster inclusive growth and reduce inequality. In that regard, we recognize the importance of APEC Cross-Border Privacy Rules (CBPRs) System, a voluntary mechanism whose participants seek to expand participation. We support enhanced cooperation in this area, including through promoting capacity building.

We commit to constructively engage in discussions on e-commerce at the WTO and other international fora within their respective mandate.

Environmental Goods and Services

We commend the progress in implementing the commitment to reduce tariffs to five per cent or less on the 54 products in the APEC List of Environmental Goods and strongly urge economies that have yet to fulfil this commitment to do so as soon as possible. We welcome the progress of implementing the Environmental Services Action Plan (ESAP) and look forward to further concrete outcomes.

Regional and sub-regional inclusive and comprehensive connectivity

Recognizing that strengthened connectivity contributes to opening up new sources of growth, we reaffirm our commitment to the overarching goal of a seamless and comprehensively inter-connected and integrated Asia-Pacific and applaud initiatives to implement the APEC Blueprint on Connectivity 2015-2025 across the 3 pillars of physical, institutional and people-to-people connectivity. We encourage new initiatives that will promote further work on progressing the Connectivity Blueprint before the mid-term review of 2020. We acknowledge the importance of adequate investment and strengthened public-private partnerships in infrastructure development in term of both quality and quantity. We welcome the progress of quality infrastructure initiatives, including the Peer Review and Capacity Building on APEC Infrastructure Development and Investment. We look forward to further deepening and accelerating initiatives, and welcome the upgrading of APEC Guidebook on Quality Infrastructure Development and Investment.

Noting the importance of the economic integration of ***rural*** and remote areas for sustainable and inclusive growth in the APEC region, we recommend actions to promote sub-regional, ***rural*** and remote area connectivity, sustainable tourism and reliable transportation, telecommunication and internet. We encourage officials to continue the discussion on practical initiatives to enhance ***rural*** development and poverty alleviation.

We acknowledge that fostering complementarity and synergy among connectivity initiatives provides new opportunities and serve as a driving force for regional prosperity. We commit to further promote collaboration and policy coordination between APEC and various regional mechanisms on the connectivity initiatives for the people and businesses in the region.

Global Value Chains and Supply Chain Connectivity

We welcome the progress to implement the APEC ***Strategic*** Blueprint for Promoting Global Value Chains Development and Cooperation to create an enabling environment for GVC development and cooperation, including the promotion of MSMEs' participation. We note the launch of APEC Global Value Chain Partnership Platform, the Global Value Chains Investment Climate Improvement Report, and the 2018 Annual Work Plan on the APEC Technical Group of Measurement on Trade in Value-Added (TiVA), moving towards the completion of the APEC TiVA Database by 2018.

We welcome the conclusion of the study on Global Data Standards (GDS) and encourage officials to explore the wider use of interoperable GDS in the region.

We reaffirm our commitment to advance work programmes that reduce trade costs in the region. To that end, we endorse the Monitoring Framework of the APEC Supply Chain Framework Action Plan Phase II 2017 - 2020 (SCFAP II) that aims to identify challenges, key stakeholders, targets and measurements for each of the SCFAP II chokepoints. We also commend the progress in promoting single window systems' international interoperability and the study of the Policy Support Unit (PSU) on the issue. We note the initiatives such as the Asia-Pacific Model E-Port Network (APMEN) and its Implementation Measures for SCFAP II and APEC Port Services Network (APSN) and their contribution to supply chain connectivity in the region. We note the progress made by APEC Cooperation Network on Green Supply Chain (GSCNET) and its pilot centres to promote green development in APEC.

Good regulatory practices

We welcome efforts and instruct officials to continue working on aligning advertising standards. We recognize the benefits, effectiveness and efficiency of public sector and self-regulatory organizations working together on self-regulatory approaches, contributing to potential reduction of the cost of doing business in the region.

We note the publication of the 2016 Final Report on Good Regulatory Practices in APEC Economies, as well as continuing work to strengthen good regulatory practices of transparency, stakeholder consultation and internal coordination to enhance regulators' understanding of the WTO Agreement on Technical Barriers to Trade. We encourage officials to promote the active implementation of good regulatory practices in the report, including through appropriate capacity building activities.

Supporting Industry

Acknowledging the importance of supporting industry to the sustainable growth of the region, we welcome the APEC Best Practices for Promoting Supporting Industry in the Asia-Pacific region and encourage information sharing and related capacity building activities.

Industry Dialogues

Noting the importance of risk-based chemicals management, we note the efforts of the APEC Chemical Dialogue to encourage the use of good regulatory practices and address divergences in the Globally Harmonized System of Classification and Labelling of Chemicals (GHS) to facilitate trade.

We note the work done by the Auto Dialogue together with the Transportation Working Group (TPTWG) and the Energy Working Group (EWG) to facilitate Electric Vehicles (EV) use, production and trade throughout the region. We note the progress in implementing the APEC Roadmap for Electric Vehicles to facilitate adoption and implementation on international standards.

Intellectual Property Rights

We recognize the importance of cooperation in the area of intellectual property (IP) rights, including protection and enforcement. We encourage economies to promote IP policies and programmes that cultivate, foster, support, protect and advance innovation and creativity. We welcome new initiatives that encourage entrepreneurship and innovation through effective and comprehensive measures, including IP systems and capacity-building. We note progress under the APEC Best Practices in Trade Secrets Protection and Enforcement Against Misappropriation and initiatives to enhance MSMEs' innovation and capacity on IP enforcement and commercialization.

II. Promoting sustainable, innovative and inclusive growth

Economic, financial and social inclusion

We stress the importance of promoting economic, financial and social inclusion in promoting economic growth, narrowing the development gap, reducing inequality and broadening access to finance, quality education and health services with a view to further spreading the benefits of growth to all segments of our societies, including the most vulnerable groups, towards a more inclusive APEC community by 2030, thus consistent with 2030 Agenda for Sustainable Development. To this end, we adopt the Action Agenda on promoting Economic, Financial and Social Inclusion and submit the Action Agenda to APEC Leaders for their endorsement.

Structural Reform

We commit to the robust implementation of the Renewed APEC Agenda for Structural Reform (RAASR) through economies' Individual Action Plans (IAPs). We look forward to the RAASR Mid-term Review in 2018. We call on economies to take concrete unilateral actions and collaborate on initiatives to share experiences and capacity building for implementing IAPs throughout 2017 - 2020.

We welcome the 2017 APEC Economic Policy Report (AEPR) on Structural Reform and Human Capital Development, which provides a set of options members may wish to take into account when considering domestic policies. We approve the topic "Structural Reforms and Infrastructure" for the 2018 AEPR. We encourage collaboration between the Economic Committee and Senior Finance Officials on the 2018 AEPR. We welcome the APEC-OECD (Organization for Economic Cooperation and Development) Framework on Competition Assessment, a tool helpful in achieving the benefits of competition.

We commit to effectively implement Phase II of the Ease of Doing Business (EoDB) initiative, including reaching the target of 10% improvement of the business environment by 2018.

Human Resources Development in the Digital Age

We acknowledge the progress made in implementing the APEC Education Strategy 2016 - 2030, and welcome its Action Plan to guide our work to promote competencies, innovation and employability in the APEC region. We encourage further cooperation in cross-border education, including higher education, and technical vocational education and training (TVET).

We welcome the outcomes of the High-level Policy Dialogue on Human Resources Development in the Digital Age which focused on promoting quality human resources and education, skills needed in the digital age, sustainable employment, social safety nets and capacity building, particularly for women and youth, persons with disabilities and other vulnerable groups. We adopt the APEC Framework on Human Resources Development in the Digital Age and submit it to APEC Leaders for their endorsement.

Financial Cooperation

We welcome the outcomes of the Finance Ministers' Process, particularly the Finance Ministers Joint Statement, and the progress towards implementing the Cebu Action Plan, enhancing fiscal reforms, economic resilience and integration, and contributing to strong, sustainable, innovative and inclusive growth in the Asia-Pacific region.

Sustainable Tourism

We appreciate the outcomes of the High-level Policy Dialogue on Sustainable Tourism. We underscore the importance of strengthening cooperation to facilitate sustainable tourism development and to highlight best practice in measurement and monitoring methodologies to enhance sustainable tourism. This helps with conserving and managing natural resources, biodiversity and ecosystems and built and living cultural heritages, and adapting to and capitalizing on new technologies to develop tourism and promote cultural exchange. In turn, this connects people in the APEC region and brings social, financial and economic integration of remote areas.

Women and the Economy

We recognize the outcomes of the APEC 2017 Women and the Economy Forum and we note the development of voluntary guidance on gender inclusion by the Policy Partnership on Women and the Economy. We commit to women's economic, financial and social inclusion across APEC economies. We call on economies to support women's economic empowerment through concrete policies and measures to improve women's access to capital, assets, markets, and capacity building and to improve women's skills, education, and health outcomes. We encourage economies to support policies and programmes that increase women's leadership and gender diversity in management; provide better opportunities for women in the cultural and creative industries; and harness innovation to better bridge gender gaps, including by boosting career opportunities in high-growth, high-wage sectors like science, technology, and transportation. We advocate for the promotion of women's entrepreneurship through expanding women's entrepreneurship networks, and in this regard, we commend the second APEC contest for women-entrepreneurs APEC Business Efficiency and Success Target Awards (APEC BEST Awards). We welcome the efforts to integrate gender across APEC, including through the 2017 version of the APEC Women and the Economy Dashboard, and the establishment of the Women and the Economy Sub-fund.

Health

We commend initiatives and projects to implement the Healthy Asia-Pacific 2020 Roadmap (HAP), including the progress in developing key ***performance*** ***indicators*** of HAP 2020 priorities, and encourage and promote innovation and partnerships to address health-related issues. We also encourage economies to share best practices and explore innovative sustainable health financing tools, improve health systems and recognize that members' goals to promote Universal Health Coverage (UHC) can be important in building healthy populations which in turn support economic growth. We welcome the outcomes of the High-level Meeting on Health and the Economy, including efforts for healthy aging societies, and the High-level Dialogue on Innovation, Regulatory Systems, and Regulatory Convergences. We value the importance of efficient, science - and risk - based regulatory systems in enabling life sciences innovation and welcome the first-ever Life Sciences Innovation Forum High Level Dialogue on this topic. We also welcome ongoing support from the APEC Harmonization Centre and the Regulatory Harmonization Steering Committee on regulatory convergence and the launch of network of APEC Regulatory Science Centres of Excellence (CoEs). We commend the progress achieved by APEC members in establishing the Supply Chain Security Toolkit for Medical Products.

Science, Technology and Innovation (STI)

We encourage further STI information exchange and policy coordination among member economies as well as increased engagement of multi-stakeholders such as private, scientific, industrial and academic sectors in promoting inclusive and innovative development. We commend the 2017 APEC Science Prize for Innovation, Research and Education (ASPIRE) under the theme "New Material Technologies", PPSTI Policy Statement on STI Communication and PPSTI Jiading Declaration on Internet of Vehicles. We recognize that STI has an important role in underpinning sustainable economic growth and development, and the full benefit of innovation can only be realized by promoting an enabling environment for scientific research and market-based innovation, STI capacity building, public involvement in STI and collaboration amongst APEC economies.

Urbanization

We emphasize the need to achieve people-oriented, sound and sustainable urbanization. We welcome the implementation of the APEC Cooperation Initiative for Jointly Establishing an Asia-Pacific Urbanization Partnership, including the PSU's study on Partnerships for the Sustainable Development of Cities in the APEC Region. We encourage APEC economies to further enhance cooperation through knowledge sharing and policy coordination to promote sustainable urbanization. We recognize the APEC 2017 Dialogue on Sustainable Urbanization and note the Guidebook for Development of Sustainable Cities.

Persons with Disabilities

We support full inclusion of persons with disabilities in our economies. We encourage officials to promote equal access of persons with disabilities to high quality, inclusive education and training, as well as competitive, integrated employment. We recognize the efforts of the Group of Friends on Disability in promoting the employment of persons with disabilities through advancing their participation in the internet economy and the open labour market without discrimination and on equal basis with others.

Emergency Preparedness and Disaster Management

Recognizing the Asia-Pacific region as one of the most disaster-prone regions in the world, in face of the "new normal" - the increasing frequency, magnitude and scope of natural disasters, including earthquakes, volcanic eruptions, typhoons, rising sea levels, drought, flood, wildfires and other extreme weather events, we emphasize the need for economies' continued efforts in building a resilient, sustainable, inclusive, people-and-business-centred APEC community. We pledge to implement the APEC Disaster Risk Reduction Framework Action Plan with emphasis on cooperation in capacity building, early warning systems, disaster risk assessment and financing policies, mitigation, search and rescue, and post disaster recovery assistance. We welcome the outcomes of 11th Senior Disaster Management Officials Forum and the Joint Recommendations on enhancing science and technology for disaster risk reduction.

Anti-corruption

We reiterate our previous commitments to prevent and fight against corruption, domestically and globally, including APEC's Beijing Declaration on Fighting Corruption, and to effectively implement the UN Convention against Corruption. We commit to strengthen the role of the APEC Network of Anti-Corruption Authorities and Law Enforcement Agencies (ACT-NET) in enhancing informal and pragmatic cross-border cooperation among law enforcement agencies in fighting corruption, bribery, money laundering, as well as in recovery of stolen assets. We advocate efforts to share and implement good practices, including related to fighting corruption and illicit trade, and underscore the importance of enhanced international and regional cooperation. We are committed to deny safe havens for corrupt officials and their proceeds of corruption. We also commit to working towards strengthened cooperation on extradition.

Counter-terrorism

We commit to work cooperatively to improve our preparedness to effectively respond to regional terrorism challenges, through the implementation of the APEC Consolidated Counter-Terrorism and Secure Trade Strategy, increased cooperation to ensure secure supply chains, infrastructure, finance, travel, trade and seamless connectivity.

III. Strengthening the MSMEs' Competitiveness and Innovation

We pledge to implement the Boracay Action Agenda to Globalize MSMEs and to conduct the mid-term review in 2018. We welcome the development of the Compendium on Methodologies for SMEs Internationalization and the launch of the "MSME Marketplace". We also support initiatives to promote e-commerce to expand MSMEs participation in the global value chain.

We adopt the APEC Strategy for Green, Sustainable and Innovative MSMEs (Annex B). We encourage member economies to create an enabling environment for MSMEs to engage in activities that would lead to a sustainable and inclusive Asia-Pacific.

We call for a reduction in costs associated with non-tariff barriers to facilitate the building of MSMEs' capacity for internationalization and the promotion of a pro-competitive environment with a view to widening access to finance, infrastructure, particularly IT infrastructure and technology. We support initiatives to foster greater MSMEs' capacity and participation in e-commerce, and promote "Online-to-Offline" (O2O) model and digital resilience. We welcome the establishment of APEC SME Centre for IT Promotion.

We welcome the APEC Initiative on Promoting Innovative Start-ups with a view to building a strong and vibrant start-up ecosystem in the APEC region. We urge APEC economies to support start-ups through establishing conducive regulatory frameworks that promote a business-friendly environment.

IV. Enhancing Food Security and Sustainable ***Agriculture*** in Response to Climate Change

We reiterate the importance of food security and sustainable and resilient ***agriculture***, aquaculture and fisheries in eradicating poverty, increasing ***agricultural*** trade, promoting sustainable and inclusive development in the Asia-Pacific region. We welcome the outcomes of the High-Level Policy Dialogue on Enhancing Food Security and Sustainable ***Agriculture*** in Response to Climate Change. We reaffirm our commitment to realize a sustainable APEC food system through the implementation of the APEC Food Security Roadmap towards 2020.

Food Security and Climate Change

We urge member economies to strengthen policy coordination and cooperation and share experiences in addressing the relationship between food security and climate change and collaborate on technology development, information sharing, and capacity building. We recognize that innovation in ***agriculture***, aquaculture and fisheries can grow trade, increase farm productivity and incomes, and build resilience to resource constraints in the context of climate change. We note the role of the APEC Climate Centre (APCC) in fostering strengthened science-based climate information systems for environmental and risk management related to food production. We welcome the endorsement of the Food Security and Climate Change Multi-Year Action Plan 2018-2020 (Annex C).

Sustainable Management of Natural Resources

We support increased policy and technical cooperation to enhance the efficiency and effectiveness in natural resources management and utilization while securing the long-term and disaster - resilient food supply. We call for closer coordination to foster sustainable use and management of land, forestry, marine and water resources to ensure both food security and environmental protection, while promoting biodiversity conservation. We recognize the importance of the blue economy in sustainable food security, commend the progress in this area, including in developing the APEC Marine Sustainable Development Report II. We believe it is crucial to strengthen policy and technical cooperation to improve sustainable use of natural resources while securing long-term food supply, including addressing the negative impacts of illegal, unreported and unregulated (IUU) fishing on fish stocks, the marine environment and food security. We encourage all economies and stakeholders, particularly the private sector, to engage in ocean-related cooperation, including investment in sustainable materials management and waste management infrastructure, to reduce land based sources of marine debris in APEC.

Sustainable ***Rural***-Urban Development

We call on APEC economies to promote sustainable, resilient and inclusive ***rural***-urban development with emphasis on improving the participation and welfare of disadvantaged groups, smallholder farmers and small-scale fishermen, and MSMEs in the ***agricultural*** and aquaculture sector to ensure livelihoods, poverty reduction, food security and natural resources conservation. We will continue to share experiences in comprehensive ***rural***-urban development. We welcome the endorsement of the APEC Action Plan on ***Rural***-Urban Development to Strengthen Food Security and Quality Growth (Annex D).

Facilitation of Trade and Investment in ***Agriculture*** and the Food Market

We recognize that trade and investment in food, ***agriculture***, aquaculture and fisheries are crucial to food security in the APEC region and beyond. Recognizing APEC's role in the global food market and in securing the global and regional food value chains and supply chains, we call for strengthened cooperation in facilitating investment in ***agriculture***, ***rural*** transportation and logistics, food processing and retail, and related services. We reaffirm our commitment to engage constructively and make all concerted efforts to adopt a permanent solution on the issue of public stockholding for food security purposes, as committed. We also encourage economies to address relevant measures, including Non-Tariff Measures and Non-Tariff Barriers. We encourage regional cooperation on food standards and improved efficiency of food trade.

Food Loss and Waste Control

We commit to implement the APEC Action Plan for Reducing Food Loss and Waste and encourage initiatives to control post-harvest food loss and waste, including the development of infrastructure, application and transfer of advanced technologies for processing, storing and preserving food across the food value chain and strengthening public and private partnership.

Food Safety

We encourage member economies to continue advancing work in the Food Safety Cooperation Forum, including its Partnership Training Institutes Network, and the Wine Regulatory Forum, to promote the use of science-based standards and guidelines and risk-based approaches to regulation of food and wine so as to protect human, plant and animal health and facilitate trade.

V. Economic and Technical Cooperation (ECOTECH) and Other Sectoral Outcomes

We support cooperation to build capacity, bridge development gaps, and assist member economies to fulfil APEC's long-term goals. We welcome the incorporation of capacity building policies into the Guidebook on APEC Projects. We welcome and encourage members' further contributions to the APEC Support Fund and its sub-funds, as well as members' efforts in providing capacity building. We acknowledge the 2017 ECOTECH Report and welcome the APEC Guidelines on Promoting Cross-fora Collaboration.

Energy

We welcome the efforts towards reducing aggregate energy intensity, accelerating clean, efficient, and renewable energy deployment, pursuing sustainable and resilient energy development, and developing diversified, flexible and integrated natural gas market in the Asia-Pacific, which in particular may contribute to reducing greenhouse gas emissions. To this end, we urge economies to strengthen coordination and cooperation through sharing best practices, and deploying advanced technologies, including waste recycling. We note with appreciation efforts to pursue energy smart communities and low carbon model towns.

Bearing in mind that energy access, energy resilience, and energy security are significant to our long-term prosperity and shared future, we strive for a clean, sustainable and secure energy system. We stress the importance of promoting energy-related trade and investment in fostering sustainable, resilient and safe energy infrastructure.

Mining

Recognizing the importance of sustainable development, use and trade of minerals and metals in generating socio-economic benefits, we are continuing to apply the APEC Mining Policy Principles and encourage sharing best practices in management; voluntary technology transfer and capacity building in sustainable development of the mining sector.

Forestry and Wildlife

We welcome the outcomes of the 4th APEC Meeting of Ministers Responsible for Forestry. We recognize the importance of achieving and assessing in due course, aspirational goal of increasing forest cover in the region by at least 20 million hectares by 2020. We commit to foster sustainable forest management and conservation and reforestation. We commit to work together to combat illegal logging and associated trade and support capacity building for APEC economies, application of technology and best practices. We emphasize the importance of strengthening our efforts and increasing cooperation among members economies in preventing and combating illicit wildlife trafficking.

Transportation

We commend the outcomes of the Transportation Ministerial Meeting and underline the significance of developing a safe, secure, resilient, efficient and sustainable transport system. We welcome initiatives to adopt new technologies in the transport sector. We note the development of a transport connectivity map. We stress the importance of building capacity in this regard.

Telecommunications and Information

We welcome the implementation of the Telecommunications and Information Working Group (TEL) ***Strategic*** Action Plan 2016 - 2020. We support the continued development of information technology and communications, promoting a secure, resilient and trusted information and communications technologies (ICT) environment. We stress the importance of capacity building and the application of new technologies to promote innovative and inclusive growth. We commend TEL for its coordination with other fora to develop a safe and reliable information technology environment.

VI. Looking Forward

We share a common vision to build a peaceful, stable, dynamic, inclusive and prosperous Asia-Pacific region. We welcome the discussion at the Multi-Stakeholders Dialogue on APEC Towards 2020 and Beyond and welcome the endorsement of the initiative on APEC Towards 2020 and Beyond, including the establishment of an APEC Vision Group.

We reaffirm APEC's global leadership in promoting growth, regional economic integration, trade and investment liberalization, and addressing global challenges, and we recognize APEC's contribution to sustainable development. In doing so, we are committed to strengthening APEC's cooperation and coordination with other international and regional organizations. We welcome member economies' initiatives to promote trade and investment in the region. We congratulate ASEAN on its 50th anniversary, commend its achievements and support further synergy between APEC and ASEAN in fostering inclusive growth and comprehensive connectivity.

We welcome continued deliberation and efforts aimed at improving and streamlining APEC governance to ensure it is more relevant, accountable, effective and responsive, while ensuring continuity of its core agenda. We emphasize the importance of cross-fora collaboration within APEC and encourage outreach with the business community. We appreciate the active contributions of APEC Business Advisory Council (ABAC) to the APEC process. We grant an ongoing mandate to the Policy Support Unit (PSU).

We endorse the 2017 APEC SOM Chair's Report, the Annual Report of the Committee on Trade and Investment to Ministers, and take note of the 2017 Report of the APEC Secretariat Executive Director. We approve the 2018 APEC Secretariat Account Budget and corresponding level of 2018 Members' Contributions.

We look forward to Papua New Guinea's hosting of APEC 2018.

Source: VNA news agency website in English 11 Nov 17

**Load-Date:** November 12, 2017

**End of Document**



[***Putin chairs meeting on defence industry problems - transcript***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RHK-SGC1-JC8S-C50K-00000-00&context=1516831)

BBC Monitoring Former Soviet Union - Political

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January 29, 2018 Monday

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**Length:** 5359 words

**Body**

Text of "Meeting on diversifying the production of civilian products by defence industry enterprises" published in English by Russian presidential website on 26 January

January 24, 2018, Ufa

Vladimir Putin held a meeting on diversifying the production of high-tech civilian products by defence industry organisations at the Ufa Engine Industrial Association.

President of Russia Vladimir Putin: Good afternoon, colleagues,

As you may recall, during our meeting in Tula in September 2016 where we considered ways to diversify the defence industry, we also discussed ways to maximise its potential for producing high-tech civilian products.

I toured the production shops, saw how the production process was organised, saw the new equipment and how people used it in their work. Frankly, and I think you will agree, it is sometimes hard to believe that we are doing this, that we were able to organise production at this level and class.

However, the production lines must not stay idle in the future when the volume of state defence orders inevitably declines once we are past the peak of the Defence Ministry's orders. We need to transition to manufacturing civilian products while generally ensuring quality and competitiveness.

Today, we will continue to discuss this subject in order to identify key areas and the most effective mechanisms for diversifying our defence enterprises and for ensuring balanced development.

I would like to emphasise once again: this is, of course, a goal of prime importance. Its successful resolution will allow us to expand the technical and production resources of the enterprises and strengthen the work teams which include hundreds of thousands of highly skilled engineers, designers, and workers. I briefly talked with these people in the shops, and they also asked this question: what's next, how will we work? This is a natural question.

Of course, the production of civilian products should fully, to the maximum, use the existing capacities of these enterprises and ensure their financial stability, especially after 2020, when, as I said, the peak of orders within the framework of the state defence order will have been reached.

Notably, a lot of preparatory work has been carried out since the meeting in Tula. The information analysis systems on monitoring the procurement of civilian product made by our country's defence industry have become operational. The Konversiya (Conversion) enterprise was created, which will promote these products on the markets, both in our country and abroad.

In addition, Vnesheconombank and the Industrial Development Fund will provide easy-term financial instruments to support the diversification of the defence industry.

Notably, a number of companies have already joined this effort. Thus, the Moscow Institute of Thermal Technology produces water treatment equipment. Schwabe has established the production of medical equipment, and Kalashnikov is manufacturing civilian speedboats, motorcycles and unmanned aerial vehicles.

However, diversifying the production of defence companies should not be limited to isolated and successful projects. It is important to make this diversification consistent. Senior executives and all the employees of these companies should approach the release of civilian products as responsibly as they do with state defence order.

This is the only way for us to resolve the ***strategic*** task of increasing the share of civilian products to 30 percent of the total output of defence products by 2025, and to 50 percent by 2030.

I would like to point out some priorities.

First, we are carrying out many large-scale programmes, including upgrades in the power industry, developing the digital economy, introducing the best available technology, equipping medical institutions, enhancing the environment, and creating an industry for waste processing and disposal. Defence industry enterprises should be more active in joining these programmes and projects.

I want to emphasise that the products offered should be of high quality and competitively priced. It would be impossible, inappropriate and probably harmful to create artificial, "greenhouse" conditions.

Second, it is necessary to thoroughly analyse what barriers - primarily legal ones - impede the diversification of defence enterprises, for example during state procurements that make it impossible to sign so-called lifecycle contracts and so on. We need to work to remove these barriers as early as the spring parliamentary session.

Third, it is necessary to create starting orders that will help businesses have more confidence during the initial steps of diversification. Naturally, companies with public ownership have to play a special role in this respect: instead of foreign products they should orient themselves towards the purchase of existing or potential domestic products.

I can predict the criticism in advance: "We need to buy the best the world has, not just domestic products." Naturally, this is true, but we must make domestic products the best in the world. I would like to ask the Import Substitution Government Commission to deal with this issue.

Fourth, it is necessary to find a balanced formula that will make it possible to divide economic risks and expenses between the state and enterprises. This is primarily important for R&D, certification, service support development and post-sale support. Naturally, in implementing diversification projects it is essential to use more special investment contract mechanisms.

Today, I would like to hear your opinion on the above issues, but if you think we should discuss something else, go ahead please.

Now I will give the floor to Mr Manturov.

Minister of Industry and Trade Denis Manturov: Thank you very much.

Mr President, colleagues,

When, at the meeting in Tula, we received an instruction from you to increase the share of civilian production in the defence industry, the goal was to ensure a 17 percent increase by 2020. Mr President, the share of civilian production by defence industry enterprises reached 17 percent as of the end of last year. Therefore, we are confident that over the next two years we will add at least two more percent. This certainty is based on our timely efforts to build the infrastructure required for diversification.

In this project, we focused on increasing the demand primarily for the civilian products that are already in the pipeline, as well as on creating conditions for the development and release of new items. We regularly update the electronic catalogue of civilian products you mentioned, to inform the market about what is available. Right now the catalogue includes more than 2,500 items. To encourage even more demand, by the end of the month we will develop a list of products, the purchase of which will be regulated by the Government Import Substitution Commission.

We propose expanding involvement in the government programmes - particularly, those you have already mentioned, and also Arctic exploration, while transitioning to the best available technology, and energy supply agreements. The Konversiya enterprise, established upon your instruction, will be responsible for selecting the defence industry's civilian products to be covered by these projects. Additionally, Konversiya will coordinate civilian manufacturing skills training for workers of defence industry enterprises. Rostec and some other companies are already initiating their corporate programmes. We can provide money for co-funding without any extra burden on the budget.

As part of efforts to promote goods manufactured by defence industry enterprises, we suggest using a tried-and-tested approach: purchases by state corporations and companies - natural monopolies - of goods from small and medium-size enterprises. For that, we deem it necessary to oblige them to buy civilian goods from defence industry enterprises in fixed amounts.

We also hope to link supply and demand through adapting the special investment contract mechanism to diversification needs and reducing minimal cost requirements to investment contracts as stipulated by Federal Law No. 44.

In order to help defence industry companies establish direct ties with potential consumers, we encourage them to participate in major international industrial technology exhibitions in Russia and abroad. At least 20 such events are planned for the current year. A government subsidy to the Russian Export Centre enables us to reimburse defence industry enterprises for up to half of exhibition participation costs.

In addition to this, a wide range of the Russian Export Centre's tools has been envisaged to meet the task of stepping up exports. Last year, with these tools in place, we managed to export more than 45 billion rubles worth of civilian goods produced by defence industry enterprises.

Virtually all support tools in our sectoral state programmes are aimed at helping defence industry enterprises create new high-tech goods for the civilian segment and prepare the necessary industrial capacities. For example, last year, we provided 1.8 billion rubles in subsidies to defence industry enterprises for 23 projects for the production of civilian goods.

Mr President, you mentioned the Industrial Development Fund. Over a short period of time, it funded 25 diversification projects to a total of 4.5 billion rubles at a five-percent annual interest rate. To strengthen emphasis on this track, the fund created a special programme called Conversion with a one-percent annual interest rate during the first three years of the project's implementation.

The state programme for the development of the defence industry for the current year envisages special funds intended to subsidise interest rates on loans from Vnesheconombank or, perhaps, other commercial banks, for conversion projects. We hope that this will make it possible to start pilot projects as early as this year.

In order to increase the motivation of defence industry enterprise CEOs, we believe it is necessary to encourage the achievement of target parameters for the production of high-tech civilian goods by introducing special annual bonuses. This will stimulate the management staff to pay equal attention to the fulfilment of both the state defence order and diversification tasks.

Mr President, this is the end of the report. We ask you to back our proposals.

Vladimir Putin: Mr Chemezov, please.

Rostec State Corporation CEO Sergei Chemezov: Mr President, colleagues,

As it has been said here today, you instructed the defence industry companies to increase the share of their civilian output to 50 percent by 2030. Rostec has an even more ambitious goal - to attain the goal of 50 percent, which is the average for the corporation, by 2025.

Vladimir Putin: What is the current figure?

Sergei Chemezov: It was 25 percent in 2016. We do not yet have the figure for 2017, but considering the overall volume, which is 460 billion rubles (compared to 374 billion in 2016), it is around 30 percent.

Vladimir Putin: In other words, you are moving forward?

Sergei Chemezov: Yes, of course.

The creation of high-tech products is the main commercial goal at Rostec. But before creating such products, we need to develop a ***strategic*** approach and a clear view of the markets and competitors. You cannot create a high-tech product without this. To see if a product will be competitive, we must have marketing tools, access to markets and services, postsale service, as well as industrial design, something to which we paid little attention in the past.

We intend to attain the revenue target by concentrating our resources on the rapidly growing global markets of smart products, like electronics, information technology, automation, control systems, medical equipment, novel materials, energy, the urban environment, and transport.

In order to clearly formulate the diversification tasks, the corporation's strategy has been cascaded to the level of clusters and on to the corporation's holding companies. As a result, we have formulated our civilian targets by year and added them to the KPI of every company head.

We have done this to avoid repeating past mistakes, when companies did not have clear goals or detailed plans for the creation and manufacture of high-tech civilian products. As a result, they had a poor understanding of market niches and the specifications their products should have, which weakened their positions in this highly competitive environment compared to the other private players, who had a clear view of the market and clients.

Over the last year, three of our holdings - Kalashnikov, Tecmash and Shvabe - demonstrated substantial growth in civilian manufacturing. They were able to achieve high results through the timely adoption of strategies to develop civilian manufacturing and the creation of incentives for their executives.

For example, Shvabe devised a strategy for manufacturing medical equipment back in 2011, and is now viewed by many other companies as a model in terms of fostering growth. In 2016, the company's revenue from civilian production exceeded 12 billion rubles, and increased by more than 30 percent in 2017 to reach 16.6 billion rubles. Most importantly, this was high-technology equipment for neonatology, emergency medicine, oncology, cardiology, ophthalmology, endoprosthesis replacement, orthopaedics, as well as diagnostics and laboratory testing. For example, I can say that 70 percent of the equipment for perinatal centres that are being built in Russia is made by Shvabe.

In 2017, Tecmash increased its output of civilian products by 15 percent by producing drilling, refrigerating and ***agricultural*** equipment that was brought to the market over the past years.

The Kalashnikov Group is also a leader when it comes to the transition to civilian manufacturing. Since the introduction of sanctions against this concern, the revenue share from civilian products increased substantially. Specifically, in 2017 it grew by almost 56 percent on the back of new small-weapon models, primarily hunting and sports rifles, as well as the riverboats that you have mentioned, unmanned aircraft and small arms for civilian use, as I have already pointed out.

Unfortunately, some holdings still live with the illusion that state defence procurement will always remain at the current level. Of course, this is not exactly the case. We now know this all too well. Defence procurement orders follow a cyclical pattern, which is common for many countries. For example, in the United States, the upward and downward fluctuations in defence procurement exceed 30 percent.

Russian companies have to adapt and be resilient to any fluctuations in defence orders. For that, they need to diversify their product portfolios. Of course, I am not speaking about defence manufacturers making pans or pots, as was the case back in the 1990s. I am referring to the manufacturing of cutting-edge, high-technology produce in order to make full use of the technology and manufacturing capability our producers have.

Investment in the civil sector carries greater risk, of course, than dealing with state defence orders, because there is a specific market and significant competition. Defence orders have stricter rules in deliveries and production. Nevertheless, we cannot get around promoting the risk involved in investing in civil production facilities. At the same time, it is necessary to increase liability for failing to reach the targets and key ***performance*** ***indicators*** (KPIs) in civil production.

Mr Manturov already spoke about it, and we have introduced that too - each of the leader's KPIs states that if they do not have growth in civil production, they will receive a smaller bonus regardless of their state defence order results. As for defence procurement, it is even simpler: they could even face criminal liability; therefore, directors of production facilities pay more attention to it, and that is how it should be. Now, increasing the share of civil production is the next priority.

I would like to note that as the main stage of the army rearmament nears completion and due to the decrease in state defence orders after 2018 and in accordance with your instructions, Mr President, Rostec and Vnesheconombank have established a new company, Konversiya, which we have spoken about. It will be the main coordinating centre to assist our defence facilities in searching for products in demand.

The key area of its activity, as I said, is marketing and the development of complex programmes for promoting high-tech civil production, particularly through the involvement of effective financing of projects to diversify defence industry enterprises.

As part of the development of a digital economy, we intend to implement the Smart Cities ecosystem project. We plan to implement such projects in 25 Russian cities; one is underway in Yaroslavl.

Today, we are facing an important challenge - to change the structure of human capital and implement new market competencies. As we work on achieving these goals, we must not only attract new people with the required profile from the open market, but we must also ensure competitive salaries and training for our workers. For this reason, it is important that we develop specialised training programmes to improve competencies that would enable people currently employed within the defence industry to create new, high-technology civilian products.

A mechanism for government co-financing of training costs could provide an additional impetus for companies to invest in the field of education. I propose launching such an educational project in 2018 for people employed in the defence industry. A programme of this kind already exists in Skolkovo, as far as I know. I think we can launch this programme by working together with the Industry and Trade Ministry.

Colleagues, Rostec is committed to developing high-technology civilian products. These efforts are primarily designed to facilitate industrial development in Russia and foster economic growth. In addition to this, efforts to expand civilian manufacturing would enable us to operate at a scale comparable to that of the leading global corporations. Rostec has identified tools for achieving this objective and implemented them. These efforts are already yielding results.

On the other hand, setting specific goals, ***strategic*** marketing, smart incentives and human resources development help companies reach new markets and development heights. This also helps them compete on an equal footing with global producers in defence as well as civilian manufacturing. Thank you.

Vladimir Putin: Mr Chemezov, is there a department in your corporation responsible for this area?

Sergei Chemezov: Do you mean developing civilian products?

Vladimir Putin. Yes. Is there a task group, perhaps a deputy of yours or someone else who is dealing with this on a regular basis?

Sergei Chemezov: Rostec and Vnesheconombank have established the Konversiya non-governmental organisation, which is responsible exactly for that.

Vladimir Putin: What is its status?

Sergei Chemezov: It is our joint subsidiary with Vnesheconombank.

Vladimir Putin: So they are dealing with this, and what is your relation to Konversiya? You created it. Are they isolated from your company, from you as the big boss? What is it like?

Sergei Chemezov: No. In fact, it is the target of every manager in the holding and every manager of the enterprise to increase the share of civilian production. It is in their interest as their KPIs, their salaries and bonuses are directly bound to this increased share. Therefore, it is in their interest to find a product that would be competitive and in great demand in the market.

Presidential Aide Andrei Belousov: I think Mr Chemezov's special deputy Vasily Brovko is in charge of Konversiya.

Sergei Chemezov: He is not my deputy but Director for Special Commissions. It is his direct responsibility.

Vladimir Putin: It is important that there is a person dealing with this on a regular basis. You know, it is not enough to just set a task and include it in the KPIs. It is important to make sure that they analyse the enterprises' capabilities, obtain proposals from these enterprises and then a deputy of yours reviews what is being done, and not just what is being done but also what can be done to help certain companies.

Andrei Belousov: Let me tell you briefly how the system works, very briefly. It was developed based on your directives given in Tula.

There is an information system for all defence industry enterprises to submit information about their civilian production capacities. This system is already in use. At the same time, the system processes requests from the Government based on a pre-approved classification. The list includes medical equipment, energy generating equipment and so on. The list can be extended.

Konversiya (which was launched about six months ago) has access to the database and, proceeding from demand, will communicate tasks to companies, "You produce this and you produce that. We know what your capacities are, as you reported them to the database."

We worked with Vnesheconombank to create financial leverage. Mr Zolotaryov, who is the deputy of Vnesheconombank's head, Sergei Gorkov, is in charge of Konversiya operations. They have been allocated funding. So far, the ties between VEB and Konversiya have not been very effective (the criticism goes to Mr Zolotaryov), but I think that we can resolve these matters.

These are the questions on today's agenda. Can I say a few words? We are currently seeing certain restricting factors. We have had meetings with our colleagues on several occasions to discuss them.

The first restricting factor (as both Mr Manturov and Mr Chemezov have said) is that the executives currently have no real incentives or are not sufficiently interested in turning out civilian products. In fact, failure to deliver on a defence procurement order may lead to criminal charges, while when a conversion project fails managers lose only 20 percent of their bonuses. For this reason, simply setting KPIs will not help. The penalty for failing to reach these ***indicators*** should be the entire bonus.

The workforce should also have an incentive to take part in these programmes. For this, all or part of the profit should go toward additional bonuses for the workers, and people should know about it. This way, workers will urge managers to be more diligent in their efforts. This is the first factor.

The second factor has to do with demand. Despite all our discussions, major companies continue to buy Western products, even though similar products can be bought locally. Helicopters that Russian oil companies, Gazprom and others buy are a case in point.

We have good experience in setting strict requirements on state-owned companies awarding contracts to SMEs. At the time, this initiative was also subject to intense criticism, by the way. Nothing prevents us from doing the same for the defence industry. Of course, instead of requiring a specific share of procurement contracts to be awarded to Russian companies, say, a 10 percent share, we must take into account the inventories. To put it in crude terms, if you want to buy 20 helicopters, of this total 15 have to be purchased from Russian defence manufacturers: in Arsenievo, Ulan-Ude or anywhere else, of course subject to availability and so on. For that, we have the import substitution commission. These ***indicators*** could be factored into the requirements, and they should work. At least, it will be easy to monitor compliance.

Furthermore, there is yet another problem. From the point of view of cooperation and organising production between military output and high-tech civilian goods, there is no major difference - it is the same cooperation. Building a cooperation system for military products is regulated by law 275, and everything is normal there, moreover, it allows the Federal Anti-Monopoly Service (FAS) to impose punitive sanctions for shirking from participation in the state defence order, whereas civil products, for example, medical equipment, fall under law 223, and it is just the other way round: a tender is required. As a result, our colleagues, and I think that they will speak about this, face the fact that building cooperation is not so easy.

Therefore, exemptions are needed, of course, from federal law 223 in terms of cooperation with regard to high-tech civilian goods produced at defence industry enterprises. It should all be just the same - creating a line, a cooperation system, just as in the previous case.

What was said here is very important; this is, in fact, an educational programme, as today defence industry management cannot find a common language with investors, with a few rare exceptions. Kalashnikov is certainly worth mentioning as an example, and yet, as a rule, discrepancies emerge. Such programmes have already been developed and they definitely need to be launched.

Finally, one more thing. I would like to say that we need to significantly increase state funds for research and development. When it comes to high-tech products, being able to reach international levels or just keeping up with the trend, so to say, being present on the market, requires R&D expenses of around 10 percent of net revenue. It is easy to calculate the required amount of R&D expenses from 400 billion roubles. If we have 1.8 billion roubles in co-funding from the Ministry of Industry and Trade, then, clearly, this is almost nothing, so, in fact, there is virtually no reserve. Creating a scientific reserve in the form of experimental design and research is the most important task, and here, unfortunately, we simply must increase budget spending. Thank you.

Denis Manturov: 1.8 billion roubles, this sum is only for subsidies, this is only the interest rate, while in real terms it is around 200 billion in borrowed funds.

Vladimir Putin: All right.

What is the situation like in Tula Region? Mr Dyumin, please.

Tula Region Governor Alexei Dyumin: Thank you very much, Mr President.

Colleagues, Tula Region's defence sector unites 25 enterprises. Implementing the state defence order, as well as diversifying production, are two ***strategic*** tasks that are constantly monitored both by local enterprises and the regional leadership.

The latest developments were presented at the defence industry for medicine exhibition, held in 2016 with your direct participation, Mr President. It featured the Angel diagnostic system, which makes it possible to carry out complex examinations in the format of telemedicine - at regional outpatient clinics, midwife stations, and in the mobile mode to reach remote, hard to access areas such as the Arctic and the Far East. Tactile endo-surgical and laser equipment was also presented that makes it possible to perform minimally invasive high-precision examinations and surgery.

The Tula defence industry continues to expand the range of civilian products. Based on the Angel system, Moscow State University together with the company Splav has developed an up-to-date intensive-care system, which is currently undergoing testing.

The region's government, together with leading designers and heads of defence industry enterprises, has established a permanent working group to expand the range of civilian products. As part of its activities, the list of civilian production to be manufactured has been systematised. In addition to medical equipment, the list includes diesel generator sets, diesel pump systems for the Emergencies Ministry and other ministries and departments, pulse combustion boilers, small and multifunctional modules with hinged cleaning units for the housing and utilities sector, radar stations for ***agriculture***, gas purifiers for metallurgy, meteorological systems and other products.

We are supporting the development of civilian production facilities. Tulamashzavod has received from the regional budget subsidised interest rates for investment loans to set up the production of hard-alloy metal-cutting tools, lathes and motor cultivators. We also supported the provision of a loan from the federal Industry Development Fund to the Oktava production facility for civilian production. Individual - I want to emphasise this word - work has begun at each facility and with each project, with the use of federal and regional support mechanisms.

Mr President, the most difficult aspect is the transition from small batches to serial production. At this stage, the most effective state support measure would be the signing of a long-term contract. On the international market - you spoke about it - we will face the toughest competition, so before entering it we need to create sustainable domestic demand, using first of all state procurement by agencies and state corporations. We have begun this work: we have executed regional agreements with Rostec, Rosneft and are negotiating with Gazprom.

As part of the working group, we are looking for an opportunity for defence enterprises to manufacture products that are in demand among state companies. This may seem unimportant and even funny, but several such enterprises are already manufacturing workwear, electric drives, rubber rings and other accessory components for Rosneft.

The hardest part is organising state procurement at the federal level. Serial deliveries of the Angel cutting-edge diagnostics system to clinics are possible only after medical service standards are changed. The situation is similar with purchasing mobile firefighting units by the Emergencies Ministry from Tulamashzavod, which are in demand in hard-to-reach areas and in ***rural*** towns.

Today, it is important to organise interdepartmental interaction, which would allow us to quickly make decisions regarding placement of long-term state orders for civilian products. The long-term order for a period of three to five years will allow us to launch mass production, to draw bank loans and, of course, to bring aboard the specialists to fill the staff needs of a particular production facility. I am talking about this based on our experience of working with defence industry enterprises on state defence orders.

I would be remiss not to mention such an issue as direct accounting of spending on civilian products. The new production will never become effective and will never meet the standards and targets that are set for it, if overhead costs of the core weapons production are attributed to it.

Tula Region took part in a pilot project to introduce a system of separate cost accounting at enterprises. Deputy Minister Shevchenko and I reported to you about this at a meeting that you chaired, and you approved this pilot project. Of course, this needs to be applied to calculations of the civilian products' production costs as part of placing the state order for their production.

Thus, already at the initial stage of diversifying the defence industry, we propose concluding long-term state contracts for supplying civilian products, including, if necessary, its service support, and the mandatory organisation of accounting for costs separately for civilian and defence production.

Diversifying defence industry output in the civilian sphere is a complex task, which may be resolved only on the basis of effective interaction at the federal, regional and, of course (we already discussed it) corporate levels. The Tula Region Government and defence enterprises are ready and will work to achieve the goals set for them by way of introducing combined best practices.

Mr President, in closing, I would like to support Mr Chemezov's initiative regarding the organisation of an educational pilot project on the platform of the Higher Technical School at the Oktava Creative Cluster. This cluster is a joint project of Rostec State Corporation, the Tula Region Government and a private investor. The Higher Technical School will open soon and will, in turn, allow us to develop competencies in the sphere of the defence industry diversification and digital economy. Our region has everything it needs to do so.

Thank you for your attention.

Vladimir Putin: Thank you very much.

Source: President of the Russian Federation website in English 1400 gmt 26 Jan 18

**Load-Date:** January 29, 2018

**End of Document**



[***Menhaden Capital Plc - Annual Financial Report***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5SBJ-CWS1-JB72-13D2-00000-00&context=1516831)

PR Newswire UK Disclose

March 23, 2018 Friday 10:01 AM EST

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**Dateline:** London, March 23

**Body**

Menhaden Capital PLC

(the "Company")

LEI: 2138004NTCUZTHFWXS17

Audited results for the year ended 31 December 2017

The Annual Report will be posted to shareholders on 3 April 2018.

Copies may be obtained from the Company Secretary: Frostrow Capital LLP at 25 Southampton Buildings, London WC2A 1AL.

A copy of the Annual Report will be submitted to the National Storage Mechanism and will shortly be available for inspection at[*http://www.morningstar.co.uk/uk/nsm*](http://www.morningstar.co.uk/uk/nsm)

The Annual Report will also be available on the Company's website -[*http://www.menhaden.comwhere*](http://www.menhaden.comwhere) up to date information on the Company, including monthly NAVs, share prices and fact sheets, can also be found.

Frostrow Capital LLP, Company Secretary - 0203 709 8734

23 March 2018

***Strategic*** Report

Company ***Performance***

|  |  |
| --- | --- |
| NAV per share1 | 92.1p |
| Share price1 | 68.5p |
| Share price discount to NAV per share1 | 25.6% |
|  |  |
| NAV per share (total return)2 | 7.8% |
| Share price (total return)2 | 3.2% |
| Total ongoing charges2 | 2.1% |

The MSCI World Total Return Index (in sterling) returned 11.8% (2016: +28.2%).

1          As at 31 December 2017.

2          For the year ended 31 December 2017.

Investment Themes

|  |  |
| --- | --- |
| **Theme** | **Description** |
| Clean energy production | Companies producing power from clean sources such as solar or wind |
| Resource and energy efficiency | Companies focused on improving energy efficiency (e.g. in buildings or manufacturing processes) or creating emissions reduction products or services |
| Sustainable transport | Companies in the transport sector focused on helping to reduce harmful air emissions/distance travelled |
| Water and waste management | Companies with products or services that enable reductions in usage/volumes and/or smarter ways to manage water and waste |

Chairman's Statement

I present our third annual report since the launch of the Company in July 2015. This report covers the year ended 31 December 2017.

***Performance***

The Company's net asset value ("NAV") per share total return for the year was +7.8% (2016: +1.8%) and the share price total return was +3.2% (2016: -13.8%).

While the Company does not have a formal benchmark and our Portfolio Manager does not invest by reference to an index, during the year the MSCI World Total Return Index (in sterling) increased by 11.8% (2016: +28.2%). By way of additional comparison, the WilderHill New Energy Global Innovation Index (in sterling) rose by 17.5% (2016: +11.5%) and the AIC Environmental Sector rose by 11.3% (2016: +21%).

Our Portfolio Manager has provided a full description of the development and ***performance*** of the portfolio over the second full year of your Company's operation in the Portfolio Manager's Review.

The Board has been encouraged by the steady improvements in NAV ***performance*** this year, which reflect the refinement of the Portfolio Manager's investment strategy and the work they have done to re-position the portfolio. The Board will continue to keep the ongoing development of the portfolio under close review.

Share Price Discount

At the year-end, the discount to NAV per share at which the Company's shares trade had widened slightly to 25.6% (2016: 22.2%). This is a matter that the Board considers at each Board meeting. As reported previously, the Board has decided that share buybacks are not in the interests of shareholders at the current time, as this would reduce the size of the Company, increase the ongoing charges ratio and reduce the liquidity of the Company's shares. Instead, and in addition to actively reviewing the Portfolio Manager's ***performance***, the Board and the AIFM will continue to focus on the Company's marketing and distribution strategy over the coming year. A summary of the promotional activities undertaken by the AIFM can be found later in this report.

Management Developments

During the year, and as announced in the Company's half-year report, Menhaden Capital Management LLP (the "Portfolio Manager") became authorised by the Financial Conduct Authority to perform portfolio management activities. Accordingly Frostrow (our AIFM) has, with the Board's consent, formally delegated portfolio management responsibilities to the Portfolio Manager.

The Board has previously confirmed its commitment to reporting on the Company's environmental impact. This year we have integrated the Company's impact reporting within this annual report. The relevant section is contained in the ***Strategic*** Report and will also be made available as a separate document, which will include the methodological detail, on the website[*http://www.menhaden.com*](http://www.menhaden.com).

Dividend

The Company complies with the United Kingdom's investment trust rules regarding distributable income and the Company's dividend policy is that the Company will pay a dividend as a minimum to maintain investment trust status.

The Board has not recommended a final dividend for the year.

The Board remains cognisant of the undertaking in the Company's prospectus to target a dividend yield of 2% per annum of the average NAV. The target implementation date for the dividend was 31 December 2017. However, as I reported in the Company's half-year report for the six months ended 30 June 2017, it would not have been possible to pay such a dividend without paying a significant portion out of capital and the Board does not believe that this would be appropriate under current circumstances. The Board will continue to keep the dividend target under close review.

Outlook

As we look forward, our Portfolio Manager is optimistic about the global outlook for environmental solutions in general and the opportunities for the companies in your portfolio in particular. As such they will continue to focus on selecting stocks whose strong prospects will be crucial in the long term.

The Board supports the Portfolio Manager's investment strategy and believes that it should provide positive returns for the long-term investor.

Annual General Meeting

The Company's third Annual General Meeting ("AGM") will again be held at the offices of Herbert Smith Freehills, Exchange House, Primrose Street, London EC4A 2EG on Tuesday, 22 May 2018 at 12 noon.

This year we have introduced electronic proxy voting so that shareholders can cast their votes online. Instructions for how you can vote electronically are set out later in this report. It is our intention to cease sending out paper proxy forms in 2019 although any shareholders who wish to continue voting in this way will be able to request a paper form from the Company Secretary.

The AGM provides shareholders with an opportunity to meet the Directors and to receive a presentation from our Portfolio Manager. I hope as many shareholders as possible will attend and I look forward to meeting you then, together with my Board colleagues. Any shareholders who are unable to attend or who wish to discuss any matters with the Board are invited to contact me through the Company Secretary.

Sir Ian Cheshire

Chairman

23 March 2018

Investment Objective and Policy

Investment Objective

The Company's investment objective is to generate long-term shareholder returns, predominantly in the form of capital growth, by investing in businesses and opportunities, delivering or benefitting from the efficient use of energy and resources irrespective of their size, location or stage of development.

Whilst the Company pursues an active, non-benchmarked total return strategy, the Company is cognisant of the positioning of its portfolio against the MSCI World Total Return Index (in sterling). Accordingly, the Portfolio Manager will take notice of the returns of that index with a view to outperforming it over the long term.

Investment Strategy

The implementation of the Company's investment objective has been delegated to Frostrow Capital LLP ("Frostrow" or the "AIFM") by the Board. Frostrow has, in turn and jointly with the Company, appointed Menhaden Capital Management LLP as the Portfolio Manager.

Details of the Portfolio Manager's approach are set out in the Investment Process section and in their review.

While the Board's strategy is to allow flexibility in managing the investments, in order to manage investment risk it has imposed various investment, gearing and derivative guidelines and limits, within which Frostrow and the Portfolio Manager are required to manage the investments, as set out below.

Any material changes to the investment objective or policy require approval from shareholders.

Investment Policy

The Company's investment objective is pursued through constructing a conviction-driven portfolio consisting primarily of direct listed and unlisted holdings across asset classes and geographies.

Asset Allocation

The Company invests, either directly or through external funds, in a portfolio that is comprised of three main allocations:

·         listed equity;

·         yield assets; and

·         special situations.

The flexibility to invest across asset classes affords the Company two main benefits:

·         it enables construction of a portfolio based on an assessment of market cycles; and

·         it enables investment in all opportunities which benefit from the investment theme.

It is expected that the portfolio will comprise approximately 20 to 25 positions. Typically, the portfolio will not comprise fewer than 20 positions or more than 50 positions. For these purposes an investment in an external fund is treated as one position.

Geographic Focus

Although the portfolio is predominantly focused on investments in developed markets, if opportunities that present an attractive risk and reward profile are available in emerging markets then these may also be pursued.

While many of the companies forming the portfolio are headquartered in the UK, USA or Europe, it should be noted that many of those companies are global in nature, so their reporting currency may not reflect their actual geographic or currency exposures.

Investment Restrictions

Subject at all times to any applicable investment restrictions contained in the Listing Rules from time to time, the Portfolio Manager will not make an investment if it would cause the Company to breach any of the following limits at the point of investment:

·         no more than 20% of the Company's gross assets may be invested, directly or indirectly through external funds, in the securities of any single entity; and

·         no more than 20% of the Company's gross assets may be invested in a single external fund.

Hedging

The Company may enter into any hedging or other derivative arrangements which the Portfolio Manager may from time to time consider appropriate for the purpose of efficient portfolio management, and the Company may for this purpose leverage through the use of options, futures, options on futures, swaps and other synthetic or derivative financial instruments.

The Portfolio Manager does not expect to engage in currency hedging on a regular basis. However, given that a proportion of the Company's assets are denominated in currencies other than sterling, the Company is subject to foreign exchange risks which could adversely affect the net asset value. Accordingly, the Portfolio Manager may occasionally, within such parameters as are approved by the AIFM and in accordance with the Company's investment policy, seek to hedge the Company's exposure to non-sterling assets.

During the final quarter of the year, the Portfolio Manager employed foreign exchange forwards to hedge 50% of the Company's US dollar and euro exposures.

Cash Management

There is no restriction on the amount of cash or cash equivalent instruments that the Company may hold and there may be times when it is appropriate for the Company to have a significant cash position instead of being fully or near fully invested.

Borrowing Limits

The Company may incur indebtedness for working capital and investment purposes, up to a maximum of 20% of the net asset value at the time of incurrence. The decision on whether to incur indebtedness may be taken by the Portfolio Manager within such parameters as are approved by the AIFM and the Board from time to time. There will be no limitations on indebtedness being incurred at the level of the Company's underlying investments (and measures of indebtedness for these purposes accordingly exclude debt in place at the underlying investment level).

At the date of this report, the Company had no borrowings.

In addition, under the AIFMD rules, the Company is required to set maximum leverage limits. Leverage is defined under the AIFMD as any method by which the total exposure of an AIF is increased.

The Board and the AIFM have set the maximum leverage limits of 200% on a gross basis and 120% on a commitment basis. Further explanation is provided in the Glossary.

As at 31 December 2017, the Company employed leverage through the use of foreign currency forwards, resulting in leverage of 118.2% under the gross method and 97.3% under the commitment method.

Other Investment Restrictions

The Company will at all times invest and manage its assets with the objective of spreading risk and in accordance with its published investment policy.

The Listing Rules currently restrict the Company from investing more than 10% of its total assets in other listed closed-ended investment funds, save that this restriction does not apply to investments in closed-ended investment funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds. The Company will comply with this investment restriction (or any variant thereof) for so long as such restriction remains applicable.

At the date of this report, the Company was not invested in any closed-ended investment funds.

In the event of any material breach of the investment restrictions applicable to the Company, shareholders will be informed of the actions to be taken by the AIFM through an announcement to the Stock Exchange.

Portfolio

Investments held as at 31 December 2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Investment** | **Country/ region** | **Fair Value £'000** | **% of Total Net Assets** |  | **Business Description** | **Theme** |
| X-ELIO1 | Spain\* | 11,675 | 15.8 |  | Develops and operates solar energy products | Clean energy production |
| Airbus | France | 6,705 | 9.1 |  | Designs and manufactures aircraft | Sustainable transport |
| Safran | France | 5,799 | 7.9 |  | Supplies systems and equipment for aerospace, defence & security | Sustainable transport |
| Volkswagen | Germany | 5,553 | 7.5 |  | Designs and manufactures cars and light commercial vehicles, including electric vehicles | Sustainable transport |
| Infigen Energy | Australia | 4,436 | 6.0 |  | Develops, owns and operates renewable energy generation assets | Clean energy production |
| Alpina Partners Fund | UK\* | 3,620 | 4.9 |  | Growth capital fund managed by specialist environmental private equity firm | Resource and energy efficiency |
| Calvin Capital2 | UK\* | 3,500 | 4.7 |  | Invests in utility infrastructure assets | Resource and energy efficiency |
| Senvion | Germany | 3,482 | 4.7 |  | Manufactures wind turbines | Clean energy production |
| Brookfield Renewable Energy | Canada | 3,316 | 4.5 |  | Open-ended fund investing in hydroelectric and wind facilities | Clean energy production |
| TerraForm Power | United States | 2,890 | 3.9 |  | Operates contracted renewable energy assets | Clean energy production |
| **Top Ten investments** |  | **50,976** | **69.0** |  |  |  |
| Atlantica Yield | United States | 2,417 | 3.3 |  | Owns and manages contracted renewable energy assets | Clean energy production |
| Air Products & Chemicals | United States | 2,377 | 3.2 |  | Sells gases and chemicals for industrial uses | Resource and energy efficiency |
| Adient | United States | 2,263 | 3.1 |  | Manufacturer of lightweight automotive seating components | Sustainable transport |
| FirstGroup | UK | 2,103 | 2.9 |  | Operates transport services in the UK, Ireland, Canada and United States | Sustainable transport |
| WCP Growth Fund | UK\* | 1,062 | 1.5 |  | Growth capital fund managed by specialist environmental PE firm, Alpina Partners | Resource and energy efficiency |
| Perfin Apollo | Brazil\* | 680 | 0.9 |  | Builds and operates energy transmissions lines in Brazil | Resource and energy efficiency |
| Sanepar | Brazil | 652 | 0.9 |  | Provides treated water supply, sewage collection and treatment and solid waste management services | Water and waste management |
| Copasa | Brazil | 361 | 0.5 |  | Water utility company | Water and waste management |
| Terra Santa Agro | Brazil | 286 | 0.4 |  | Substainable ***agricultural*** production and land development | Resource and energy efficiency |
| Atlantica Yield - Bonds | United States | 156 | 0.2 |  | Owns and manages contracted renewable energy assets | Clean energy production |
| **Total investments** |  | **63,333** | **85.9** |  |  |  |
| Net Current Assets |  | 10,359 | 14.1 |  |  |  |
| **Total Net assets** |  | **73,692** | **100.0** |  |  |  |

1 Investment made through Helios Co-Invest L.P.

2 Investment made through KKR Evergreen Co-Invest L.P.

\* Unquoted

Portfolio Manager's Review

Investment & Business Review

Menhaden Capital PLC launched in an initial public offering on the main market of the London Stock Exchange on 31 July 2015. Our aim is to create a portfolio that applies a patient yet opportunistic investment approach to a series of global energy and resources-linked megatrends - 'the green industrial shift'. Our portfolio is concentrated, generally comprising around 20 positions.

***Performance***

During 2017, the Company's NAV per share increased from 85.4p to 92.1p. This represents an increase of 7.8% for the year. The Company's share price traded at a 25.6% discount to NAV as at 31 December 2017.

The contribution to the 7.8% NAV per share gain over the period is summarised below:

|  |  |  |
| --- | --- | --- |
| **Asset Category** | **31 December 2017 NAV %** | **Contribution %** |
| Quoted Equities | 44.8 | 5.1 |
| Private Investments | 27.8 | 2.6 |
| Yield Investments | 13.3 | 1.5 |
| Liquidity | 13.5 | - |
| Foreign exchange forwards | 0.6 | 0.7 |
| **Gross return** |  | **9.9** |
| Expenses | - | (2.1) |
| **Net Assets** | **100.0%** | **7.8** |

After a difficult start, our recovery continues to make progress. Luciano Suana, as lead portfolio manager, has brought a relentless focus on value. As such, we have continued to rotate our portfolio in favour of holdings that reflect that focus. We assess all opportunities through a value lens, with the aim of identifying investments with low downside risk, backed by identifiable assets and cash flows, which we can acquire at attractive valuations. We remain conviction investors and as such our portfolio is concentrated, currently comprising just 19 positions. This strategy is working out. Our NAV per share rose from 76.2p at the low point in Q1 2016, to 92.1p at the year-end, an increase of over 20% (in part due to the weakening of sterling during that period).

We have maintained a material cash position during the course of the year, ranging between 10 and 15%. This cash is largely ear-marked to cover our commitments to both the Alpina Partners Fund and to Perfin-Apollo, which is building electricity transmission infrastructure in Brazil. Moreover, given valuations generally, we are treading carefully as to our total equity market exposure. For the first time we have made use of currency foreign exchange hedges - hedging out half of our euro and US dollar exposure against sterling in the last quarter of the year.

Quoted Equity

The Quoted Equity portfolio's contribution to the gain was 5.1% for the year and accounted for 44.8% of the portfolio as at 31 December 2017.

During Q1 we sold our position in Acuity Brands, a provider of LED lighting solutions, which had posted double digit volume growth for 14 consecutive quarters ending in November 2016. At the 2016 year-end Acuity was trading at 16x forward EBITDA estimates and was starting to show signs of slowing growth. At this point we felt the risk of loss far outweighed the expectation of gain and so we divested the position. In the same vein we have now sold the other positions in the portfolio which we felt did not fit our value focus, comprising Borgwarner, Johnson Matthey, Rockwell Automation, Roper Technologies, Shimano, Stericycle and Wabtec. Meanwhile we continue to hold industrial gases manufacturer,Air Products, which supplies gases which help different industrial sectors to use energy and resources more efficiently, and with lower emissions.

We added four new public equity positions during 2017. The first of these is Infigen, Australia's leading wind energy developer and operator.Infigenhas raised significant new capital for financing a series of large new projects, and for increasing the flexibility of its balance sheet. During 2017 significant debate has taken place in Australia about the country's future energy model and a consensus has been reached that renewable energy must play a big role in the country's electricity generation mix, not least to achieve Australia's stated emissions reductions targets. In our view the current share price offers good value in respect of Infigen's portfolio of installed wind assets. Moreover, the company is well placed to generate strong development returns from its pipeline of 1,000 MW of new wind assets. Despite positive updates from Infigen for production and revenue the position declined 10.6% during the year, costing us 0.8% of NAV. We believe the weakness in the share price is related to uncertainty around the refinancing of its debt and concerns over Government policy as well as the large investments being made generally in large-scale renewable energy.

Our second new position isAdient, one of the world's largest automotive seating suppliers, which was spun out of Johnson Controls (JCI) late last year. Adient's innovative weight-optimised components contribute to reduced fuel consumption. JCI investors viewed Adient as a low quality, cyclical business which resulted in heavy early selling of the stock. We like Adient because of its strong position in a rational, oligopolistic market, its significant barriers to entry, and the fact that the company has a clear path to improving operating ***performance*** (Adient's operating costs are approximately 2% higher than its nearest competitor).

The third new position isSenvion, a mid-sized German wind turbine manufacturer. Senvion has a particularly strong position in turbines suited to high wind speed locations and we believe that the company is well positioned for growth given the strength of its new management team - largely drawn from the German automotive industry, and given the business is freed from constraints placed upon it under previous ownership. Senvion has significant cost cutting opportunities and is trading at a healthy discount to its peers. Despite a solid order intake during the course of 2017, the value of our holding has declined by 13.6%, costing us 0.8% of NAV. We believe this is as a result of recent negative sentiment surrounding the wind sector generally. Regulatory uncertainty in Germany, the rapidly declining power price curve and increased competition as the technology matures have all contributed to this. Having met with members of Senvion's new management team, our confidence in the company's competitive positioning and the ongoing execution plan remains strong.

Finally, we have initiated a small position in a Brazilian ***agriculture*** business,Terra Santa Agro, which owns and operates high quality arable land in Brazil's Mato Grosso state. Terra Santa Agro's share price trades at a significant discount to NAV. The group maintains a keen focus on improving efficiency with recent investments increasing harvest capacity by 33%. Moreover, Terra Santa operates to the highest standards of sustainability with 50% of its land reserved for nature.

Our three biggest equity positions were also the leading contributors during the year. We continued to add to the position inAirbus, which was 9.1% of NAV at the end of the year. Airbus was the biggest contributor, gaining 40.3% and adding 2.8% to NAV. While Airbus delivered 718 commercial aircraft in 2017, compared to Boeing's total of 763, the European group has a substantially lower market value. We believe that the market is starting to recognise this disparity. Aviation is an industry we believe is only going to grow, and so fuel efficiency is key. In recent years Airbus has achieved dramatic fuel efficiency gains - in part delivered in partnership with key engine supplier, Safran (another Menhaden portfolio company).

We invested inVolkswagenafter we became confident in its new management team and changes to its governance structure and vehicle emission testing practices. The Volkswagen position added 1.9% to NAV in the year and we added to it over the year such that it represented 7.5% of NAV at the year-end. Much of the gain arose during Q4 after the company lifted its revenue and profit targets to 2020 and gave investors a firm commitment to raising its dividend ratios. Volkswagen has continued to ramp up its ambition to be a world leading manufacturer of electric vehicles, stating in its 2017 interim report that the Company's 'development activities up to 2025 will focus on more than 30 new electric vehicle models'. The Company's impact report for 2017 goes into greater detail on Volkswagen's electric vehicle business and ambitions as well our monitoring of its governance and vehicle environmental ***performance*** and contributions to reducing global vehicle emissions.

Following additional purchases during the yearSafran, a leader in the development and manufacture of increasingly fuel-efficient aviation engines, now represents 7.9% of our portfolio and gained 19.4% during the year, adding 1.4% to NAV. We maintain our high conviction in Safran due to the high visibility of the company's revenues and earnings during the coming five years.

Yield

The Yield portfolio's contribution to the overall NAV gain was 1.5% for the year and accounted for 13.3% of the portfolio as at 31 December 2017.

The sale ofTerraform Globalto Brookfield Renewable Energy Partners took place at the very end of 2017, resulting in us receiving proceeds of circa £1.4 million. It is for this reason, as well as the partial sale of Terraform Power (also to Brookfield), that our allocation to Yield investments was lower than target at year-end.Abengoa's debt restructuring plan was approved during the summer and creditors injected over (EURO)1 billion into the company to enable it to continue operations and complete some late stage projects. We subscribed just over (EURO)1 million to the Company's portion of this capital injection, which was well collateralised by a stake in Atlantica Yield. After the restructuring the bonds increased in value, adding 0.5% to our NAV and we decided to exit the position in the second half of the year as we felt the bonds no longer offered a material upside.

Meanwhile, during the course of the year we added to our position inAtlantica Yield, taking that position to 3.3% of total NAV by the year end. Our thesis has always been that a high quality new sponsor would take the place of Abengoa as sponsor of Atlantica Yield. So we were delighted by the announcement that Canadian utility Algonquin has acquired a 25% stake in Atlantica at a price of US$24.25/share. Atlantica added 0.2% to our NAV during the course of the year, and now trades on a dividend yield of approximately 5%.

This transaction is similar to the acquisition byBrookfield Renewable Energy Partners(another of our portfolio companies) of 51% ofTerraform Powerearlier this year- which resulted in a return of £2,062,000 of cash to us. Terraform Power remains listed whilst Brookfield, as new sponsor, provides the resources to expand the operating portfolio. We hold Brookfield in high esteem and believe their expertise in asset management will enable Terraform Power to grow in a sustainable, profitable manner. Brookfield itself was a strong performer during the year; the position was ahead by 14.2%, adding 0.6% to our NAV.

During the course of the year we bought and then sold a position in Spanish electricity transmission monopoly, Red Electrica. We sold this position because of uncertainty over the ongoing troubles arising in Spain as a result of the Catalonia independence issue. This position added 0.6% to NAV during 2017.

Private Investments

The Private Equity portfolio's contribution to the gain was 2.6% for the year and accounted for 27.8% of the portfolio as at 31 December 2017.

During Q1 we completed a £3.5 million investment inCalvin Capital, one of the largest independent electricity meter providers in the UK, alongside the infrastructure arm of global investment firm KKR. Calvin provides us with a differentiated opportunity to enter a core segment of the UK residential utility space through an established platform offering potentially strong downside protection and cash yield through the existing portfolio of meters, as well as growth potential through a large contracted pipeline of upcoming meter installations and further growth opportunities in a legislated smart meter rollout programme in the UK. Calvin's business model is to purchase electricity meters on behalf of energy suppliers, fund and pay for their installation and manage the billing process throughout their expected operating life of over 20 years. That investment has had a good first year. Calvin has achieved growth in its portfolio of smart meters, has won a significant new contract in Australia and is performing significantly ahead of plan on both revenue and profitability. Calvin's senior management team continues to develop its strategy for adjacent sectors, including electric vehicle charging stations, batteries and LED lighting. This position is held at cost.

Since closing our investment inX-ELIOin December 2015 (our largest position at 15.8% of NAV at the end of 2017) the Company has hit a number of milestones. X-Elio has delivered the commercial operation of a new 25 MW solar power plant in Japan, a 58 MW plant in Chile and is currently constructing 117 MW of new capacity in Japan. In addition, the operating ***performance*** of X-ELIO's operating assets came in ahead of expectations in 2016 and again in 2017. As a result, the holding value of this position was marked up again by 10% at the end of the third quarter. Moreover, we received a distribution of cash from X-ELIO during Q4, representing circa 3.9% of the cost of the investment. We remain confident in our original thesis and see X-ELIO as well positioned to benefit from the global shift towards solar photo voltaic ("PV"), as a result of the company's footprint across the key global solar markets and a fully integrated business model centred around developing, constructing and managing solar PV plants.

In Q2 we completed our third direct private equity investment inPerfin Apollo 12, with a total commitment of approximately £4.4 million. Of this approximately £750,000 had been drawn down by the year end, representing approximately 0.9% of our NAV. Perfin is an investment vehicle focused on the development of Brazilian electricity transmission assets, alongside one of the largest public transmission companies in Brazil, Alupar. Brazil is the second largest producer of hydroelectric power in the world, trailing only China, and the country depends on hydroelectricity for more than 75% of its electric power supply. Perfin Apollo 12 participated in the latest round of government auctions for transmission licences and will hold 49% of the equity of each individual transmission asset with Alupar holding the rest. The expected returns for the transmission assets in Brazilian Reals are inflation plus 10-12%. Perfin Apollo 12 also holds a put option that allows it to sell the assets back to Alupar, regardless of ***performance***, at inflation plus 5% per annum, nine years after deployment.

TheAlpina Partners Fund, a private equity fund, added 2.1% to NAV during the year. This ***performance*** was driven by three factors: the Fund successfully sold one of its portfolio holdings; the NAV of the Fund increased during the year; and the discount to NAV, reflected in the sale of half our stake in the Fund in March (we had divested over concerns that, once fully invested, the position could have represented nearly 15% of our NAV), was fully unwound in the Company's year end valuation.

Our holding in theWCP Growth Funddeclined further, costing us 1.9% of NAV. Holdings in remaining portfolio companies which are likely to require further equity financing were written down on the basis that the fund may be diluted in future financing rounds. This position now represents just 1.4% of our NAV.

Conclusion

We are delighted that both Jessica Kaur and Edward Pybus have joined our team as research analysts. Previously, Jessica was an Associate Director at UBS in the Research division, where she was a covering analyst in the UK mid-cap team. Edward was an Analyst at Exane BNP Paribas in the Research division, where he was a member of the Oil & Gas team and covered European integrated oil companies.

The investment case for our energy and resource efficiency mandate continues to strengthen. Governments around the world, notably including China, are intensifying their focus on energy and resource efficiency. Businesses, which were often ahead of governments in this regard, are increasing the rate of change of their business models. This transition is greatly helped by lowering costs: for example, solar and wind are increasingly competitive with conventional power in many jurisdictions, and the lifetime costs of electric vehicles are starting to be competitive with internal combustion engine vehicles.

Our team is now complete, our processes are working well, our portfolio is solid, and so, as we enter 2018, we remain confident in our ability to generate excellent long-term risk-adjusted returns from these themes.

Menhaden Capital Management LLP

Portfolio Manager

23 March 2018

Investment Committee

Menhaden Capital Management LLP has been appointed as the Company's Portfolio Manager. The Portfolio Manager's Investment Committee makes all investment and disinvestment decisions in respect of the Company.

Graham Thomas

Graham Thomas is the non-executive chairman of the Investment Committee. Before founding Menhaden Capital Management LLP with Ben Goldsmith, Graham chaired RIT Capital Partners plc's Executive Committee. Prior to this, Graham was the head of the Standard Bank Group's US$3 billion Principal Investment Management division, which was established in 2008 under his leadership. He joined Standard Bank from MidOcean Partners in London, where he was a founding partner. Before MidOcean Partners, he was an Executive Director in the Investment Banking Division of Goldman Sachs & Co.

Graham is currently CEO of private equity firm, Stage Capital, and on the investment committee of Apis Partners. He is a Rhodes Scholar with degrees from Oxford and the University of Cape Town.

Ben Goldsmith

Ben is the Chief Executive Officer of Menhaden Capital Management LLP. Before co-founding Menhaden Capital Management LLP, Ben co-founded the WHEB group, one of Europe's leading energy and resource-focused fund investment businesses. Ben is a director of Cavamont Holdings, the Goldsmith family's investment holding vehicle. Ben also chairs the UK Conservative Environment Network, a group which has a preference for decentralised, market-orientated solutions to environmental and resource issues.

Luciano Suana

Luciano is an investment manager at Menhaden Capital Management LLP. Before joining Menhaden Capital Management LLP, Luciano was a Director of Barclays Capital in the Capital Markets division where he ran the credit trading operations for Brazil out of São Paulo. Before Barclays, Luciano was a Director of Dresdner Kleinwort in London. There he focused mainly on Infrastructure, Utilities and Real Estate assets as head of the Illiquids Credit group.

Luciano holds a Licenciatura in business administration from Universitat Autònoma de Barcelona and was granted the Premio Extraordinario de Fin de Carrera for outstanding academic ***performance***.

Investment Process

Investment Process

The portfolio management team, which has day to day responsibility for managing the portfolio, is led by Luciano Suana, and comprises Ben Goldsmith, Edward Pybus and Jessica Kaur.

The portfolio management team presents investment opportunities to the Investment Committee, which is chaired by Graham Thomas.

Thematically, the team seeks to invest in opportunities, publicly traded or private, which either deliver or benefit from the more efficient use of energy and resources. All investment opportunities are assessed through a value lens, with the aim of acquiring investments with low downside risk, backed by identifiable assets and cash flows, at attractive valuations. The team seeks to invest with a long-term perspective, and with high conviction. Consequently, the portfolio comprises around 20 positions and the team aims for portfolio turnover to be low.

When identifying suitable investment opportunities, the portfolio management team is cognisant of the UK Stewardship Code and the UN Principles of Responsible Investment.

Investment Committee

The Investment Committee meets weekly in order to consider the investment opportunities presented by the portfolio management team. All investment decisions must be made with the unanimous consent of all members of the Investment Committee unless one of the members has a potential conflict of interest, in which case that member will excuse himself from that particular decision.

***Strategic*** Advisory Group

The Investment Committee is supplemented by a ***Strategic*** Advisory Group, which assists the Committee in implementing the Company's investment objective and policy. The ***Strategic*** Advisory Group does not have a formal mandate or responsibilities, but meets with the Investment Committee from time to time to discuss the macroeconomic environment, factors affecting the broad investment theme of the Company, market conditions and portfolio construction.

Investment Network

The portfolio manangement team has access to a proprietary investment network, which includes a group of investment managers of external funds and, from time to time, external experts and advisers. The portfolio management team believe that this is of benefit to the investment process and helps to source opportunities that they believe would not otherwise be available to the Company.

Business Review

The ***Strategic*** Report has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Company.

The ***Strategic*** Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the date of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Business Model

The Company is an externally managed investment trust and its shares are premium listed on the Official List and traded on the main market of the London Stock Exchange.

The Company is an Alternative Investment Fund ("AIF") under the European Union's Alternative Investment Fund Managers Directive ("AIFMD") and has appointed Frostrow Capital LLP as its Alternative Investment Fund Manager ("AIFM").

As an externally managed investment trust, all of the Company's day-to-day management and administrative functions are outsourced to service providers. As a result, the Company has no executive directors, employees or internal operations.

The Board

Details of the Board of Directors of the Company are set out later in this report.

All Directors will seek re-election by shareholders at the Annual General Meeting to be held on 22 May 2018.

Board Focus and Responsibilities

With the day-to-day management of the Company outsourced to service providers, the Board's primary focus at each Board meeting is reviewing the investment ***performance*** and associated matters such as future outlook and strategy, gearing, asset allocation, investor relations, marketing and industry issues.

In line with its primary focus, the Board retains responsibility for all the key elements of the Company's strategy and business model, including:

·         continuous review of the investment objective and policy, incorporating the investment guidelines and limits;

·         review of the maximum levels of gearing and leverage the Company may employ;

·         review of ***performance*** against the Company's KPIs and peer group;

·         review of the ***performance*** and continuing appointment of service providers; and

·         maintenance of an effective system of oversight, risk management and corporate governance.

The investment objective and policy, including the related limits and guidelines, are set out above, along with the details of the leverage and gearing levels allowed.

Details of the principal KPIs and further information on the principal service providers, their ***performance*** and continuing appointment, along with details of the principal risks and how they are managed, follow within this Business Review.

The Corporate Governance Statement, on pages 36 to 39, includes a statement of compliance with corporate governance codes and best practice. The Audit Committee Report contains an outline of the internal control and risk management framework within which the Board operates.

Key ***Performance*** ***Indicators*** ("KPIs")

The Board monitors the following KPIs, details of which can be found above:

·         Net asset value ("NAV") per share total return;

·         Share price total return;

·         Discount/premium of share price to NAV per share;

·         Ongoing charges ratio; and

·         ***Performance*** against the MSCI World Total Return Index (in sterling) and the Company's peer group.

NAV per share total return

The Directors regard the Company's NAV per share total return as being the overall measure of value delivered to shareholders over the long-term. This reflects both the net asset value growth of the Company and any dividends paid to shareholders.

Share price total return

The Directors regard the Company's share price total return to be a key ***indicator*** of ***performance*** and monitor this closely. This reflects the return to the investor on mid-market prices, assuming any dividends paid are reinvested.

Share price discount/premium to NAV per share

The share price discount/premium to NAV per share is considered a key ***indicator*** of ***performance*** as it impacts the share price total return and can provide an indication of how investors view the Company's ***performance*** and its investment objective.

Ongoing charges ratio

The Board is conscious of expenses and aims to ensure there is a balance between good quality services and costs.

The ongoing charge ratio reflects the costs incurred directly by the Company and is calculated in accordance with the AIC guidance on ongoing charges.

MSCI World Total Return Index

Whilst the Company pursues an active, non-benchmarked total return strategy, the Board considers the NAV per share total return ***performance*** against the MSCI World Total Return Index measured on a net total return, sterling-adjusted basis.

The Board also monitors the Company's NAV return against its peer group and other relevant indices such as the Widerhill New Energy Global Innovation Index (in sterling) and the AIC Environmental Sector. Details are given in the Chairman's Statement.

A full description of ***performance*** during the period under review and the portfolio is contained in the Portfolio Manager's Review.

Principal Service Providers

The principal service providers to the Company are Frostrow Capital LLP ("Frostrow" or the "AIFM"), Menhaden Capital Management LLP ("MCM" or the "Portfolio Manager") and J.P. Morgan Europe Limited (the "Depositary"). Details of their key responsibilities and their contractual arrangements with the Company follow.

AIFM

The Board has appointed Frostrow as the designated AIFM for the Company on the terms and subject to the conditions of the alternative investment fund management agreement between the Company and Frostrow (the "AIFM Agreement"). The AIFM Agreement assigns to Frostrow overall responsibility to manage the Company, subject to the supervision, review and control of the Board, and ensures that the relationship between the Company and Frostrow is compliant with the requirements of the AIFMD. Frostrow, under the terms of the AIFM Agreement provides, inter alia, the following services:

·         risk management services;

·         marketing and shareholder services;

·         administrative and secretarial services;

·         advice and guidance in respect of corporate governance requirements;

·         maintenance of the Company's accounting records;

·         preparation and dispatch of the annual and half yearly reports and monthly factsheets; and

·         ensuring compliance with applicable tax, legal and regulatory requirements.

The notice period on the AIFM Agreement is six months and termination can be initiated by either party.

AIFM Fee

Under the terms of the AIFM Agreement, Frostrow receives a periodic fee equal to 0.225% per annum of the Company's net assets up to £150 million, 0.220% per annum of the net assets in excess of £150 million and up to £500 million, and 0.175% per annum of the net assets in excess of £500 million.

Portfolio Manager

Under the AIFM Agreement, MCM as delegate of the AIFM is responsible for the management of the Company's portfolio of investments under an agreement between MCM, the Company and Frostrow (the "Portfolio Management Agreement"). Under the terms of the Portfolio Management Agreement, MCM provides, inter alia, the following services:

·         seeking out and evaluating investment opportunities;

·         recommending the manner by which cash should be invested, divested, retained or realised;

·         advising on how rights conferred by the investments should be exercised;

·         analysing the ***performance*** of investments made; and

·         advising the Company in relation to trends, market movements and other matters which may affect the investment objective and policy of the Company.

Portfolio Management Fee

MCM receives a periodic fee equal to 1.25% of the Company's net assets up to £150 million and 1.00% of the Company's net assets in excess of £150 million.

***Performance*** Fee

Dependent on the level of the long-term ***performance*** of the Company, MCM is entitled to a ***performance*** fee.

In respect of a given three year ***performance*** period, a ***performance*** fee may be payable equal to 10% of the amount, if any, by which the Company's adjusted NAV at the end of that ***performance*** period exceeds the higher of (a) a compounding hurdle on the gross proceeds of the IPO of 5% per annum; and (b) a high watermark\*. The ***performance*** fee is subject to a cap in each ***performance*** period of an amount equal to the aggregate of 1.5% of the weighted average NAV in each year (or part year, as applicable) of that ***performance*** period.

Depositary

The Company has appointed J.P.Morgan Europe Limited as its Depositary in accordance with the AIFMD on the terms and subject to the conditions of an agreement between the Company, Frostrow and the Depositary (the "Depositary Agreement"). The Depositary provides the following services, inter alia, under its agreement with the Company:

·         safekeeping and custody of the Company's custodial investments and cash;

·         processing of transactions; and

·         foreign exchange services.

The Depositary must take reasonable care to ensure that the Company is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook, the AIFMD and the Company's Articles of Association.

Under the terms of the Depositary Agreement, the Depositary is entitled to receive an annual fee of the higher of £40,000 or 0.175% of the net assets of the Company up to £150 million, 0.15% of the net assets in excess of £150 million and up to £300 million, 0.1% of the net assets in excess of £300 million and up to £500 million and 0.05% of the net assets in excess of £500 million. In addition, the Depositary is entitled to a variable custody fee which depends on the type and location of the custodial assets of the Company.

The Depositary has delegated the custody and safekeeping of the Company's assets to JPMorgan Chase Bank N.A., London branch (the "Custodian").

The notice period on the Depositary Agreement is 90 days if terminated by the Company and 120 days if terminated by the Depositary.

Evaluation of the AIFM and the Portfolio Manager

The ***performance*** of the AIFM and the Portfolio Manager is reviewed continuously by the Board and the Company's Management Engagement Committee (the "MEC") with a formal evaluation process being undertaken each year. As part of this process, the Board monitors the services provided by the AIFM and the Portfolio Manager and receives regular reports from them. The MEC reviewed the appropriateness of the appointment of the AIFM and the Portfolio Manager in November 2017 with a recommendation being made to the Board.

The Board believes the continuing appointment of the AIFM and the Portfolio Manager, under the terms described above, is in the interests of shareholders as a whole. In coming to this decision, the MEC and the Board took into consideration, inter alia, the following:

·         the quality of the service provided and the quality and depth of experience of the company management, company secretarial, administrative and marketing team that the AIFM allocates to the management of the Company; and

·         the quality of service provided by the Portfolio Manager to the management of the portfolio; and the level of ***performance*** in the portfolio in absolute terms and by reference to the MSCI World Total Return Index and other relevant indices.

Principal Risks and Uncertainties

In fulfilling its oversight and risk management responsibilities the Board maintains a framework of key risks which affect the Company and the related internal controls designed to enable the Directors to manage/mitigate these risks as appropriate. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future ***performance***, solvency or liquidity.

The principal risks can be categorised under the following broad headings:

·         investment risk;

·         financial risk;

·         operational risks (including accounting, cyber security, compliance and regulatory risks); and

·         shareholder relations and share price ***performance*** risk.

Further information on the internal controls and the risk management framework can be found below. The following sections detail the risks the Board considers to be the most significant to the Company under these headings.

Investment Risk

The Board recognises that investment risk is the most significant risk to which the Company is exposed through investing in quoted and unquoted securities, both in the UK and overseas, as a result of which it has exposure to the risk of changes in asset prices and foreign exchange rates. Investment risk is comprised of two main aspects: market risk and concentration risk.

Market risk is the risk that the value of investments will change due to the overall ***performance*** of financial markets or macro-economic factors. It cannot be eliminated through diversification, though it can be hedged against. The Company's policy on hedging is set out on in the Investment Policy.

Concentration risk is the risk that the value of an investment or a small number of similar investments changes due to factors specific to them or the sector in which they operate. This type of risk can be reduced by diversification of the portfolio. The Board have set diversification requirements, relating to both individual investments and asset allocation, within which the investment portfolio is managed, but investors should be aware that the Company expects to invest in a relatively concentrated portfolio of securities. The Company is therefore exposed to the potentially higher volatility arising from a concentrated portfolio and risks specific to the sectors in which it invests, such as global energy and commodity prices or withdrawal of government subsidies for renewable energy.

To manage investment risk the Board has appointed the AIFM and the Portfolio Manager to manage the Company within the remit of the investment objective and policy. Compliance with the investment objective and policy is monitored daily by the AIFM and reported to the Board on a monthly basis.

Regular reports are received from the AIFM and the Portfolio Manager on stock selection and asset allocation, and they report at each Board meeting on the portfolio and ***performance*** of the Company, including the rationale for stock selection decisions, the make-up of the portfolio, potential new holdings and the investment strategy.

Financial Risk

In addition to market and concentration risk, discussed above, the Company is exposed to credit risk arising from the use of counterparties. If a counterparty were to fail, the Company could be adversely affected through either delay in settlement or loss of assets.

The most significant counterparty to which the Company is exposed is J.P. Morgan Europe Limited, the Depositary, which is responsible for the safekeeping of the Company's custodial assets.

Credit risk is managed by the Board through:

·         reviewing the arrangements with, and services provided by, the Depositary to ensure that the security of the Company's custodial assets is being maintained;

·         reviewing Frostrow's approved list of counterparties, the Company's use of those counterparties and the Portfolio Manager's process for monitoring and adding to the approved counterparty list; and

·         monitoring of counterparties, including reviewing their internal control reports and credit ratings, as appropriate.

Further information on the use of financial instruments and their risks, including credit risk, can be found in note 14 to the financial statements.

Details of the work undertaken in regard to verifying ownership and the valuation of unquoted (non-custodial) assets is set out in the Audit Committee Report.

Operational Risk

The Company is an externally managed investment trust and as such has no employees or systems of its own. The Company is therefore dependent on its service providers, particularly the AIFM and the Portfolio Manager. It is exposed to the risk associated with the departure of a key member of the AIFM or Portfolio Manager, for whom there could be no guarantee of a suitable replacement being found, and a disruption to, or a failure of, its service providers' systems, which could lead to a failure to comply with applicable law and regulations resulting in reputational damage and/or financial loss to the Company.

To manage these risks the Board:

·         monitors on a regular basis the ***performance*** of the AIFM and the Portfolio Manager, including developments within their teams;

·         receives a monthly compliance report from Frostrow, which includes, inter alia, details of compliance with applicable laws and regulations;

·         reviews internal control reports and key policies, including measures taken to combat cyber security issues and the disaster recovery procedures of its service providers;

·         maintains a risk matrix with details of risks to which the Company is exposed, the controls relied on to manage those risks and the frequency of the controls operation; and

·         receives updates on pending changes to the regulatory and legal environment and progress towards the Company's compliance with such changes.

The Board has considered whether the UK's exit from the European Union ("Brexit") poses a unique risk to the Company. The Board believes that Brexit is unlikely to affect the Company's business model or how the Company's shares are sold but will continue to monitor regulatory and tax-related developments.

Shareholder Relations and Share Price ***Performance*** Risk

The Company is also exposed to the risk, particularly if the investment strategy and approach are unsuccessful, that the Company may underperform resulting in the Company becoming unattractive to investors and a widening of the share price discount to NAV per share.

In managing this risk the Board:

·         reviews the Company's investment objective in relation to the market, economic conditions and the operation of the Company's peers;

·         discusses at each Board meeting the Company's future development and strategy;

·         reviews an analysis of the shareholder register and reports from the Company's corporate stockbroker at each Board meeting; and

·         actively seeks to promote the Company to current and potential investors.

Company promotional activities have been delegated to Frostrow, who report to the Board at each Board meeting on these activities.

Viability Statement

The Directors have carefully assessed the Company's current position and prospects as described in the Chairman's Statement and the Portfolio Manager's Review, as well as the Principal Risks and Uncertainties and have formed a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five financial years.

The particular factors the Directors have considered in assessing the prospects of the Company, its ability to liquidate its portfolio, and in selecting a suitable period in making this assessment are as follows:

·         the Board and the Portfolio Manager will continue to adopt a long-term view when making investments. When making a new investment the anticipated holding period can be five years or more.

·         the portfolio includes investments traded on major international stock exchanges and there is a spread of investments by size of company. It is estimated that 47% of the portfolio could be liquidated, in normal market conditions, within seven trading days;

·         the Company's expenses are predictable and modest in comparison with the assets and there are no capital commitments foreseen which would alter that position; and

·         the Company has no employees, only non-executive Directors, and consequently does not have employment related liabilities or responsibilities.

The Company is intended to operate over the long-term; however due to the limitations and uncertainties inherent in predicting market conditions the Directors have determined that five years is the longest period for which it is reasonable to make this assessment.

In carrying out their assessment, the Directors made the following assumptions:

·         investors will wish to continue to have exposure to the type of companies that the Company invests in, namely those companies that deliver or benefit from the efficient use of energy and resources;

·         the ***performance*** of the Company will be satisfactory; and

·         the threats to the Company's solvency or liquidity incorporated in the Principal Risks will be managed or mitigated as outlined elsewhere in this report.

Based on the results of this review, the Directors have formed a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five financial years.

Company Promotion

The aim of the Company's promotional activities is to encourage demand for the Company's shares. The Company has appointed Frostrow to provide marketing services in the belief that a well-marketed company is more likely to grow over time, is more likely to have a diverse and stable shareholder register and be more likely to trade at a superior rating to its peers.

Frostrow looks to promote the Company in the following ways:

Engaging regularly with institutional investors, discretionary wealth managers and a range of execution-only platforms:

Frostrow regularly meets with institutional investors, discretionary wealth managers and execution-only platform providers;

Making Company information more accessible:

Frostrow works to raise the profile of the Company by targeting key groups within the investment community, holding annual investment seminars, overseeing PR output and managing the Company's website and wider digital offering, including webcasts and social media. Frostrow also manages the investor database and produces all key corporate documents, distributes monthly factsheets, annual reports and updates from the Portfolio Manager on portfolio and market developments; and

Monitoring market activity, acting as a link between the Company, shareholders and other stakeholders:

Frostrow maintains regular contact with sector broker analysts and other research and data providers, and provides the Board with up-to-date and accurate information on the latest shareholder and market developments.

In addition the Board has appointed Kepler Partners LLP to produce and distribute market research on the Company.

Board Diversity

The Board strongly supports the principle of boardroom diversity, of which gender is one important aspect, and the recommendations of Lord Davies' review. The Board's aim is to have a broad range of approaches, backgrounds, skills and experience represented on the Board and to make appointments on merit against objective criteria, including diversity. The Board currently comprises one woman and three men, meeting Lord Davies' original recommendation.

Social, Human Rights and Environmental Matters

The Company is an externally-managed investment trust within the AIC Environmental Sector and invests in companies and markets which deliver or benefit from the more efficient use of energy or resources. It does not have any employees or premises, nor does it undertake any manufacturing or other operations. All its functions are outsourced to third party service providers and therefore the Company does not have any employee or direct human rights issues, nor does it have any direct, material environmental impact.

As an investment company, the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Company falls outside the scope of the Modern Slavery Act 2015. The Company's suppliers are typically professional advisers and the Company's supply chains are considered to be low risk in this regard.

The Board believes that the integration of financially material environmental, social and governance ("ESG") issues into investment decision-making can reduce risk and enhance returns. In addition, the on-going engagement and dialogue with investee companies, including through proxy voting, are key parts of an asset stewardship role. Accordingly, the Directors require the Portfolio Manager to use its best endeavours to ensure the Company's investments adhere to best practice in the management of ESG issues, and encourage them to have due regard to the UN Global Compact and UN Principles of Responsible Investment. The Portfolio Manager's statement of compliance with the Financial Reporting Council UK Stewardship Code is available at[*http://www.frc.org.uk*](http://www.frc.org.uk). The Board has reviewed this statement as well as the proxy voting decisions made on the Company's behalf.

The Company produces an annual impact report setting out the environmental purpose of the Company and the impact it has, or intends to deliver. The report is published as a separate document on[*http://www.menhaden.com*](http://www.menhaden.com).

***Performance*** and Future Developments

An outline of ***performance***, investment activity and strategy, market background during the year and the future outlook, is provided in the Chairman's Statement and the Portfolio Manager's Review.

The Portfolio Manager believes that companies that supply products and services that help to conserve scarce resources, reduce negative environmental impacts and improve resource efficiency are likely to enjoy faster growing end markets. The Directors continue to believe that environmental and resource-efficiency solutions together with the Portfolio Manager's investment strategy should provide good returns for the long-term investor.

It is expected that the Company's strategy will remain unchanged in the coming year.

A continuation vote will be put to shareholders at the AGM to be held in 2020 and every five years thereafter.

This ***Strategic*** Report has been signed for and on behalf of the Board.

Sir Ian Cheshire

Chairman

23 March 2018

Impact Report

Measuring Menhaden's positive impact

As a publicly-listed investment trust, Menhaden's core aim is to generate long-term profits for shareholders by investing in opportunities that deliver, or benefit from, the efficient use of energy and resources. As part of this approach the Board strongly believes that the communication of the environmental metrics of the portfolio, alongside the Company's financial ***performance***, is of significant value to shareholders.

That is why Menhaden attempts to quantify, to the extent possible, the positive impacts of its listed portfolio companies. Each year it analyses avoided resource consumption (electricity, fuel, water and waste) and the greenhouse gas emissions avoided due to the listed companies' products and services. The biggest private holding,X-ELIO, is also included in the analysis.

Impact measurement is an emerging field and while the quantifications are best estimates, they show that Menhaden's share of its portfolio holdings last year helped generate over 69,000 megawatt hours of clean electricity and saved over 40,000 tonnes of greenhouse gases from being emitted into the atmosphere1 ( 1 All figures are based on the selected environmental savings reported by our investee companies, proportionate to Menhaden's ownership stake, as of 31/12/17. They are best estimates based on the methodology in the technical annex available on the website. For a full explanation of our impact methodology please see Appendix[*http://www.menhaden.com*](http://www.menhaden.com)). That is equivalent to providing the electricity for over 18,000 UK homes or taking over 27,000 cars off the road.

The environmental impact of our portfolio companies in 20172

·         Total greenhouse gas emissions saved: +40,000 tCO2e

·         Water saved: +91,000 m3

·         Clean electricity generated: +69,000 MWh

·         Waste saved from landfill: 260 tonnes

(2 All figures are based on the selected environmental savings reported by our investee companies, proportionate to Menhaden's ownership stake, as of 31/12/17. They are best estimates based on the methodology in the technical annex available on the website. For a full explanation of our impact methodology please see Appendix[*http://www.menhaden.com*](http://www.menhaden.com))

From small start-ups to mass market

By using a fundamental, research-oriented approach the Portfolio Manager aims to find the innovation, products and services that offer the long-term solutions required for the transition to a low carbon economy. The Company recognises that some of our holdings, by the nature of their business, do intrinsically have some negative environmental impacts too, but the Portfolio Manager invests where the current and potential future sustainability impacts of their products or services justify an investment.

For example, the Company is invested in large clean energy entities such as X-ELIO, a global leader in photovoltaic energy development, and Australian wind and solar developerInfigen Energy. It also invests inCalvin Capital, an asset investment company helping the UK's largest energy suppliers to meet the UK Government's commitment to install 53 million smart meters by 2020. The technology is projected to save £16.7bn through reduced energy use3 (3[*http://www.bbc.co.uk/news/business-42655965*](http://www.bbc.co.uk/news/business-42655965)).

The Company has also looked at areas such as fuel efficiency in the transport sector, leading it to invest in holdings such as aircraft component manufacturer Safran, whose innovative 'LEAP' engine delivers a 15% reduction in fuel consumption compared to current standard engines. For similar reasons, Menhaden also currently holds German automakerVolkswagen (VW).

VW attracted negative sentiment because of the way it historically undertook tests and reported on its diesel vehicle emissions; however, this was under its previous management up to 2015. Since then, its fundamental U-turn has been significant and a new leadership team has put impressive focus and resources into new technologies, vowing to spend (EURO)20bn on electrification and planning to unveil more than 30 new all-electric car models by 20254 (4[*https://www.ft.com/content/a12ec7e2-fa01-11e7-9b32-d7d59aace167*](https://www.ft.com/content/a12ec7e2-fa01-11e7-9b32-d7d59aace167)).

Climate-related improvements this year have been noted by the Carbon Disclosure Project, which moved VW up five places to sixth in a ranking of global automakers' climate performance5( 5https://http://[*www.cdp.net/en/articles/media/low-carbon-and-high-tech-put-auto-sector-in-flux),and*](http://www.cdp.net/en/articles/media/low-carbon-and-high-tech-put-auto-sector-in-flux),and) the asset owner backed Transition Pathway Initiative which ranked VW in the top level for its quality of its management framework on climate change6 (6   [*http://www.lse.ac.uk*](http://www.lse.ac.uk)/ GranthamInstitute/tpi/8-of-the-top-20-car-manufacturers-align-to-the-transition-to-low-carbon-econom).  As a mass volume car maker, by practicing a high standard of corporate governance, product innovation, and by meeting or exceeding environmental regulatory standards in respect of vehicle manufacturing, emissions and disposals, Volkswagen can further reduce its environmental footprint and deliver significant positive environmental impact. The Portfolio Manager and the Board will keep their progress under constant review to ensure there is no return to previous poor practice, in which case the holding will be reassessed.

Menhaden portfolio impacts around the world

Menhaden takes a diversified multi-regional approach to investing, so the positive sustainability impacts of portfolio companies and their supply chains are felt across the world.

1. Portugal

Senvionis a wind turbine maker whose 172 MW Ancora wind farm uses local sources for blades, nacelles and hubs and delivers enough clean electricity to power 125,000 homes7 ( 7http://www. senvion.com/global/en/company/references-case-studies/ancora-wind-farms-portugal/).

 It is helping Portugal move to 100% renewable energy - a feat achieved for 107 hours in May 2016 when the country ran exclusively on renewable energy8 (8[*https://energytransition.org/2016/06/*](https://energytransition.org/2016/06/) portugal-moving-to-100-renewables/).

2. UK

Leading transport operatorFirst Groupis investing in its low carbon bus fleet, experimenting with electric, bio-methane and hydrogen fuel cell buses, and hybrid electric/diesel trains. It was awarded Low Carbon Vehicle Operator of the Year in the UK9 (9[*https://www.firstgroup.com/about-us/news/first-bus-wins-prestigious-prize-low-carbon-champions-awards*](https://www.firstgroup.com/about-us/news/first-bus-wins-prestigious-prize-low-carbon-champions-awards)).

3. France

French multinationalSafrandesigned the LEAP engine for commercial jets in partnership with General Electric. The engine delivers a 15% reduction in fuel consumption and CO2 emissions compared to current standard engines and provides a 50% cut in nitrogen oxides10 (10https://http://[*www.safran-aircraft-engines.com/commercial-engines/single-aisle-commercial-jets/leap/leap*](http://www.safran-aircraft-engines.com/commercial-engines/single-aisle-commercial-jets/leap/leap)).

4. Japan

Solar providerX-ELIOcurrently has 76 MW in operation and a further 115 MW under construction11 (11[*https://www.energynews.es/english/renewable-capacity-in-japan-is-growing-at-an-average-annual-rate-of-29-since-2012/*](https://www.energynews.es/english/renewable-capacity-in-japan-is-growing-at-an-average-annual-rate-of-29-since-2012/)).  It is part of a wider trend that has seen the share of energy generated by renewable sources in Japan jump from 9% in 2011, to over 15% in 201612 ( 12https://   [*http://www.japantimes.co.jp/news/2017/10/14/business/balance-power-shift-toward-renewable-energy-appears-picking-steam/#.Wmikl2V0PeQ*](http://www.japantimes.co.jp/news/2017/10/14/business/balance-power-shift-toward-renewable-energy-appears-picking-steam/#.Wmikl2V0PeQ)).

5. Taiwan

Airbusreduced its CO2 emissions by 14% in absolute terms in the decade to 2016 and has set a clear target to improve fleet fuel efficiency by 1.5% per year between now and 202013 (13http://www. airbus.com/company/responsibility-sustainability/minimising-environmental-impact.html.html),  including introducing biofuels to some planes operated by China Airlines, headquartered in Taiwan14 (14[*http://www.airbus.com/newsroom/press-releases/en/2017/11/china-airlines-takes-delivery-of-a350-xwb-powered-with-biofuel-m.html*](http://www.airbus.com/newsroom/press-releases/en/2017/11/china-airlines-takes-delivery-of-a350-xwb-powered-with-biofuel-m.html)).

6. China

Auto maker Volkswagen will invest nearly $12bn by 2025 in developing five electric car models for the Chinese market15 (15[*https://www.wsj.com/articles/volkswagen-plans-12-billion-electric-car-blitz-in-china-1510820168).China*](https://www.wsj.com/articles/volkswagen-plans-12-billion-electric-car-blitz-in-china-1510820168).China) is the largest vehicle market in the world and has aggressive targets for new energy models such as electric vehicles16 ( 16   [*https://www.cdp.net/en/articles/*](https://www.cdp.net/en/articles/) media/low-carbon-and-high-tech-put-auto-sector-in-flux).

7. Australia

Infigenprovides over 500MW of renewable energy. It possesses a minimal supply chain with 74% of products and services procured in Australia, while its Sydney office is powered by 100% renewable energy17 ( 17[*http://s3-ap-southeast-2.amazonaws.com/infigen/wp-content/uploads/2016/*](http://s3-ap-southeast-2.amazonaws.com/infigen/wp-content/uploads/2016/) 10/ 24101556/ESG-Report-2016.pdf).

8. Brazil

Saneparhas achieved universal water access for the citizens of southern Brazil's Paraná state and has provided more than 3,000,000 water connections in the country18 (18http://www. globallegalchronicle.com/companhia-de-saneamento-do-parana-sanepars-315-million-follow-on-equity-offering/ ).

9. Canada

Brookfield Renewable Partnersowns and operates one of the world's largest renewable power portfolios, including more than 215 hydroelectric facilities. It has over 10,700 MW of installed capacity19 (19[*https://renewableops.brookfield.com*](https://renewableops.brookfield.com)).

10. USA

NASDAQ-listedAtlantica Yield20 (20[*https://www.atlanticayield.com/export/sites/yield/content/*](https://www.atlanticayield.com/export/sites/yield/content/) galleries/downloads/news /20180117-Atlantica-Yield-joins-UN-Global-Compact.pdf) was the first public US yieldco to join the UN Global Compact and their assets generate over 1,400 MW of renewable energy21 (21   [*https://www.atlanticayield.com/web/en/company-overview/overview/*](https://www.atlanticayield.com/web/en/company-overview/overview/)).

11. South Africa

Terraform Globalowns three solar plants in South Africa, which provide a total generating capacity of over 66 MW22 (22 TerraForm Power & TerraForm Global Overview 2016 ).

The Portfolio Manager currently organises the Company's portfolio around four investment themes: i) clean energy production; ii) sustainable transport; iii) resource and energy efficiency; and iv) water and waste management.

Clean energy

Clean energy has the biggest share of the Company's portfolio compared with the other three themes, with over a third of holdings invested in this area. In total the seven clean energy companies in Menhaden's portfolio generated approximately 49 million MWh of electricity in 2017.

These include investments such as X-ELIO, a global leader in renewable energy which currently has 41 solar plants in operation across 12 countries and has built more 650 MW in solar photovoltaic plants23 (23[*https://www.x-elio.com/en/who-we-are/*](https://www.x-elio.com/en/who-we-are/)).

As renewable electricity production is significantly less water-intensive than traditional types of generation (such as a coal-fired plant), we also estimate Menhaden's share of these portfolio companies helped save over 90,000m3 water in 2017.

Sustainable transport

Planes and cars remain fundamental to the global economy and Menhaden is invested in transport companies with best-in-class approaches to fuel efficiency. For example, the Portfolio Manager has selected Airbus rather than a more fuel intensive rival such as Boeing to support fuel efficiency in the emissions-intensive aviation industry24 (24[*http://www.airbus.com/company/responsibility-sustainability/minimising-environmental-impact.html*](http://www.airbus.com/company/responsibility-sustainability/minimising-environmental-impact.html)).

By providing fuel efficient alternatives we calculate that Menhaden's share in its portfolio companies has helped save over four million litres of fuel in 2017.

Resource and energy efficiency

From factories to freight systems this theme covers a wide range of companies that improve energy efficiency or create emissions reduction products or services. One of Menhaden's new allocations in 2017 was in Brazilian agribusiness company,Terra Santa Agro, whose use of natural byproducts from the production process of animal food helped create significant energy savings25 ( 25http://http://[*www.terrasantaagro.com/conteudo\_eni.asp?idioma=1&conta=46&tipo=61556*](http://www.terrasantaagro.com/conteudo_eni.asp?idioma=1&conta=46&tipo=61556)).

Menhaden's portfolio-wide CO2 and other greenhouse gas emission savings in this field were over 40,000 tons of carbon emissions avoided in 2017, equivalent of taking over 27,000 cars off the road.

Waste & water management

This theme covers companies generating positive impacts from products or services that enable reductions in usage or volumes of water and waste, or finding smarter ways to manage water and waste. In 2017, two new additions to this theme were Brazilian water companiesCopasaandSanepar- both of which also use renewable energy widely in their operations.

Menhaden's share in its listed equity portfolio helps save over 90,000m3 of water and prevented around 260 tonnes of waste from being sent to landfill.

Investing in better water supplies

According to the UN two thirds of the world's population currently live in areas experiencing some significant water scarcity. This affects millions of people and businesses even in a water-abundant country like Brazil26 (26 UN World Water Development Report for 2017 ).

Yet water demand is also predicted to increase significantly over the coming decades, and this creates both a sustainable development requirement and a sound financial case for investment in high-quality water supply infrastructure.

This is why two notable additions to the Menhaden portfolio this year have been Brazilian firms Sanepar and Copasa, which specialise in the provision of services in water supply, sewage and solid waste. Both companies also use clean energy extensively. Copasa has an energy re-use process, and Sanepar purchases and uses electricity from renewable energy sources.

Sanepar, for example, has this year begun work to transform water infrastructure in the city of Ponta Grossa in Southern Brazil, including construction of a new reservoir. The investment will increase access to safe drinking water and will benefit over 150,000 people27 (  27https://subscriber. bnamericas.com/en/news/brazils-sanepar-launches-water-improvement-works?position= 1&aut=true&idioma=en).  Projects like this helped Sanepar record net income in excess of R$600m (US$190m) in 201728 (28[*http://www.4-traders.com/COMPANHIA-DE-SANEAMENTO-P-6496420*](http://www.4-traders.com/COMPANHIA-DE-SANEAMENTO-P-6496420)/ financials/).

Menhaden's contribution to the SDGs

The UN Sustainable Development Goals (SDGs) offer a global framework for measuring progress towards all aspects of sustainability. There is a strong business case for getting behind them too, with research showing that achieving the SDGs could create economic opportunities worth US$12 trillion a year by 203029 ( 29[*http://businesscommission.org/news/release-sustainable-business-can-unlock-at-least-us-12-trillion-in-new-market-value-and-repair-economic-system*](http://businesscommission.org/news/release-sustainable-business-can-unlock-at-least-us-12-trillion-in-new-market-value-and-repair-economic-system)).

This year therefore, we piloted some analysis with sustainability analysts, Impact Cubed, to see which SDGs Menhaden's portfolio companies offered the most contribution to. Their analysis found it was the following eight goals:

·         Clean water and sanitation

·         Affordable and clean energy

·         Responsible consumption and production

·         Climate action

·         Life below water

·         Life on land

·         Peace, justice and strong institutions

·         Partnerships for the goals

Governance

Board of Directors

Sir Ian Cheshire (Chairman)

Sir Ian Cheshire was the Group Chief Executive of Kingfisher plc from January 2008 until February 2015. Prior to that he was Chief Executive of B&Q Plc from June 2005. Before joining Kingfisher in 1998 he worked for a number of retail businesses including Sears plc where he was Group Commercial Director.

Sir Ian is the Chairman of Barclays UK, the ring-fenced retail bank, Chairman of Debenhams plc and Government lead non-executive director. He is a non-executive director of Barclays PLC and Barclays Bank PLC.

In addition, Sir Ian is Chair of the RSA Commission on food, farming and the countryside and President of the Business Disability Forum.

Sir Ian was knighted in the 2014 New Year Honours for services to Business, Sustainability and the Environment.

Duncan Budge

Duncan Budge is Chairman of Dunedin Enterprise Investment Trust plc, Artemis Alpha Trust plc, and a non-executive director of Lazard World Trust Fund (SICAF), Lowland Investment Company plc, Biopharma Credit plc and Asset Value Investors Ltd.

He was previously a director of J. Rothschild Capital Management from 1988 to 2012 and a director and chief operating officer of RIT Capital Partners plc from 1995 to 2011. Between 1979 and 1985 he was with Lazard Brothers & Co. Ltd.

Emma Howard Boyd

Emma Howard Boyd has spent her career working in financial services, initially in corporate finance, and then in fund management, specialising in sustainable investment and corporate governance.

Emma currently serves on various boards and advisory committees including the Environment Agency (Chair), the Environment Agency Pension Fund (Chair of Investment Committee), ShareAction (Chair of Trustees), the Aldersgate Group, the 30% Club and the Executive Board of The Prince's Accounting for Sustainability Project. She is an ex-officio board member of the Department for Environment, Food and ***Rural*** Affairs.

Previously a Director of Stewardship at Jupiter Asset Management, Emma was integral to the development of their reputation in the corporate governance and sustainability fields. This work included research and analysis on companies' environmental, social and governance ***performance***, engaging with companies at board level and public policy engagement.

Howard Pearce

Howard Pearce is the founder of HowESG Ltd, a specialist environmental, asset stewardship, and corporate governance consultancy business. His non-executive roles include independent Chair of the Bank of Montreal Global Asset Management (EMEA) Responsible Investment Advisory Council, independent Chair of the Boards of the Avon and Wiltshire Pension Funds, and Non-Executive Director of Response Global Media Limited, the publishers of responsible-investor.com (ESG and sustainable finance).

Previously he was a Board member and Chair of the Audit Committee of Cowes Harbour Commission, and a Trustee and Chair of the Investment and Audit Committees of the NHS 'Above and Beyond' charity. Between 2003 and 2013 Howard was the Head of the Environment Agency pension fund and a member of its Pensions and Investment Committee. Under his leadership, the fund won over 30 awards in the UK, Europe and globally for its financially and environmentally responsible investment, best practice fund governance, public reporting and e-communications. Prior to this, Howard held senior executive roles in the environment, water, leisure and e-publishing sectors.

Meeting Attendance

The number of scheduled meetings of the Board and its committees held during the year and each Director's attendance, is shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Type and number of meetings held in 2017** | **Board**  **(4)** | **Audit Committee**  **(3)** | **Management**  **Engagement**  **Committee**  **(1)** |
| Sir Ian Cheshire | 4 | N/A | 1 |
| Duncan Budge | 4 | 3 | 1 |
| Emma Howard Boyd | 3 | 2 | 1 |
| Howard Pearce | 4 | 3 | 1 |

In addition to the above, a number ofad hocBoard and committee meetings were held to consider matters such as the approval of regulatory announcements.

Directors' Interests

The Directors' beneficial interests in the Company's shares, together with those of their families, are set out below.

|  |  |  |
| --- | --- | --- |
|  | **Ordinary Shares of 1p each** |  |
|  | **31 December** | **31 December** |
|  | **2017** | **2016** |
| Sir Ian Cheshire | 115,000 | 115,000 |
| Duncan Budge | 10,000 | 10,000 |
| Emma Howard Boyd | 18,000 | 18,000 |
| Howard Pearce | 15,000 | 8,000 |
| **Total** | **158,000** | **151,000** |

No changes have been notified to the date of this report.

Directors' Report

The Directors present their annual report on the affairs of the Company together with the audited financial statements and the Independent Auditors' Report for the year ended 31 December 2017. Disclosures relating to ***performance***, future developments and risk management can be found within the ***Strategic*** Report.

Business and Status of the Company

The Company is registered as a public limited company in England and Wales (registered number 09242421) and is an investment company within the terms of Section 833 of the Companies Act 2006 (the "Act"). Its shares are traded on the main market of the London Stock Exchange, which is a regulated market as defined in Section 1173 of the Act.

The Company has received approval from HM Revenue & Customs as an authorised investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010. This approval is subject to there being no subsequent enquiry under corporation tax self-assessment. In the opinion of the Directors, the Company continues to direct its affairs so as to qualify for such approval.

Continuation of the Company

In accordance with the Company's Articles of Association, shareholders will have an opportunity to vote on the continuation of the Company at the 2020 Annual General Meeting and every five years thereafter.

Results and Dividends

The results attributable to shareholders for the year are shown on page 55. No dividends were declared during the year and the Directors have not recommended a final dividend for the year. Information on the Company's dividend policy is detailed in the Chairman's Statement.

Alternative ***Performance*** Measures

The Financial Statements (on pages 55 to 73) set out the required statutory reporting measures of the Company's financial ***performance***. In addition, the Board assesses the Company's ***performance*** against a range of criteria which are viewed as particularly relevant for investment trusts, which are summarised on page 2 and explained in greater detail in the ***Strategic*** Report, under the heading 'Key ***Performance*** ***Indicators***' on page 16.

Substantial Interests in Share Capital

The Company was aware of the following substantial interests in the voting rights of the Company as at 28 February 2018, the latest practicable date before publication of the Annual Report.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **28 February 2018** |  | **31 December 2017** |  |  |
|  | **Number** | **% of** | **Number** | **% of** |  |
|  | **of** | **issued** | **of** | **issued** |  |
|  | **Ordinary** | **share** | **Ordinary** | **share** |  |
| **Shareholder** | **Shares** | **capital** | **Shares** | **capital** |  |
| Cavenham Private Equity and Directs | 12,500,000 | 15.6 | **12,500,000** | **15.6** |  |
| Generali Versicherung | 6,000,000 | 7.5 | **6,000,000** | **7.5** |  |
| Kendall Family Investments | 5,000,000 | 6.3 | **5,000,000** | **6.3** |  |
| Aachen Muenchener Versicherung | 4,000,000 | 5.0 | **4,000,000** | **5.0** |  |
| UBS Wealth Management | 3,327,293 | 4.2 | **3,472,293** | **4.3** |  |
| Ravenscroft | 3,242,500 | 4.1 | **3,327,500** | **4.2** |  |
| Santino Global Assets | 3,000,000 | 3.8 | **3,000,000** | **3.8** |  |
| Laxey Partners | 2,798,000 | 3.5 | **2,798,000** | **3.5** |  |
| Rathbones | 2,750,520 | 3.4 | **2,777,020** | **3.5** |  |
|  |  |  |  |  |  |

As at 31 December 2017 and to the date of this report, the Company had 80,000,001 Ordinary Shares in issue.

Capital Structure

The Company's capital structure at the end of the year under review and to the date of this report was comprised of 80,000,001 Ordinary Shares of 1p nominal value each.

The voting rights of the Ordinary Shares on a poll are one vote for each share held.

No shares were issued or repurchased during the year and to the date of this report.

There are no:

·         restrictions on transfer of, or in respect of the voting or dividend rights of, the Company's Ordinary Shares;

·         agreements, known to the Company, between holders of securities regarding the transfer of Ordinary Shares; or

·         special rights with regard to control of the Company attaching to the Ordinary Shares.

At the end of the year under review and to the date of this report, the Directors had Shareholder authority to issue a further 919,999,999 Ordinary Shares and to repurchase no more than 14.99% of the Company's issued share capital per annum. These authorities will expire on 1 July 2020 unless previously revoked, varied or renewed by the Company in a general meeting.

Going Concern

The content of the investment portfolio, trading activity, the Company's cash balances and revenue forecasts, and the trends and factors likely to affect the Company's ***performance*** are reviewed and discussed at each Board meeting. The Directors, having made relevant enquiries, are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as a significant proportion of the Company's holdings are readily realisable and, accordingly, the Company has adequate financial resources to continue in operation for at least the next 12 months.

Beneficial Owners of Shares - Information Rights

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar or to the Company directly.

Greenhouse Gas Emissions

As the Board has engaged external firms to undertake the investment management, corporate secretarial and custodial activities of the Company, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (***Strategic*** Report and Directors' Reports) Regulations 2013.

The Company produces an annual impact report which is included within the Annual Report and also published separately on[*http://www.menhaden.com*](http://www.menhaden.com). The impact report provides further detail on the environmental purpose and impact of the Company.

Directors' & Officers' Liability Insurance Cover

Directors' and officers' liability insurance cover was maintained by the Company during the year ended 31 December 2017. It is intended that this policy will continue for the year ending 31 December 2018 and subsequent years.

Directors' Indemnities

During the year under review and to the date of this report, indemnities were in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his or her role as a Director of the Company. The Directors are also indemnified against the costs of defending criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Other Statutory Information

The following information is disclosed in accordance with the Companies Act 2006:

·         the rules on the appointment and replacement of directors are set out in the Company's articles of association (the "Articles"). Any change to the Articles would be governed by the Companies Act 2006.

·         subject to the provisions of the Companies Act 2006, to the Articles, and to any directions given by special resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. The powers shall not be limited by any special powers given to the Directors by the Articles and a meeting of the Directors at which a quorum is present may exercise all the powers exercisable by the Directors. The Directors' powers to issue and buy back shares, in force at the end of the year, are set out above.

·         there are no agreements:

(i)       to which the Company is a party that might affect its control following a takeover bid; and/or

(ii)      between the Company and its directors concerning compensation for loss of office.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

Common Reporting Standard (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the Company to provide certain additional details to HMRC in relation to certain shareholders. The reporting obligation began in 2016 and is an annual requirement. The Company's registrar, Link Asset Services, has been engaged to collate such information and file the reports with HMRC on behalf of the Company.

Political Donations

The Company has not and does not intend to make any political donations.

Whistleblowing Policy

As the Company has neither executive directors nor employees, a formal whistleblowing policy has not been adopted. However, the Board has agreed a procedure by means of which any directors or employees of external service providers can bring to the attention of the Chairman matters of concern to them.

Disclosure of Information to Auditors

The Directors at the time of approving the Directors' Report are listed above. Each Director in office at the date of this report confirms that:

·         to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and

·         each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Annual General Meeting

The Company's Annual General Meeting ("AGM") will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Tuesday, 22 May 2018 at 12 noon.

The Board considers that the proposed resolutions are in the best interests of the shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the resolutions to be proposed at the forthcoming AGM, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board

Frostrow Capital LLP

Company Secretary

23 March 2018

Statement of Directors' Responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year. The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. In preparing these financial statements, the Directors have:

·         selected suitable accounting policies and applied them consistently;

·         made judgements and estimates that are reasonable and prudent;

·         followed applicable UK accounting standards; and

·         prepared the financial statements on a going concern basis.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the FCA.

The financial statements are published on the Company's website[*http://www.menhaden.comand*](http://www.menhaden.comand) via Frostrow'swebsite   [*http://www.frostrow.com*](http://www.frostrow.com). The maintenance and integrity of these websites, so far as it relates to the Company, is the responsibility of Frostrow. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of these websites and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on these websites. Visitors to the websites need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Responsibility Statement of the Directors in respect of the Annual Report

The Directors, whose details can be found above, confirm to the best of their knowledge that:

·         the financial statements within this Annual Report, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and the return for the year ended 31 December 2017; and

·         the Chairman's Statement, ***Strategic*** Report and the Directors' Report include a fair review of the information required by 4.1.8R to 4.1.11R of the FCA's Disclosure and Transparency Rules.

The Directors consider that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position, ***performance***, business model and strategy.

On behalf of the Board

Sir Ian Cheshire

Chairman

23 March 2018

Corporate Governance Statement

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders and the Financial Reporting Council has confirmed that by following the AIC Code and the AIC Guide, boards of investment companies will meet their obligations in relation to the UK Corporate Governance Code and paragraph 9.8.6 of the UK Listing Rules.

The AIC Code and the AIC Guide can be viewed on the AIC's website[*http://www.theaic.co.ukand*](http://www.theaic.co.ukand) the UK Code can be viewed on the Financial Reporting Council website   [*http://www.frc.org.uk*](http://www.frc.org.uk).

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below:

The UK Corporate Governance Code includes certain provisions relating to:

·         the role of the chief executive;

·         executive directors' remuneration; and

·         the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. Therefore the Company has not reported further in respect of these provisions.

The Board and Committees

Responsibility for effective governance lies with the Board. The governance framework of the Company reflects the fact that as an externally managed investment company, it has no employees and outsources portfolio management services to Menhaden Capital Management LLP and risk management, company management, company secretarial, administrative and marketing services to Frostrow Capital LLP.

The Board

Chairman - Sir Ian Cheshire

Three additional non-executive Directors, all considered independent.

Key roles and responsibilities:

-     to provide leadership and set strategy within a framework of prudent effective controls which enable risk to be assessed and managed;

-     to ensure that a robust corporate governance framework is implemented; and

to challenge constructively and scrutinise ***performance*** of all outsourced activities.

Management Engagement Committee

Chairman - Sir Ian Cheshire

All Directors

Key roles and responsibilities:

to review regularly the contracts, the ***performance*** and the remuneration of the Company's principal service providers.

Audit Committee

Chairman - Howard Pearce

Duncan Budge, Emma Howard Boyd

Key roles and responsibilities:

-     to review the Company's financial reports;

-     to oversee the risk and control environment; and

to review the ***performance*** of the Company's external Auditors.

Copies of the full terms of reference, which clearly define the responsibilities of each committee can be obtained from the Company Secretary, will be available for inspection at the Annual General Meeting, and can be found on the Company's website at[*http://www.menhaden.com*](http://www.menhaden.com).

The Directors have decided that, given the size of the Board, it is unnecessary to form separate remuneration and nomination committees; the duties that would fall to those committees are carried out by the Board as a whole.

Board of Directors

Directors' Independence

The Board consists of four non-executive Directors, each of whom is independent of Frostrow and Menhaden Capital Management LLP ("MCM"). No member of the Board has been an employee of the Company, Frostrow, MCM or any of its service providers. Accordingly, the Board considers that all the Directors are independent and there are no relationships or circumstances which are likely to affect or could appear to affect their judgement.

Board Evaluation

During the course of 2017 the ***performance*** of the Board, its committees and individual Directors (including each Director's independence) was evaluated through a formal assessment process led by the Chairman.

The Chairman is satisfied that the structure and operation of the Board continues to be effective and relevant and that there is a satisfactory mix of skills, experience, length of service and knowledge of the Company.

All Directors will submit themselves for annual re-election by shareholders. Following the evaluation process, the Board recommends that shareholders vote in favour of their re-election at the Annual General Meeting.

Policy on Director Tenure

The Board subscribes to the view expressed within the AIC Code that long-serving directors should not be prevented from forming part of an independent majority. It does not consider that a directors' tenure necessarily reduces his/her ability to act independently. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed. In view of its non-executive nature, the Board considers that it is not appropriate for the Directors to be appointed for a specified term, although new Directors will be appointed with the expectation that they will serve for a minimum of three years, subject to shareholder approval.

Appointments to the Board

The rules governing the appointment and replacement of directors are set out in the Company's Articles of Association. Where the Board appoints a new director during the year, that director will stand for election by shareholders at the next Annual General Meeting. When considering new appointments, the Board will seek to add persons with complementary skills or skills and experience which fill any gaps in the Board's knowledge and who can devote sufficient time to the Company to carry out their duties effectively. The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates. The Board recognises the value of diversity in the composition of the Board and accordingly, the Board will ensure that a diverse group of candidates is considered should any vacancies arise.

Subject to there being no conflict of interest, all Directors are entitled to vote on candidates for the appointment of new Directors and on the recommendation for shareholders' approval for the Directors seeking re-election at the Annual General Meeting. The Chairman will not chair the meeting when the Board is dealing with the appointment of his successor.

Induction/Development

New appointees to the Board will be provided with a full induction programme. The programme will cover the Company's investment strategy, policies and practices. New directors will also be given key information on the Company's regulatory and statutory requirements as they arise including information on the role of the Board, matters reserved for its decision, the terms of reference for the Board committees, the Company's corporate governance practices and procedures and the latest financial information. Directors are encouraged to participate in training courses where appropriate.

Conflicts of Interest

In line with the Companies Act 2006, the Board has the power to authorise any potential conflicts of interest that may arise and impose such limits or conditions as it thinks fit. A register of interests and potential conflicts is maintained and is reviewed at every Board meeting to ensure all details are kept up to date. It was resolved at each Board meeting during the year under review that there were no direct or indirect interests of a Director that conflicted with the interests of the Company. Appropriate authorisation will be sought prior to the appointment of any new director or if any new conflicts or potential conflicts arise.

Exercise of Voting Powers

The Board has delegated authority to MCM (as Portfolio Manager) to vote the shares owned by the Company that are held on its behalf by its Custodian.

The Board has instructed that the Portfolio Manager submit votes for such shares wherever possible and practicable. The Portfolio Manager may refer to the Board on any matters of a contentious nature.

Further details of the Company's voting record can be found in the Portfolio Manager's Stewardship Report on the Company's website[*http://www.menhaden.com*](http://www.menhaden.com).

Anti-Bribery and Corruption Policy

The Board has adopted a zero tolerance approach to instances of bribery and corruption. Accordingly it expressly prohibits any Director or associated persons when acting on behalf of the Company from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private, in the United Kingdom or abroad to secure any improper benefit from themselves or for the Company.

The Board applies the same standards to its service providers in their activities for the Company.

A copy of the Company's Anti Bribery and Corruption Policy can be found on its website at[*http://www.menhaden.com*](http://www.menhaden.com). The policy is reviewed regularly by the Audit Committee.

Prevention of the Facilitation of Tax Evasion

During the year and in response to the implementation of the Criminal Finances Act 2017, the Board adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A copy of the Company's policy on preventing the facilitation of tax evasion can be found on the Company's website[*http://www.menhaden.com*](http://www.menhaden.com). The policy is reviewed annually by the Audit Committee.

Independent Professional Advice

The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may seek independent professional advice at the Company's expense.

The Company has also arranged Directors' and Officers' Liability Insurance which provides cover for legal expenses under certain circumstances. This was in force for the entire period under review and up to the date of this report.

Company Secretary

The Directors have access to the advice and services of a Company Secretary through its appointed representative which is responsible to the Board for ensuring that the Board procedures are followed and that the Company complies with applicable rules and regulations. The Company Secretary is also responsible for ensuring good information flows between all parties.

Board Meetings and Relations with the Investment Manager

The Board is responsible for strategy and reviews the continued appropriateness of the Company's investment objective, strategy and investment restrictions at each meeting. The Board meets regularly throughout the year and representatives from Frostrow and MCM are in attendance at each Board meeting to address questions on specific matters and to seek approval for specific transactions which the AIFM is required to refer to the Board. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.

The primary focus at regular Board meetings is the review of key investment and financial data, revenue and expenses projections, analyses of asset allocation, transactions and ***performance*** comparisons, share price and net asset value ***performance***, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues.

The Board reviews the discount or premium to net asset value per share of the Company's share price at each Board meeting and considers the effectiveness of the Company's marketing and communication strategies, as well as any recommendations on share buybacks and issuance.

The Board has reviewed the Portfolio Manager's Statement of Compliance with the UK Stewardship Code, which is available on the FRC website[*http://www.frc.org.uk*](http://www.frc.org.uk).

Shareholder Communications

Shareholder Relations

Representatives of Frostrow and MCM regularly meet with institutional shareholders and private client asset managers to discuss strategy, to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting.

An analysis of the Company's shareholder register is provided to the Directors at each Board meeting. The Board receives marketing reports from Frostrow. The Board reviews and considers the marketing plans on a regular basis. Reports from the Company's broker are submitted to the Board on investor sentiment and industry issues.

Shareholder Communications

The Company aims to provide shareholders with a full understanding of the Company's investment objective, policy and activities, its ***performance*** and the principal investment risks by means of informative annual and half yearly reports. This is supplemented by the monthly publication through the London Stock Exchange, of the net asset value of the Company's shares.

The Company's website ([*http://www.menhaden.com*](http://www.menhaden.com)) is regularly updated with monthly fact sheets and provides useful information about the Company, including the Company's financial reports and announcements.

All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the AIFM, the Portfolio Manager, the Auditor, legal advisers and the Corporate Stockbroker.

The Board supports the principle that the AGM be used to communicate with all investors. It is the intention that the full Board will attend the AGM under the chairmanship of the Chairman of the Board. All shareholders are encouraged to attend the AGM, where they are given the opportunity to question the Chairman, the Board and representatives of the AIFM and the Portfolio Manager. The Portfolio Manager will make a presentation to shareholders covering the investment ***performance*** and strategy of the Company at the forthcoming AGM. Details of proxy votes received in respect of each resolution will be made available to shareholders at the meeting and will also be published on the Company's website,[*http://www.menhaden.com*](http://www.menhaden.com).

The Directors welcome the views of all shareholders and place considerable importance on communications with them. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company Secretary at the offices of Frostrow.

Significant Holdings and Voting Rights

Details of the substantial interests in the Company's Shares, the voting rights of the shares and the Directors' authorities to issue and repurchase the Company's shares, are set out in the Directors' Report.

Nominee Share Code

Where the Company's shares are held via a nominee company name, the Company undertakes:

·         to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance; and

·         to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available.

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meeting.

By order of the Board

Frostrow Capital LLP

Company Secretary

23 March 2018

Audit Committee Report

Statement from the Chairman

I am pleased to present the Audit Committee report for the year ended 31 December 2017. The Committee met three times during the year under review.

The role of the Committee is to ensure that shareholder interests are properly protected in relation to the application of financial reporting and internal control principles and to assess the effectiveness of the audit. The Committee's role and responsibilities are set out in full in its terms of reference which are available on request from the Company Secretary and can be seen on the Company's website ([*http://www.menhaden.com*](http://www.menhaden.com)). A summary of the Committee's main responsibilities and how it has fulfilled them is set out below.

Composition

The Audit Committee comprises Howard Pearce (Chairman of the Committee), Duncan Budge and Emma Howard Boyd whose biographies are set out above. The Committee considers that each member has recent and relevant experience in accounting, auditing or financial reporting and that the Committee as a whole has experience relevant to the investment trust industry.

Responsibilities

The Committee's main responsibilities during the year under review were:

1.        To review the Company's annual and half-year reports. In particular, the Audit Committee has considered whether the annual report was fair, balanced and understandable, allowing shareholders to easily assess the Company's strategy, business model, financial position and ***performance***. This review also included scrutiny of the valuation of investments, accounting policies and other significant reporting matters.

2.        To review the risk management and internal control processes of the Company and its key service providers. Further details are provided in the Internal Controls and Risk Management section.

3.        To recommend the appointment of the external Auditors, agreeing the scope of their work and their remuneration, and reviewing their independence. During the year the nature and scope of the third audit together with the audit plan were considered by the Committee. The Committee concluded that the appropriate areas of audit risk relevant to the Company had been identified and that there were suitable audit procedures in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements.

4.        To consider any non-audit work to be carried out by the Auditors. The Audit Committee will consider the extent and nature of any non-audit work performed by the Auditors and seek assurance that such work does not impinge on their independence and is a cost effective way to operate.

5.        To consider the need for an internal audit function. Since the Company delegates its day to day operations to third parties and has no employees, the Committee determined that there is no requirement for such a function. The Committee considers the need for such a function on an annual basis.

Meetings and Business

The following matters were dealt with at the Committee's meetings:

March 2017

·         Review of the Committee's terms of reference;

·         Review of the Company's annual results;

·         Approval of the Annual Report and Impact Report;

·         Review of risk management, internal controls and compliance;

·         Review of the outcome and effectiveness of the audit and any matters arising; and

·         Review of the need for an internal audit function.

September 2017

·         Review of the Company's non-audit services policy;

·         Review of the Company's half yearly results;

·         Approval of the Half Yearly Report and financial statements;

·         Review of risk management, internal controls and compliance;

·         Review and approval of formal audit tender guidelines; and

·         Review of the Company's anti bribery and corruption policy and the measures put in place by the Company's service providers.

November 2017

·         Review of the Auditors' plan and terms of engagement for the 2018 audit; and

·         Review of risks, internal controls and compliance.

***Performance*** Evaluation

The Committee reviewed the results of the annual evaluation of its ***performance*** at the November 2017 Board meeting. As part of the evaluation, the Committee reviewed the following:

·         the composition of the Committee;

·         the ***performance*** of the Committee Chairman;

·         how the Committee had monitored compliance with corporate governance regulations;

·         how the Committee had considered the quality and appropriateness of financial accounting and reporting;

·         the Committee's review of significant risks and internal controls; and

·         the Committee's assessment of the independence, competence and effectiveness of the Company's eternal auditors.

It was concluded that the Committee was performing satisfactorily and there were no formal recommendations made to the Board.

Internal Controls and Risk Management

The Board has overall responsibility for risk management and for the review of the internal controls of the Company, undertaken in the context of its investment objective.

A summary of the principal risks facing the Company is provided in the ***Strategic*** Report.

The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in light of the following factors:

·         the nature of the Company, with all management functions outsourced to third party service providers;

·         the nature and extent of risks which it regards as acceptable for the Company to bear within its overall investment objective;

·         the threat of such risks becoming a reality; and

·         the Company's ability to reduce the incidence and impact of risk on its ***performance***.

Against this background, a risk matrix has been developed which covers all key risks that the Company faces, the likelihood of their occurrence and their potential impact, how these risks are monitored and mitigating controls in place.

The Board has delegated to the Audit Committee responsibility for the review and maintenance of the risk matrix and it reviews, in detail, the risk matrix each time it meets, bearing in mind any changes to the Company, its environment or service providers since the last review. Any significant changes to the risk matrix are discussed with the whole Board. There were no changes to the Company's risk management processes during the year and no significant failings or weaknesses were identified from the Committee's most recent risk review.

The Committee reviews internal controls reports from its principal service providers on an annual basis. The Committee is satisfied that appropriate systems have been in place for the year under review and up to the date of approval of this report.

Significant Reporting Matters

The Committee considered the significant issues in respect of the Annual Report including the financial statements. The table below sets out the key areas of risk identified and also explains how these were addressed.

|  |  |  |
| --- | --- | --- |
| **Significant risk** |  | **How the risk was addressed** |
| Valuation, existence and ownership of investments, in particular unquoted investments |  | The valuation of investments is undertaken in accordance with the accounting policies in note 1 to the financial statements. Controls are in place to ensure that valuations are appropriate and existence is verified through reconciliations with the Depositary. The Committee discussed with Frostrow and the Investment Committee the process by which the unquoted investments are valued, and ownership documented, including the reconciliation process with the Depositary. They also reviewed the valuation of the unquoted investments as at 31 December 2017, including the level of any discounts to net asset value applied to the unquoted valuations, to ensure that they were carried out in accordance with the accounting policy set out in note 1(b). Having reviewed the valuations, the Committee confirmed that they were satisfied that the investments had been valued correctly. |
| Risk of revenue being misstated due to the improper recognition of revenue. |  | The Committee took steps to gain an understanding of the processes in place to record investment income and transactions. In addition, the Committee reviewed the treatment of fixed income returns on debt securities. |

Financial Statements

The Board has asked the Committee to confirm that in its opinion the Board can make the required statement that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, ***performance***, business model and strategy. The Committee has given this confirmation on the basis of its review of the whole document, underpinned by involvement in the planning for its preparation and review of the processes to assure the accuracy of factual content.

The Committee is satisfied that it is appropriate for the Board to prepare the financial statements on the going concern basis.

The Audit Committee also reviewed the financial position and principal risks of the Company in connection with the Board's statement on the longer-term viability of the Company, which is set out in the ***Strategic*** Report.

External Auditors

In addition to the reviews undertaken at Committee meetings, I met with Grant Thornton UK LLP ("Grant Thornton") on 26 February 2018 to discuss the outcome of the audit and the draft Annual Report. The Committee also met with Grant Thornton without Frostrow or the Portfolio Manager being present to discuss the outcome of the audit on 7 March 2018.

In order to fulfil the Committee's responsibility regarding the independence of the Auditors, the Committee reviewed:

·         the senior audit personnel in the audit plan for the year;

·         the Auditors' arrangements concerning any conflicts of interest; and

·         the statement by the Auditors that they remain independent within the meaning of the regulations and their professional standards.

In order to consider the effectiveness of the audit process, we reviewed:

·         the Auditors' execution and fulfilment of the agreed audit plan and the audit partner's leadership of the audit team;

·         the quality of the report arising from the audit itself and the communications from the Auditors; and

·         feedback from Frostrow on the conduct of the audit.

The Committee is satisfied with the Auditors' independence and the effectiveness of the audit process, together with the degree of diligence and professional scepticism brought to bear.

Non-Audit Services

The Auditor did not carry out any non-audit work during the year. The Audit Committee will monitor the level of non-audit work carried out by the Auditor, if any, and seeks assurances from the Auditor that they maintain suitable policies and procedures ensuring independence, and monitors compliance with the relevant regulatory requirements on an annual basis.

The Company operates on the basis whereby the provision of non-audit services by the Auditor is only permissible where no conflicts of interest arise, the service is not expressly prohibited by audit legislation, where the independence of the Auditor is not likely to be impinged by undertaking the work and the quality and the objectivity of both the non-audit work and audit work will not be compromised. In particular, non-audit services may be provided by the Auditor if they are inconsequential or would have no direct effect on the Company's financial statements and the audit firm would not place significant reliance on the work for the purposes of the statutory audit.

Auditors' Reappointment

Grant Thornton have been the appointed external Auditors since the Company launched in 2015. Grant Thornton carried out the audit for the period ending 31 December 2015 and the years ended 31 December 2016 and 2017, and were considered independent by the Board.

Marcus Swales has been the audit partner for the past two years, taking over from Julian Bartlett who oversaw the first audit.

As a public company listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union. The Company will put the external audit out to tender at least every 10 years and change auditor at least every 20 years. The Committee will, however, continue to consider annually the need to go to tender for audit quality or independence reasons and during the year the Audit Committee adopted formal audit tender guidelines to govern the audit tender process.

The Committee conducted a review of the ***performance*** of the Auditors during the audit period and concluded that ***performance*** was satisfactory and there were no grounds for change.

Grant Thornton have indicated their willingness to continue to act as Auditors to the Company for the forthcoming year and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Howard Pearce

Chairman of the Audit Committee

23 March 2018

Directors' Remuneration Report

Statement from the Chairman

I am pleased to present the Directors' Remuneration Report to Shareholders. An ordinary resolution for the approval of this report will be put to shareholders at the Company's forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain disclosures provided in this report. Where disclosures have been audited, they are indicated as such and the Auditors' opinion is included in their report to shareholders.

The Board considers the framework for the remuneration of the Directors on an annual basis. It reviews the ongoing appropriateness of the Company's remuneration policy and the individual remuneration of the Directors by reference to the activities and particular complexities of the Company and in comparison with other companies of a similar structure and size. This is in-line with the AIC Code.

The Board as a whole considered the level of Directors' fees at their meeting in November 2017 and determined that it was appropriate to maintain them at their current levels for 2018.

The Directors are remunerated exclusively by fixed fees in cash and do not receive bonus payments or pension contributions from the Company, hold options to acquire shares in the Company, or other benefits.

All Directors are entitled to the reimbursement of reasonable out of pocket expenses incurred by them in order to perform their duties as directors of the Company.

No advice from remuneration consultants was received during the period under review.

As noted in the ***Strategic*** Report, all of the Directors are non-executive and therefore there is no Chief Executive Officer. The Company does not have employees. Therefore there is no CEO or employee information to disclose.

Single total figure of remuneration (audited)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Date of |  | **2017** |  |  | 2016 |  |
|  | appointment |  | **Taxable** |  |  | Taxable |  |
| Director | to the Board | **Fees** | **expenses1** | **Total** | Fees | expenses1 | Total |
| Sir Ian Cheshire | 3 October 2014 | **50,000** | **-** | **50,000** | 50,000 | - | 50,000 |
| Duncan Budge | 3 October 2014 | **40,000** | **-** | **40,000** | 40,000 | - | 40,000 |
| Emma Howard Boyd | 3 October 2014 | **40,000** | **-** | **40,000** | 40,000 | - | 40,000 |
| Howard Pearce | 3 October 2014 | **40,000** | **2,558** | **42,558** | 40,000 | 3,744 | 43,744 |
| **TOTAL** |  | **170,000** | **2,558** | **172,558** | **170,000** | **3,744** | **173,744** |

1 Under revised HMRC guidance, travel expenses and other out of pocket expenses are considered taxable benefits for UK-based directors. The expenses in this column comprise out of pocket travel expenses together with the associated tax liability incurred by the Directors in the ***performance*** of their duties.

No payments have been made to any former directors. It is the Company's policy not to pay compensation upon leaving office for whatever reason. None of the fees referred to in the above table were paid to any third party in respect of the services provided by any of the Directors.

Directors' Interests in the Company's Shares (audited)

|  |  |  |
| --- | --- | --- |
|  | **Ordinary Shares** | Ordinary Shares |
|  | **of 1p each** | of 1p each |
|  | **as at** | as at |
|  | **31 Dec 2017** | 31 Dec 2016 |
| Sir Ian Cheshire | **115,000** | 115,000 |
| Duncan Bridge | **10,000** | 10,000 |
| Emma Howard Boyd | **18,000** | 18,000 |
| Howard Pearce | **15,000** | 8,000 |
| **Total** | **158,000** | **151,000** |

No changes have been notified to the date of this report.

The Company does not have share options or a share scheme, and does not operate a pension scheme. None of the Directors are required to own shares in the Company.

***Performance***

A graph in the annual report shows the total shareholder return of the Company since its launch on 31 July 2015 against the total return of the MSCI World Total Return Index.

This report is required to include a table showing actual expenditure by the Company on remuneration and distributions to shareholders for the current and prior year. However, as the Directors have not yet declared or recommended payment of a dividend, and as the Company has not repurchased any of its shares, there is no such information to include.

Statement of Voting at the AGM

At the Annual General Meeting held in May 2017 the results in respect of the resolution to approve the Directors' Remuneration Report were as follows:

|  |  |  |
| --- | --- | --- |
| Votes cast | **Votes cast** | Votes |
| for | **against** | withheld |
| 33,122,809 | **0** | 0\* |
| 100% | **0%** |  |

\* Votes withheld are not votes by law and are therefore not counted in the calculation of votes for or against a resolution.

The results in respect of the resolution to approve the Director's Remmuneration Policy (at the AGM held in May 2016) were as follows:

|  |  |  |
| --- | --- | --- |
| Votes cast | **Votes cast** | Votes |
| for | **against** | withheld |
| 33,122,809 | **0** | 0\* |
| 100% | **0%** |  |

\* Votes withheld are not votes by law and are therefore not counted in the calculation of votes for or against a resolution.

By order of the Board

Sir Ian Cheshire

Chairman

23 March 2018

Directors' Remuneration Policy

The Company's remuneration policy is that the remuneration of each Director should be commensurate with the duties, responsibilities and time commitment of each respective role and consistent with the requirement to attract and retain directors of appropriate quality and experience. The remuneration should also be comparable to that of investment trusts of similar size and structure.

Directors are remunerated in the form of fixed fees payable monthly in arrears. There are no long or short-term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the Directors' ***performance***, either individually or collectively.

The Directors' remuneration is determined within the limits set out in the Company's Articles of Association. The present limit is £500,000 in aggregate per annum.

It is the Board's intention that the remuneration policy will be considered by shareholders at the annual general meeting at least once every three years. If, however, the remuneration policy is varied, shareholder approval will be sought at the AGM following such variation. The Board will formally review the remuneration policy at least once a year to ensure that it remains appropriate.

This policy was last approved by Shareholders at the AGM held in 2016. Accordingly, an ordinary resolution for the approval of this policy will next be considered by shareholders at the Annual General Meeting to be held in 2019. It is intended that this policy will remain in place for the following financial year and subsequent financial periods.

No communications have been received from shareholders regarding Directors' remuneration. The Board will consider any comments received from shareholders on the remuneration policy.

This policy, together with the Directors' letters of appointment, may be inspected at the Company's registered office.

The current and projected Directors' fees for 2017 and 2018 are shown in the table below. The Company does not have any employees.

Directors' Fees Current and Projected

|  |  |  |
| --- | --- | --- |
|  |  | **Total** |
|  | Fees (£) | **Fees (£)** |
|  | 2018 | **2017** |
| Sir Ian Cheshire | 50,000 | **50,000** |
| Duncan Budge | 40,000 | **40,000** |
| Howard Pearce | 40,000 | **40,000** |
| Emma Howard Boyd | 40,000 | **40,000** |
|  | 170,000 | **170,000** |

Any new director appointed to the Board will, under current remuneration levels, receive a fee of £25,000 per annum. Directors who serve on the Audit Committee receive an additional fee of £15,000 per annum. The Chairman receives an additional fee of £25,000 per annum.

All Directors are non-executive, appointed under the terms of letters of appointment and none has a service contract. The terms of their appointment provide that Directors shall retire and be subject to election at the first annual general meeting after their appointment and to re-election every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

Independent Auditor's Report to the Members of Menhaden Capital PLC

Our opinion on the financial statements is unmodified

We have audited the financial statements of Menhaden Capital PLC (the 'Company') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

·         give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its net return for the year then ended;

·         have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

·         have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

·         the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

·         the directors' confirmation, set out in the annual report, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future ***performance***, solvency or liquidity;

·         the directors' statement, set out in the financial statements, about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

·         whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

·         the directors' explanation, set out in the annual report, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

·         Overall materiality £724,000, which represents approximately 1% of the Company's net assets

·         Key audit matters were identified as valuation, existence and ownership of quoted and unquoted investments, and completeness and occurrence of investment income

·         Our audit approach was a risk based substantive audit focused on investments at the year end and investment income recognised during the year. There was no change in our approach from prior year

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter: Valuation, existence and ownership of unquoted and quoted investments

The Company's investement objective is to generate long-term shareholders returns, mainly in the form of capital growth.

This objective is pursued through a portfolio comprising of quoted and unquoted holdings.

As at the year end, the Company holds a small number of significant holdings in unquoted investments and number of quoted investments.

The investment portfolio at the year end had a carrying value of £64m, of which £43m of investments were listed on recognised stock exchanges, and £0.5m were held in the form of derivative financial instruments.

As different valuation approaches are applied to the different types of investments, there are risks that the investment valuation recorded in the Statement of Financial Position may be misstated. Also, there is a risk that investments recorded might not, exist or might not be owned by the Company.

We therefore identified valuation, existence and ownership of investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit:

Unquoted investments

Our audit work included, but was not restricted to:

·         understanding management's process to value unquoted investments through discussions with the management and examination of control reports on third party administrators and assessing whether the accounting policy for unquoted investments is in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice ('SORP') issued by Association of Investment Companies ('AIC');

·         considering whether the techniques applied for valuing unquoted investments were in accordance with published guidance, principally the International Private Equity and Venture Capital Valuation Guidelines. This was done through obtaining and reviewing the investment valuation policies of the private equity funds, review of the fund's latest available audited financial statements, review of the fund's latest quarterly reports and discussion with the fund's management where applicable;

·         agreeing the valuation of unquoted investments to year end fair values as reported in valuation statements received directly from the investee funds; and

·         substantively testing a sample of additions and disposals of unquoted investments during the year by agreeing such transactions to bank statements and notifications from the investee funds.

Quoted investments

Our audit work included, but was not restricted to:

·         understanding management's process to value quoted investments through discussions with the management and examination of control reports on third party administrators and assessing whether the accounting policy for quoted investments is in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice and the SORP issued by the AIC;

|  |  |
| --- | --- |
|  | ·          agreeing the valuation of quoted investments to an independent source of market prices and nominal holdings to confirmation from the custodian in order to obtain comfort over existence and ownership of investments; and  ·          substantively testing a sample of additions and disposals of quoted investments during the year by agreeing such transactions to list of trade confirmations and bank statements as applicable.  The Company's accounting policy on investments is shown in note 1(b) to the financial statements and related disclosures are included in note 7. The Audit Committee identified valuation and ownership of the Company's investments as a significant issue in its report on page 37, where the Committee also described the action that it has taken to address this issue.  *Key observations*  Our testing did not identify any material misstatements in the valuation of the Company's investment portfolio as at the year end nor were any issues noted with regards to the existence or the Company's ownership of the underlying investments at the year end. |

Key Audit Matter: Completeness and occurrence of investment income

The Company aims to provide long-term shareholder returns by investing in businesses and opportunities delivering or benefiting from the efficient use of energy and resources. Income from investments is a significant, material item in the income statement. The Company measures ***performance*** on a total return basis and investment income is one of the significant components of this ***performance*** measure in the Income Statement.

Under International Standard on Auditing (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition.

We therefore identified completeness and occurrence of investment income as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit:

Our audit work included, but was not restricted to:

·         assessing whether the Company's accounting policy for revenue recognition is in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice and the AIC SORP and testing its consistent application on revenue recognised during the year;

·         substantively testing income transactions to assess if they were recognised in accordance with the policy;

·         for investments held during the year, obtaining the ex-dividend dates and rates for dividends declared during the year from an independent source and agreeing the expected dividend entitlements to those recognised in the Income Statement and agreeing dividend income recognised by the Company to an independent source. For unquoted investment this was achieved by obtaining distribution notices issued during the year directly from the investee funds; and

·         assessing the categorisation of corporate actions and special dividends to identify whether the treatment is correct.

The Company's accounting policy on income, including its recognition, is shown in note 1(c) to the financial statements and related disclosures are included in note 2. The Audit Committee identified recognition of income as a significant issue in its report, where the Committee also described the action that it has taken to address this issue.

Key observations

Our testing did not identify any material misstatements in the amount of revenue recognised during the year

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £724,000, which is approximately 1% of the Company's net assets. This benchmark is considered the most appropriate because net assets, which primarily comprise the Company's investment portfolio, are considered to be the key driver of the Company's total return ***performance*** and form a part of the net asset value calculation.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increased value of the Company's net assets, including its investment portfolio, at the year end.

We use a different level of materiality, ***performance*** materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

We also determine a lower level of specific materiality for certain areas such as investment income and related party transactions, being the management fee and directors' remuneration.

We determined the threshold at which we will communicate misstatements to the audit committee to be £36,200. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Company's business, its environment and risk profile and in particular included:

·         obtaining an understanding of relevant internal controls at both the Company and third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the investment manager, custodian and administrator; and

·         performing substantive audit procedures on specific transactions, which included journal entries and individual material balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and our evaluation of the design and implementation of controls that address significant audit risk.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

·         Fair, balanced and understandable - the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's ***performance***, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

·         Audit committee reporting - the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or

·         Directors' statement of compliance with the UK Corporate Governance Code - the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

·         the information given in the ***strategic*** report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and

·         the ***strategic*** report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the ***strategic*** report or the report of the directors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

·         adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

·         the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

·         certain disclosures of directors' remuneration specified by law are not made; or

·         we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:[*http://www.frc.org.uk/auditorsresponsibilities*](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the members on 23 May 2016. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Marcus Swales

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

23 March 2018

Income Statement

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **For the year ended 31 December 2017** | **For the year ended 31 December 2016** |  |  |  |  |
|  |  | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
|  | **Notes** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Gains on investments at fair value through profit or loss | 7 | **-** | **6,189** | **6,189** | - | 2,075 | 2,075 |
| Income from investments | 2 | **828** | **-** | **828** | 532 | - | 532 |
| AIFM and Portfolio management fees | 3 | **(209)** | **(837)** | **(1,046)** | (191) | (777) | (968) |
| Other expenses | 4 | **(454)** | **(60)** | **(514)** | (428) | - | (428) |
| **Net return/(loss) before taxation** |  | **165** | **5,292** | **5,457** | (87) | 1,298 | 1,211 |
| Taxation on net return | 5 | **(48)** | **-** | **(48)** | (43) | - | (43) |
| **Net return/(loss) after taxation** |  | **117** | **5,292** | **5,409** | (130) | 1,298 | 1,168 |
| **Return/(loss) per share** | 6 | **0.1p** | **6.6p** | **6.7p** | (0.1)p | 1.6p | 1.5p |

The "Total" column of this statement is the Income Statement of the Company. The "Revenue" and "Capital" columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations.

The Company has no recognised gains and losses other than those shown above and therefore no separate Statement of Total Comprehensive Income has been presented.

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary** | **Share** |  |  |  |  |
|  | **share** | **premium** | **Special** | **Capital** | **Revenue** |  |
|  | **capital** | **account** | **reserve** | **reserve** | **reserve** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 31 December 2016 | **800** | **-** | **77,371** | **(9,831)** | **(57)** | **68,283** |
| Net return after taxation | **-** | **-** | **-** | **5,292** | **117** | **5,409** |
| **At 31 December 2017** | **800** | **-** | **77,371** | **(4,539)** | **60** | **73,692** |
|  |  |  |  |  |  |  |
| For the year ended 31 December 2016 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Ordinary** | **Share** |  |  |  |  |
|  | **share** | **premium** | **Special** | **Capital** | **Revenue** |  |
|  | **capital** | **account** | **reserve** | **reserve** | **reserve** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 31 December 2015 | 800 | 77,371 | - | (11,129) | 73 | 67,115 |
| Cancellation of Share premium account | - | (77,371) | 77,371 | - | - | - |
| Net return/(loss) after taxation | - | - | - | 1,298 | (130) | 1,168 |
| **At 31 December 2016** | 800 | - | 77,371 | (9,831) | (57) | 68,283 |

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **As at** | **As at** |
|  |  | **31 December** | **31 December** |
|  |  | **2017** | **2016** |
|  | **Notes** | **£000** | **£000** |
| **Fixed assets** |  |  |  |
| Investments at fair value through profit or loss | 7 | **63,333** | 52,547 |
| **Current assets** |  |  |  |
| Debtors | 8 | **85** | 65 |
| Derivative financial instruments at fair value through profit or loss | 7 | **454** | - |
| Cash |  | **9,987** | 15,872 |
|  |  | **10,526** | 15,937 |
| **Current liabilities** |  |  |  |
| Creditors: amounts falling due within one year | 9 | **(167)** | (201) |
| **Net current assets** |  | **10,359** | 15,736 |
| **Total net assets** |  | **73,692** | 68,283 |
| **Capital and reserves** |  |  |  |
| Ordinary share capital | 10 | **800** | 800 |
| Special reserve |  | **77,371** | 77,371 |
| Capital reserve | 15 | **(4,539)** | (9,831) |
| Revenue reserve |  | **60** | (57) |
| **Total shareholders' funds** |  | **73,692** | 68,283 |
| **Net asset value per share** | 11 | **92.1p** | 85.4p |

The financial statements were approved by the Board of Directors and authorised for issue on

23 March 2018 and were signed on its behalf by:

Sir Ian Cheshire

Chairman

The accompanying notes are an integral part of these financial statements.

Menhaden Capital PLC - Company Registration Number 09242421 (Registered in England and Wales)

Statement of Cash Flows

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **For the** | **For the** |
|  |  | **year ended** | **year ended** |
|  |  | **31 December** | **31 December** |
|  |  | **2017** | **2016** |
|  | **Notes** | **£000** | **£000** |
| **Net cash outflow from operating activities** | 12 | **(885)** | (739) |
| **Investing activities** |  |  |  |
| Purchases of investments |  | **(27,891)** | (23,438) |
| Sales of investments |  | **22,891** | 36,678 |
| **Net cash (outflow)/inflow from investing activities** |  | **(5,000)** | 13,240 |
| **(Decrease)/increase in cash and cash equivalents** |  | **(5,885)** | 12,501 |
| **Cash and cash equivalents at beginning of the year** |  | **15,872** | 3,371 |
| **Cash and cash equivalents at end of the year** |  | **9,987** | 15,872 |

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1.            ACCOUNTING POLICIES

The principal accounting policies, all of which have been applied consistently throughout the year in the preparation of these financial statements, are set out below:

(a)          Basis of Preparation

The financial statements have been prepared in accordance with United Kingdom company law, FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland', the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in January 2017 (the 'SORP'), the historical cost convention, as modified by the valuation of investments at fair value through profit or loss and on a going concern basis.

The Company's financial statements are presented in sterling, being the functional and presentational currency of the Company. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

Fair value measurements are categorised into a fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

·         Level 1 - Quoted prices in active markets;

·         Level 2 - Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data), either directly or indirectly.

·         Level 3 - Inputs are unobservable (ie for which market data is unavailable)

Presentation of the Income Statement

In order to reflect better the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Sections 1158 and 1159 of the Corporation Tax Act 2010.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical accounting judgements and key sources of estimation uncertainty used in preparing the financial information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting estimates will, by definition, seldom equal the related actual results.

The critical judgement and key estimates, and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to the valuation of the Company's unquoted (Level 3) investments. 31.1% (2016: 30.3%) of the Company's portfolio is comprised of unquoted investments. These are all valued in line with accounting policy 1(b). Under the accounting policy the reported net asset value methodology has been adopted in valuing those investments.

Key sources of estimation uncertainty

As the Company has judged that it is appropriate to use reported NAVs in valuing the unquoted investments as set out in Note 14 (vi), the Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period, which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Whilst the Board considers the methodologies and assumptions adopted in the valuation of unquoted investments are supportable, reasonable and robust, because of the inherent uncertainty of valuation, the values used may differ significantly from the values that would have been used had a ready market for the investment existed and the differences could be significant. These values may need to be revised as circumstances change and material adjustments may still arise as a result of a reappraisal of the unquoted investments fair value within the next year.

In using a figure of 25% in the disclosures in relation to unquoted investments the Directors had regard to the nature of the investments, the wide range of possible outcomes, and public information on secondary market transactions in private equity funds.

(b)          Investments Held at Fair Value Through Profit or Loss

All investments are measured on initial recognition and at subsequent reporting dates at fair value in accordance with FRS 102 Section 11: Basic Financial Instruments and Section 12: Other Financial Instruments Issues.

Purchases and sales of quoted investments are recognised on the trade date where a contract exists whose terms require delivery within a time frame determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional.

Changes in the fair value of investments and gains and losses on disposal are recognised in the Income Statement as 'gains or losses on investments'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its price at the time of purchase. The fair value of the different types of investment held by the Company is determined as follows:

·         Quoted Investments

Fair value is deemed to be bid, or last trade, price depending on the convention of the exchange on which it is quoted.

·         Unquoted Investments

Unquoted investments are fair valued using recognised valuation methodologies in accordance with the International Private Equity and Venture Capital Association valuation guidelines (IPEVCA Guidelines).

Where an investment has been made recently the Company may use cost as the best ***indicator*** of fair value. In such a case changes or events subsequent to the relevant transaction date would be assessed to ascertain if they imply a change in the investment's fair value.

The Company's unquoted investments comprise of limited partnerships or other entities set up by third parties to invest in a wider range of investments, or to participate in a larger investment opportunity than would be feasible for an individual investor, and to share the costs and benefits of such investment.

For these investments and in line with the IPEVCA Guidelines, the fair value estimate is based on the attributable proportion of the reported net asset value of the unquoted investment derived from the fair value of underlying investments. Valuation reports, provided by the manager or general partner of the unquoted investments are used to calculate fair value where there is evidence that the valuation is derived using fair value principles that are consistent with the Company's accounting policies and valuation methods. Such valuation reports may be adjusted to take account of changes or events to the reporting date, or other facts and circumstances which might impact the underlying value.

If a decision to sell an unquoted investment or portion thereof has been made then the fair value would be the expected sales price where this is known or can be reliably estimated.

Where a portion of an unquoted investment has been sold the level of any discount, implicit in the sale price, will be reviewed at each measurement date for that unquoted investment taking account of the ***performance*** of the unquoted investment, as well as any other factors relevant to the value of the unquoted investment.

(c)           Investment Income

Dividends receivable are recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. UK dividends are shown net of tax credits and foreign dividends are grossed up at the appropriate rate of withholding tax.

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield when it is probable that economic benefit will flow to the Company. Where income accruals previously recognised, but not received, are no longer considered to be reasonably expected to be received, due to doubt over their receipt, then these amounts are reversed through expenses.

Income distributions from limited partnership funds are recognised when the right to the distribution is established.

(d)          Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement except as follows:

·         expenses which are incidental to the acquisition or disposal of an investment, are charged to the capital column of the Income Statement; and

·         expenses are charged to the capital column of the Income Statement where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the portfolio management and AIFM fees have been charged to the Income Statement in line with the Board's expected long-term split of returns, in the form of capital gains and income, from the Company's portfolio. As a result 20% of the portfolio management and AIFM fees are charged to the revenue column of the Income Statement and 80% are charged to the capital column of the Income Statement.

Any ***performance*** fee accrued or paid is charged in full to the capital column of the Income Statement.

(e)          Taxation

The tax effect of different items of expenditure is allocated between capital and revenue using the marginal basis. Deferred taxation is provided on all timing differences that have originated but not been reversed by the Statement of Financial Position date other than those differences regarded as permanent. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the reversal of timing differences can be deducted. Any liability to deferred tax is provided for at the rate of tax enacted or substantially enacted.

(f)           Foreign Currency

Transactions recorded in overseas currencies during the year are translated into sterling at the exchange rate ruling on the date of the transaction. Assets and liabilities denominated in overseas currencies are translated into sterling at the exchange rates ruling at the date of the balance sheet. Non-monetary items that are measured at historical cost are translated using the historical exchange rate at the date of the transaction.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or the revenue column of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

(g)          Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and demand deposits readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

(h)          Capital Reserves

The following are transferred to this reserve: gains and losses on the realisation of investments; changes in the fair values of investments; and, expenses, together with the related taxation effect, charged to capital in accordance with the Expenses Policy.

Any gains in the fair value of investments that are not readily convertible to cash are treated as unrealised gains in the capital reserve.

(i)           Cost of share issues

Costs of share issuance have been offset against the proceeds of the relevant share issue and dealt with in the share premium account.

(j)           Special Reserve

During 2016, in order to enable the Company to make share repurchases out of distributable reserves and to increase the distributable reserves available to facilitate the payment of future dividends, following the approval of the Court, the share premium account was cancelled and the balance of the account was transferred to the Special Reserve.

2.            INCOME FROM INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| **Income from investments** |  |  |
| UK listed dividends | **125** | 96 |
| Overseas dividends | **589** | 426 |
| Fixed interest income | **114** | 10 |
|  | **828** | 532 |
| Total income comprises: |  |  |
| Dividends | **714** | 522 |
| Interest | **114** | 10 |
|  | **828** | 532 |

3.            AIFM AND PORTFOLIO MANAGEMENT FEES

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |
|  | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| AIFM fee | **32** | **128** | **160** | 27 | 110 | 137 |
| Portfolio management fee | **177** | **709** | **886** | 164 | 667 | 831 |
|  | **209** | **837** | **1,046** | 191 | 777 | 968 |
|  |  |  |  |  |  |  |
| **4.            OTHER EXPENSES** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **2017** | **2016** |  |  |  |  |
|  | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Directors' remuneration | **170** | **-** | **170** | 170 | - | 170 |
| Employers NIC on directors' remuneration | **18** | **-** | **18** | 18 | - | 18 |
| Auditors' remuneration for the audit of the Company's financial statements | **32** | **-** | **32** | 32 | - | 32 |
| Registrar fees | **21** | **-** | **21** | 13 | - | 13 |
| Broker fees | **30** | **-** | **30** | 30 | - | 30 |
| Legal and professional costs | **56** | **53** | **109** | 57 | - | 57 |
| Listing fees | **12** | **-** | **12** | 18 | - | 18 |
| Depositary fees | **50** | **-** | **50** | 44 | - | 44 |
| Marketing costs | **-** | **-** | **-** | 13 | - | 13 |
| Other costs | **65** | **7** | **72** | 33 | - | 33 |
| **Total expenses** | **454** | **60** | **514** | 428 | - | 428 |

Details of the amounts paid to Directors are included in the Directors' Remuneration Report.

5.            TAXATION ON NET RETURN

(a)          Analysis of charge in period

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |
|  | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Corporation tax** |  |  |  |  |  |  |
| Overseas taxation | **48** | **-** | **48** | 43 | - | 43 |

(b)          Factors affecting current tax charge for the year

Approved investment trusts are exempt from tax on capital gains made within the Company.

The tax charged for the period is lower than the standard rate of corporation tax in the UK of 19.25%. The difference is explained below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |
|  | **Revenue** | **Capital** | **Total** | **Revenue** | **Capital** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Net return/(loss) before taxation** | **165** | **5,292** | **5,457** | (87) | 1,298 | 1,211 |
| Corporation tax at 19.25% (2016: 20.00%) | **32** | **1,015** | **1,031** | (17) | 260 | 243 |
| Non-taxable gains on investments | **-** | **(1,191)** | **(1,191)** | - | (415) | (415) |
| Overseas withholding taxation | **48** | **-** | **48** | 43 | - | 43 |
| Non taxable overseas dividends | **(113)** | **-** | **(113)** | (83) | - | (83) |
| Non taxable UK dividends | **(24)** | **-** | **(24)** | (19) | - | (19) |
| Excess management expenses | **105** | **172** | **277** | 119 | 155 | 274 |
| **Total tax charge** | **48** | **-** | **48** | 43 | - | 43 |

(c)           Provision for deferred tax

No provision for deferred taxation has been made in the current period. The Company has not provided for deferred tax on capital profits and losses arising on the revaluation or disposal of investments, as it is exempt from tax on these items because of its status as an investment trust company.

The Company has not recognised a deferred tax asset of £585,000 (17% tax rate) (2016: £333,000, 17%) as a result of excess management expenses. It is not anticipated that these excess expenses will be utilised in the foreseeable future. The reduction in the standard rate of corporation tax was substantially enacted on 13 September 2016 and will be effective on 1 April 2020.

6.            RETURN/(LOSS) PER SHARE

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| The return per share is based on the following figures: |  |  |
| Revenue return/(loss) | **117** | (130) |
| Capital return | **5,292** | 1,298 |
|  | **5,409** | 1,168 |
| Weighted average number of shares in issue during the period | **80,000,001** | 80,000,001 |
| Revenue return/(loss) per ordinary share | **0.1p** | (0.1)p |
| Capital return per ordinary share | **6.6p** | 1.6p |
|  | **6.7p** | 1.5p |

The calculation of the total, revenue and capital returns/(losses) per Ordinary Share is carried out in accordance with IAS 33 Earnings per share.

7.            INVESTMENTS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **2017** |  |  |  | **2016** |  |
|  |  |  | **Derivative** |  |  |  |  |
|  | **Quoted** | **Unquoted** | **Financial** |  | **Quoted** | **Unquoted** |  |
|  | **Investments** | **Investments** | **Instruments\*** | **Total** | **Investments** | **Investments** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Opening balance |  |  |  |  |  |  |  |
| Cost at 1 January | **38,630** | **20,386** | **-** | **59,016** | 52,953 | 20,985 | 73,938 |
| Investment holding losses at 1 January | **(2,024)** | **(4,445)** | **-** | **(6,469)** | (7,417) | (2,812) | (10,229) |
| **Valuation at 1 January** | **36,606** | **15,941** | **-** | **52,547** | 45,536 | 18,173 | 63,709 |
| Movement in the period: |  |  |  |  |  |  |  |
| Purchases at cost | **22,311** | **5,631** | **-** | **27,942** | 21,741 | 1,700 | 23,441 |
| Sales -  proceeds | **(20,130)** | **(2,761)** | **-** | **(22,891)** | (34,110) | (2,568) | (36,678) |
| -  (losses)/gains on sales | **(3,186)** | **(476)** | **-** | **(3,662)** | (1,954) | 269 | (1,685) |
| Net movement in investment holdings gains/(losses) | **7,195** | **2,202** | **454** | **9,851** | 5,393 | (1,633) | 3,760 |
| **Valuation at 31 December** | **42,796** | **20,537** | **454** | **63,787** | 36,606 | 15,941 | 52,547 |
| Closing balance |  |  |  |  |  |  |  |
| Cost at 31 December | **37,625** | **22,780** | **-** | **60,405** | 38,630 | 20,386 | 59,016 |
| Investment holding gains/(losses) at 31 December | **5,171** | **(2,243)** | **454** | **3,382** | (2,024) | (4,445) | (6,469) |
| **Valuation at 31 December** | **42,796** | **20,537** | **454** | **63,787** | 36,606 | 15,941 | 52,547 |

\* Derivative financial instruments comprise foreign exchange forwards. Further details are included in note 14.

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| Losses based on historical cost - sales | **(3,662)** | (1,685) |
| Movement in investment holding gains in the year | **9,851** | 3,760 |
| **Gains on investments** | **6,189** | 2,075 |

Purchase transaction costs were £23,000 (2016: £9,000). These comprise mainly commission and stamp duty.

Sales transaction costs were £30,000 (2016: £48,000). These comprise mainly commission.

8.            DEBTORS

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| VAT recoverable | **20** | - |
| Withholding tax recoverable | **33** | 6 |
| Prepayments and accrued income | **32** | 59 |
|  | **85** | 65 |
|  |  |  |
| **9.            CREDITORS** |  |  |
|  |  |  |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| **Amounts falling due within one year** |  |  |
| Other creditors and accruals | **167** | 201 |
|  |  |  |
| **10.          SHARE CAPITAL** |  |  |
|  |  |  |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| Issued and fully paid: |  |  |
| Ordinary shares of 1p | **800** | 800 |
|  |  |  |
| **11.          NET ASSET VALUE PER SHARE** |  |  |
|  |  |  |
|  | **2017** | **2016** |
| Net asset value per share | **92.1p** | 85.4p |

Net asset value per share

The net asset value per share is based on the assets attributable to equity shareholders of £73,692,000 (2016: £68,283,000) and on the number of Ordinary Shares in issue at the year end of 80,000,001.

12.          RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| Gains before finance costs and taxation | **5,457** | 1,211 |
| Deduct: Gains made on investments | **(6,189)** | (2,075) |
|  | **(732)** | (864) |
| Decrease in other debtors | **7** | 145 |
| (Decrease)/increase in creditors and accruals | **(34)** | 32 |
| Effective interest rate amortisation | **(51)** | (3) |
| Net taxation suffered on investment income | **(75)** | (49) |
| **Net cash outflow from operating activities** | **(885)** | (739) |

13.          RELATED PARTIES

The following are considered to be related parties:

·         Frostrow Capital LLP

·         The Directors of the Company

Details of the relationship between the Company and the Company's AIFM are disclosed in the ***Strategic*** Report. Details of fees paid to Frostrow by the Company can be found in note 3 to the financial statements. All material related party transactions have been disclosed in note 3. Details of the remuneration of all Directors can be found in note 4. Details of the Directors' interests in the capital of the Company can be found in the Directors' Remuneration Report.

Ben Goldsmith, a member of the Porfolio Manager, holds a minority membership interest in Alpina Partners LLP (formerly WHEB Capital Partners LLP), the investment manager of the WCP Growth Fund LP and the Alpina Partners Fund LP. He also has a small carried interest participation in each of these funds.

14.          FINANCIAL INSTRUMENTS

Risk management policies and procedures

The Company's financial instruments comprise securities and other investments, cash balances and certain debtors and creditors that arise directly from its operations.

As an investment trust, the Company invests in equities and other investments for the long term so as to achieve its investment objective.  In pursuing its investment objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets.

The main risks that the Company faces arising from its use of financial instruments are:

(i)       market risk (including foreign currency risk, interest rate risk and other price risk)

(ii)      liquidity risk

(iii)     credit risk

These risks, with the exception of liquidity risk, and the Directors' approach to the management of them, are set out in the ***Strategic*** Report. The AIFM, in close co-operation with the Board and the Menhaden Team, co-ordinates the Company's risk management.

(i)           Other price risk

In pursuance of the Company's Investment Objective the Company's portfolio is exposed to the risk of fluctuations in market prices and foreign exchange rates.

The Board manage these risks through the use of investment limits and guidelines, and monitor the risks through monthly compliance reports from Frostrow, with reports from Frostrow and the Menhaden Team also presented at each Board meeting. In addition, Frostrow monitor the exposure of the Company and compliance with the investment limits and guidelines on a daily basis.

Other price risk sensitivity

Other price risk may affect the value of the quoted investments.

If market prices at the date of the Statement of Financial Position had been 25% higher or lower while all other variables had remained constant: the revenue return would have decreased/increased by £46,000 (2016: £39,000); the capital return would have increased/decreased by £15,341,000 (2016: £12,982,000); and, the return on equity would have increased/decreased by £15,295,000 (2016: £12,943,000). The calculations are based on the portfolio as at the respective dates of the Statement of Financial Position and are not representative of the year as a whole.

(ii)          Foreign currency risk

A significant proportion of the Company's portfolio positions are denominated in currencies other than sterling (the Company's functional currency, and the currency in which it reports its results). As a result, movements in exchange rates can significantly affect the sterling value of those items.

Foreign currency risk is managed and maintained in conjunction with other price risk as described above.

Foreign currency exposure

The fair values of the Company's assets and liabilities that are denominated in foreign currencies are shown below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |  |
|  |  |  | **Current** |  |  | **Current** |  |
|  | **Investments** | **Derivatives\*** | **assets** | **Net** | **Investments** | **assets** | **Net** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| U.S. dollar | **25,093** | **(12,921)** | **13** | **12,185** | 33,160 | 15 | 33,175 |
| Euro | **25,159** | **(12,884)** | **33** | **12,308** | 12,987 | 4 | 12,991 |
| Other | **6,415** | **-** | **-** | **6,415** | 914 | 3 | 917 |
|  | **56,667** | **(25,805)** | **46** | **30,908** | 47,061 | 22 | 47,083 |

\* Derivatives comprise foreign currency forwards used to partially hedge the Company's exposure to overseas currencies.

Foreign currency sensitivity

The following table details the sensitivity of the Company's net return for the year and shareholders' funds to a 10% increase and decrease in sterling against the relevant currency.

These percentages have been determined based on market volatility in exchange rates over the period since launch. The sensitivity analysis is based on the Company's significant foreign currency exposures at each Balance Sheet date.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |
|  | **USD** | **EUR** | **Other** | **USD** | **EUR** | **Other** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Sterling depreciates | **1,511** | **1,278** | **702** | 3,635 | 1,427 | 100 |
| Sterling appreciates | **(1,236)** | **(1,045)** | **(575)** | (2,974) | (1,163) | (82) |

(iii)         Interest rate risk

Interest rate changes may affect:

-         the level of income receivable from floating and fixed rate securities and cash at bank and on deposit;

-         the fair value of investments in fixed interest securities.

Interest rate exposure

The exposure of financial assets and liabilities to fixed and floating interest rates, is shown below.

At 31 December 2017, the Company held 0.3% (2016: 0.9%) of the portfolio in debt instruments. The exposure is shown in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |
|  | **Fixed** | **Floating** | **Fixed** | **Floating** |
|  | **rate** | **rate** | **rate** | **rate** |
|  | **£'000** | **£'000** | **£'000** | **£'000** |
| Quoted debt investments | **156** | **-** | 165 | - |
| Cash | **-** | **9,987** | - | 15,872 |
|  | **156** | **9,987** | 165 | 15,872 |

Interest rate sensitivity

If interest rates had been 1% higher or lower and all other variables were held constant, the Company's net return for the year ended 31 December 2016 and the net assets would increase/decrease by £100,000 (2016: £157,000).

(iv)         Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The main liquidity requirements the Company may face are its commitments to the investments in limited partnership funds.  These commitments can be drawn down on 3 or 10 days notice, although it is considered unlikely that they would all be drawn at once. Frostrow and the Portfolio Manager are in regular contact with the managers of the limited partnership funds, as a part of which they would be made aware, and plan accordingly, of any material drawdowns under those commitments.

The Company's assets comprise quoted securities (equity shares, fixed income and fund investments), cash, and unquoted limited partnership funds and investments. Whilst the unquoted investments are illiquid, short-term flexibility is achieved through the quoted securities, which are liquid, and cash which is available on demand.

The liquidity of the quoted securities is monitored on a monthly basis to ensure that there is sufficient liquidity to meet the company's liabilities and any forthcoming drawdowns.

(v)          Credit risk

Credit risk is the risk of failure of a counterparty to discharge its obligations resulting in the Company suffering a financial loss. The quoted debt investments are managed as part of an investment portfolio, and their credit risk is considered in the context of their overall investment risk.

Credit risk exposure

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| Quoted debt investments | **156** | 479 |
| Derivative financial instruments | **454** | - |
| Current assets: |  |  |
| Other receivables (amounts due from brokers, dividends and interest receivable) | **65** | 67 |
| Cash | **9,987** | 15,681 |

(vi)         Hierarchy of investments

The Company's investments are valued within a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements as described in the accounting policies.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **As of 31 December 2017** | **£'000** | **£'000** | **£'000** | **£'000** |
| Investments | **42,640** | **156** | **20,537** | **63,333** |
| Derivatives | **-** | **454** | **-** | **454** |
|  |  |  |  |  |
|  | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **As of 31 December 2016** | **£'000** | **£'000** | **£'000** | **£'000** |
| Investments | 36,292 | 314 | 15,941 | 52,547 |
|  |  |  |  |  |
| **Level 3 investments as of 31 December 2017** |  |  |  |  |
|  |  |  |  |  |
|  |  | **Value** |  | **Valuation** |
|  | **Cost** | **£** | **Ownership** | **basis** |
| Alpina Partners Fund LP | (EURO)3,529,000 | 3,620,000 | 4.70% | NAV |
| KKR Evergreen Co-Invest LP 1 | £3,518,000 | 3,500,000 | 1.25% | NAV |
| Perfin Apollo FIP | BRL3,054,000 | 680,000 | 5.80% | NAV |
| Helios Co-Invest LP 2 | $12,562,000 | 11,675,000 | 6.00% | NAV |
| WCP Growth Fund LP | £7,742,000 | 1,062,000 | 10.30% | Discount to NAV |

1 Described as Calvin Capital in the portfolio statement

2 Described as X-Elio in the portfolio statement

During 2017 the WCP Growth Fund LP (WCP Fund) was written down by £1,346,000 and the Alpina Partners Fund LP (Alpina Fund) was written up by £1,352,000. In addition, the WCP Fund made net capital distributions of £561,000 during the year and the Alpina Fund made net drawdowns of £547,000. Helios Co-Invest LP's (Helios) fair value increased by £967,000 and it made a capital distribution of £363,000.

As set out below, the Company sold half its stake in the Alpina Fund for £1,205,000 during the year. The cost of the stake sold was (EURO)2,428,000 and its previous carrying value (adjusted for distributions and drawdowns prior to the sale) was £1,182,000.

If a 25% discount to NAV was applied to the NAV of the level 3 investments as at 31 December 2017, or the discount already applied was increased by 25%, the impact would have been a decrease of £5,134,000 in net assets and the net return for the year.

Level 3 investments as of 31 December 2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Value** |  |  |
|  | **Cost** | **£** | **Ownership** | **Valuation basis** |
| Alpina Partners Fund LP | (EURO)5,335,000 | 2,806,000 | 9.40% | Sales price |
| Helios Co-Invest LP | $12,562,000 | 10,167,000 | 6.00% | NAV |
| WCP Growth Fund LP | £8,303,000 | 2,968,000 | 10.30% | NAV |

During 2016 the WCP Fund was written down by £2,390,000 and the Alpina Fund was written down by £528,000. In addition, the WCP Fund made net distributions of £2,495,000 during the year. The value of Helios increased by £1,889,000 due to the depreciation of sterling during 2016.

If a 25% discount to NAV was applied to the NAV of Helios Co Invest LP and the WCP Fund as at 31 December 2016 the impact would have been a decrease of £3,284,000 in net assets and the net return for the year.

The Company agreed a sale for half the Alpina Fund interest in March 2017 and, in accordance with the Company's accounting policy the expected sales price was used to value the holding as at 31 December 2016. If the net asset basis had been used to value the interest being retained by the Company, the impact would have been an increase of £1,186,000 in net assets and the return for the year.

(vii)        Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing to a maximum of 20% of the Company's net assets. Currently the Company does not have any gearing and there are no facilities in place.

The capital structure of the Company consists of the equity share capital, retained earnings and other reserves as disclosed on the Statement of Financial Position.

The Board, with the assistance of the AIFM and the Portfolio Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This includes a review of:

-         the planned level of gearing, which takes into account the Portfolio Manager's view of the market;

-         the need to buy back equity shares, either for cancellation or to hold in treasury, in light of any share price discount to net asset value per share;

-         the need for new issues of equity shares; and,

-         the extent to which revenue in excess of that which is required to be distributed should be retained.

15.          CAPITAL RESERVE

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** |  |  |  |  |
|  | **Capital Reserves** | **Capital Reserves** |  |  |  |  |
|  |  | **Investment** |  |  |  |  |
|  |  | **Holding** |  |  | **Investment** |  |
|  |  | **(Losses)** |  |  | **Holding** |  |
|  | **Other** | **/Gains** | **Total** | **Other** | **Losses** | **Total** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **At 1 January** | **(3,362)** | **(6,469)** | **(9,831)** | (900) | (10,229) | (11,129) |
| Net gains on investments | **(3,662)** | **9,851** | **6,189** | (1,685) | 3,760 | 2,075 |
| Expenses charged to capital | **(897)** | **-** | **(897)** | (777) | - | (777) |
| **At 31 December** | **(7,921)** | **3,382** | **(4,539)** | (3,362) | (6,469) | (9,831) |

Sums within the Total Capital Reserve less unrealised gains (those on investments not readily convertible to cash) are available for distribution. In addition the Revenue Reserve is available for distribution.

16.          FINANCIAL COMMITMENT

The Company has made commitments to provide additional funds to the following investments:

|  |  |  |
| --- | --- | --- |
|  |  | **Notice of** |
|  | **Commitment** | **drawdown** |
| Alpina Partners Fund LP | (EURO)2,693,000 | 10 business days |
| KKR Evergreen Co-Invest LP | £175,000 | 10 business days |
| Perfin Apollo | BRL18,000,000 | 10 days |
| WCP Growth Fund LP | £338,000 | 10 business days |
| Helios Co-Invest LP | $62,000 | 3 business days |

17.          THE COMPANY

The Company is a public limited company (PLC) incorporated in England and Wales, with registered office at One Wood Street, London, EC2V 7WS. The Company's principal place of business is 25 Southampton Buildings, London, WC2A 1AL.

Further Information

Shareholder Information

Financial Calendar

31 December                                       Financial Year End

March/April                                          Final Results Announced

May                                                         Annual General Meeting

30 June                                                  Half Year End

September                                           Half Year End Results Announced

Annual General Meeting

The Annual General Meeting of Menhaden Capital PLC will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Tuesday, 22 May 2018 at 12 noon.

Share Prices

The Company's Ordinary Shares are listed on the London Stock Exchange under 'Investment Companies'. The price is given daily in the Financial Times and other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrars, Link Asset Services, under the signature of the registered holder.

Net Asset Value

The net asset value of the Company's shares can be obtained on the Company's website at[*http://www.menhaden.comand*](http://www.menhaden.comand) is published monthly via the London Stock Exchange.

AIFMD Disclosures

The Company's AIFM, Frostrow Capital LLP and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD").

Those disclosures that are required to be made pre-investment are included within an Investor Disclosure Document which can be found on the Company's website[*http://www.menhaden.com*](http://www.menhaden.com).

The periodic disclosures to investors are made below:

·         Information on the investment strategy, sector investment focus and principal stock exposures are included in the ***Strategic*** Report.

·         None of the Company's assets are subject to special arrangements arising from their illiquid nature.

·         There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Frostrow.

·         The ***Strategic*** Report and note 14 to the Financial Statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place during the year under review and no breaches of the risk limits set, with no breach expected.

·         The maximum level of leverage has not changed in the period under review: the maximum permitted levels are 200% on a gross basis and 120% on a commitment basis (see Glossary on page 76 for further details). Gross leverage was 118.2% (2016: nil) and commitment leverage was 97.3% (2016: nil).

·         No right of re-use of collateral or any guarantee granted under the leveraging arrangement has arisen during the period.

·         Following completion of an assessment of the application of the proportionality principle to the FCA's AIFM Remuneration Code, the AIFM has disapplied the pay-out process rules with respect to it and any of its delegates. This is because the AIFM considers that it carries out non-complex activities and is operating on a small scale.

Note: These disclosures are not audited by the Company's statutory auditor.

Glossary

Alternative Investment Fund Managers Directive (AIFMD)

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds (AIFs) and requires them to appoint an Alternative Investment Fund Manager (AIFM) and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

Compounding Hurdle

The payment of a ***performance*** fee is conditional on the Company's NAV being above the high watermark and the return on the gross proceeds from the IPO of the Company exceeding an annualised compound return of 5%.

Discount or Premium

A description of the difference between the share price and the net asset value per share. The size of the discount or premium is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share the result is a premium. If the share price is lower than the net asset value per share, the shares are trading at a discount.

Gearing

In simple terms gearing is borrowing. An investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on shareholders' funds is called 'gearing'. If the Company's assets grow, shareholders' funds grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance ***performance*** in rising markets but can adversely impact ***performance*** in falling markets.

Gearing represents borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the company's borrowings expressed as a percentage of shareholders' funds.

High Watermark

The high watermark is the highest net asset value that the Company has reached. Its initial level was set at 100p on the launch of the Company.

Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on agrossand acommitmentmethod. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities. The NAV per share is also described as 'shareholders' funds' per share. The NAV is often expressed in pence per share after being divided by the number of shares which are in issue. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply of the shares.

NAV Total Return

The theoretical total return on shareholders' funds per share, including an assumed £100 original investment at the beginning of the period specified, reflecting the change in NAV assuming that any dividends paid to shareholders were reinvested at NAV at the time the shares were quoted ex-dividend. A way of measuring investment management ***performance*** of investment trusts which is not affected by movements in the Share price discount/premium.

Share Price Total Return

Return to the investor on mid-market prices assuming that all dividends paid were reinvested, usually expressed as a percentage.

Ongoing Charges

Ongoing charges are calculated by taking the Company's annualised ongoing charges, excluding finance costs, taxation, ***performance*** fees and exceptional items, and expressing them as a percentage of the average daily net asset value of the Company over the year.

|  |  |  |
| --- | --- | --- |
|  | **31 December** | **31 December** |
|  | **2017** | **2016** |
|  | **£'000** | **£'000** |
| Total Operating Expenses | **1,560** | 1,396 |
| Deduct: Non-recurring items | **(2)** | (34) |
| Investment due diligence costs | **(103)** | - |
| **Adjusted Operating Expenses** | **1,453** | **1,362** |
| Average Net Assets during the year | **70,680** | 65,754 |
| Ongoing Charges | **2.1%** | 2.1% |

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Menhaden Capital PLC will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Tuesday, 22 May 2018 at 12 noon for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following as ordinary resolutions:

1.        To receive and accept the Annual Report for the year ended 31 December 2017.

2.        To re-elect Sir Ian Cheshire as a Director of the Company.

3.        To re-elect Duncan Budge as a Director of the Company.

4.        To re-elect Emma Howard Boyd as a Director of the Company.

5.        To re-elect Howard Pearce as a Director of the Company.

6.        To re-appoint Grant Thornton UK LLP as the Company's Auditors and to authorise the Audit Committee to determine their remuneration.

7.        To receive and approve the Directors' Remuneration Report for the year ended 31 December 2017.

Special Business

To consider and, if thought fit, pass the following resolution as a special resolution:

General Meetings

8.        THAT the Directors be authorised to call general meetings (other than the Annual General Meeting of the Company) on not less than 14 clear days' notice, such authority to expire on the conclusion of the next Annual General Meeting of the Company or if earlier, on the expiry 15 months from the date of the passing of the resolution.

By order of the Board

Registered Office:

One Wood Street

 London EC2V 7WS

Frostrow Capital LLP

Company Secretary

23 March 2018

Notes

1.        Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. Members can also vote via the share portal at[*http://www.signalshares.com*](http://www.signalshares.com)

2.        A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolutions. If no voting indication is given, a proxy may vote or abstain from voting at his/her discretion. A proxy may vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

3.        To be valid any proxy form or other instrument appointing a proxy must be completed and signed and received by post or (during normal business hours only) by hand at Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 12 noon on 18 May 2018.

4.        In the case of a member which is a company, the instrument appointing a proxy must be executed under its seal or signed on its behalf by a duly authorised officer or attorney or other person authorised to sign. Any power of attorney or other authority under which the instrument is signed (or a certified copy of it) must be included with the instrument.

5.        The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.

6.        Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

7.        The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

8.        Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company (the "Register of Members") at close of business on Friday, 18 May 2018 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting) will be entitled to attend and vote or be represented at the meeting in respect of shares registered in their name at that time. Changes to the Register of Members after that time will be disregarded in determining the rights of any person to attend and vote at the meeting.

9.        As at 22 March 2018 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 80,000,001 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 March 2018 are 80,000,001.

10.      CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

11.      In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("CRESTCo"), and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) no later than 48 hours before the time appointed for holding the meeting, excluding non-business days. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

12.      CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

13.      The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

14.      In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register of Members in respect of the joint holding (the first named being the most senior).

15.      Members who wish to change their proxy instructions should submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

16.      Members who have appointed a proxy using the hard-copy proxy form and who wish to change the instructions using another hard-copy form, should contact Link Asset Services on 0871 664 0300 (calls cost 12p per minute plus network extras). Lines are open 9.00 a.m. to 5.30 p.m. Monday to Friday.

17.      If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

18.      In order to revoke a proxy instruction, members will need to inform the Company. Members should send a signed hard copy notice clearly stating their intention to revoke a proxy appointment to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF.

In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included with the revocation notice. If a member attempts to revoke their proxy appointment but the revocation is received after the time for receipt of proxy appointments then, subject to paragraph 4, the proxy appointment will remain valid.

Explanatory Notes to the Resolutions

Resolution 1 - To receive the Annual Report

The Annual Report for the year ended 31 December 2017 will be presented to the Annual General Meeting (AGM). These financial statements accompany this Notice of Meeting and shareholders will be given an opportunity at the meeting to ask questions.

Resolutions 2 to 5 - Re-election of Directors

Resolutions 2 to 5 deal with the re-election of each Director. Biographies of each of the Directors can be found above.

Resolution 6 - Re-appointment of Auditors and the determination of their remuneration

Resolution 6 relates to the re-appointment of Grant Thornton UK LLP as the Company's independent Auditors to hold office until the next AGM of the Company and also authorises the Audit Committee to set their remuneration. Following the implementation of the Competition and Markets Authority order on Statutory Audit Services, only the Audit Committee may negotiate and agree the terms of the Auditors' service agreement.

Resolution 7 - Directors' Remuneration

It is mandatory for all listed companies to put their report on Directors' remuneration to a shareholder vote every year and their report on the Directors' remuneration policy to a shareholder vote every three years. The remuneration policy will next be put to shareholders at the AGM in 2019.

The Directors' Remuneration Report and the Remuneration Policy are set out in full in the Annual Report.

Resolution 8 - General Meetings

Special Resolution No. 8 seeks shareholder approval for the Company to hold General Meetings (other than the AGM) on 14 clear days' notice.

The Company will only use this shorter notice period where it is merited by the purpose of the meeting and will endeavour to give at least 14 working days' notice if possible, in line with the recommendations of the UK Corporate Governance Code.

Recommendation

The Board considers that the resolutions relating to the above items are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming AGM as the Directors intend to do in respect of their own beneficial holdings totalling 158,000 shares.

Disclaimer: Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.

END

**Load-Date:** May 16, 2018

**End of Document**



[***Inclusive growth versus pro-poor growth: Implications for tourism development***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BM4-FYP1-JBMY-H00G-00000-00&context=1516831)

Tourism and Hospitality Research

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**ABSTRACT**

Inclusive growth and pro-poor growth are terms embraced but not fully understood in the tourism community. This paper discusses the main concepts of inclusive growth and their implication for tourism development across the developing world. Is inclusive growth simply another term for pro-poor in tourism? Discussion of current approaches utilized by the development community and its institutions highlights differences and notes a shift from pro-poor thinking to inclusive growth efforts. Within that context, the authors suggest the need for an improved understanding of the inclusive growth approach in tourism development, particularly for emerging countries.

**FULL TEXT**

**Introduction**

Despite the economic progress made over the last 15 years, poverty remains one of the world’s largest and most vexing issues. In 2012, 12.7% of people in the world lived at or below $1.90 a day, a total of an estimated one billion people (World Bank Group (WBG), 2015). Income inequality, a disparity in relative incomes across the whole population, has increased over the last 20 years in most Organisation for Economic Co-operation and Development (OECD) countries, South Africa, Indonesia and many other countries (OECD, 2015). Globalization, skill-biased technical changes and decreases in the bargaining power of workers are some of the contributors to this situation (Balakrishnan et al., 2013; Saad-Filho, 2010). Economic growth alone has proven to be insufficient in reducing poverty since not all people are included in the growth process nor do they benefit equally from it (Bourguignon, 2004). When growth bypasses the poor or other marginalized groups, it may even increase inequality. Growth that is not inclusive can be both a danger to social and political stability and a threat to the sustainability of the growth (Ali and Son, 2007; Jones, 2013). The realization that growth itself is not sufficient to reduce poverty has led policy makers to look for alternative strategies. The inclusive growth concept is the latest approach used by international institutions to improve living standards in the developing world.

This paper reviews the concept of inclusive growth in the context of tourism development that aims to contribute to poverty alleviation.

Many developing countries see tourism as integral to their path out of economic hardship or as an opportunity for further growth and diversification. Yet, very little is known about the specific role and impact of the tourism sector within a country’s inclusive growth strategy. Inclusive growth and inclusive development are relatively new concepts and often used loosely in policy documents and tourism development discussions (Suryanarayana, 2008). There is currently very limited academic literature on tourism and inclusive growth. However, the WBG, the Asian Development Bank (ADB), the African Development Bank (AfDB) and other institutions have started to link tourism to inclusive growth strategies in Asia, the Caribbean, South America, the Middle East and Africa. While these development banks and organizations have embraced inclusive growth concepts, academic researchers have been skeptical, calling inclusive growth a way to reintroduce the neo-liberal thinking of the Washington Consensus (Saad-Filho, 2010). Hampton and Jeyacheye (2012), commissioned by the World Bank and Commonwealth Secretariat, published “Tourism and Inclusive Growth in Small Island Developing States.” While the publication does address inclusive growth briefly in the first chapters, the remainder of the book discusses how tourism can contribute to the economy without specifically addressing its role in job generation and entrepreneurship at a micro level. There is simply a very limited number of nonacademic papers by development organizations that address the role of tourism in inclusive growth. However, there are a number of publications on inclusive growth that can assist in understanding how tourism could fit into an inclusive growth paradigm. This paper provides an analysis of the concept of inclusive growth, the difference from pro-poor growth and the current status of its application to tourism. It also clarifies the implications of the inclusive growth development approach for tourism particularly in emerging countries. Through this discussion, the practical usefulness of the concept in tourism development is highlighted.

**From the trickledown theory to inclusive growth**

During the 1950s and 1960s, it was widely believed that the advantages of economic growth in a country would benefit all layers of society. Growth alone was considered enough to lift developing countries out of poverty. The “trickledown effect” would follow a time lag, but in the long term the growth process would have a positive effect on overall development based on the presumption that “the rising tide would raise all boats” (Aghion and Bolton, 1997). Kuznets (1955) found that in the early stages of development, growth produces inequality, but as per capita income rises, a turning point causes inequality to decline. In this context, tourism offered a particularly important role as it enabled diversification away from ***agriculture***, supported infrastructure improvements and encouraged social development (Harrison, 2001; Scheyvens, 2002; Sharpley and Telfer, 2002). In the 1970s, the World Bank invested in infrastructure projects to support large-scale tourism development in countries such as Indonesia, Mexico and the Dominican Republic (Hawkins and Mann, 2007). In the 1980s, the so-called Washington Consensus, labeled as a neo-liberal approach, was considered the way forward for developing countries (Schilcher, 2007). The Consensus advocated policy recommendations such as trade liberalization, competitive interest rates, tax reform and liberalization of foreign investment for countries suffering from underdevelopment and economic crisis. This was supported by US-based institutions including the International Monetary Fund (IMF) and World Bank. The Washington Consensus considered the free market as the driver of growth and development (Williamson, 1993). For developing countries, tourism was seen as an excellent way of trading their way out of poverty.

Despite implementing many reforms in the 1990s, growth was slow and often accompanied by an increase in inequality, especially in Latin America and the Caribbean. It became clear that the one-size-fits-all approaches under the Washington Consensus did not always work (Sharpley and Telfer, 2002). The rise in inequality brought forth the need to study the distributional consequences of growth and methods for active ***intervention*** to manage distributional issues (Ranieri and Ramos, 2013b). The main report that initiated this kind of development thinking was the 1974 study entitled “Redistribution with Growth” written by the Vice President for Development Policy at the World Bank (Chenery et al., 1974). The study addressed the faults of the Bank’s then current strategy of focusing on large projects while expecting the market to resolve the problems of poverty and inequality (Saad-Filho, 2010). Consequently, the new development thinking began to focus on how to promote not just growth but growth with equality.

Development organizations started to use the term pro-poor growth towards the end of the 1990s. Since then, there have been different definitions of the term, which have emerged in a broad and a narrow definition of pro-poor growth. The broad definition of pro-poor growth or the absolute pro-poor growth is any growth that benefits the poor and, thus decreases absolute poverty (Ravallion, 2004). Under the broad definition, inequality could rise as the absolute income of the nonpoor might be increasing at a rate faster than the poor’s income. Under the narrow definition of pro-poor growth, also called relative pro-poor growth, the poor should benefit proportionally more from growth than the nonpoor so that inequality is reduced (Kakwani and Pernia, 2000). Beginning in the 1990s, numerous institutions and nongovernmental organizations started projects under the heading of pro-poor growth with the intention to improve the livelihoods of people in developing countries. At this time, most of the focus was on measuring the effects of growth on poverty.

In the mid 2000s, institutions, donors and governments started to explore inclusive growth as they realized that growth alone or growth that was simply in the form of redistribution would not solve the growth-poverty nexus. This realization shifted the focus from measuring progress in poverty reduction to including more people in the economic process through mechanisms such as job generation and entrepreneurship (Ianchovichina and Lundstrom-Gable, 2012). Inequality was thus seen as a challenge for emerging economies as well as high-income economies. The Occupy Wall Street movement in New York City in 2011 illustrated the rising frustration with increased inequality in a developed country. In 2014, the World Economic Forum (WEF) identified income inequality as the top global societal risk for the next decade. The recent publication by Piketty (2014), “Capital in the Twenty-First Century,” has caused controversy among economists in the western world as he argues that wealth inequality has risen over the last 30 years because the returns on capital have been higher than the pace of economic growth. From his perspective, a progressive wealth tax would be the preferred remedy to prevent a further rise of inequality.

As researchers and economists have focused on inclusive growth, a number of definitions have evolved. Across these, the underlying concept is the “growth coupled with equal opportunities” (Rauniyar and Kanbur, 2010b: 457). The World Bank defines inclusive growth as the growth that allows people to contribute to and benefit from economic growth. Specifically, growth should be broad-based across sectors and inclusive of a large part of the country’s labor force (Ianchovichina and Lundstrom-Gable, 2012). The World Bank also states that inclusive growth refers to both the pace and the pattern of growth; growth should be both extensive and intensive (Ianchovichina and Lundstrom, 2009; Ianchovichina and Lundstrom-Gable, 2012). Klasen (2010) sees inclusive growth as a subset of the concept of economic growth. He recognizes two aspects: (i) the process and (ii) the outcomes. The process approach examines the number of people who participated in the growth process. The outcome approach looks at whether inclusive growth benefits many people. Many believe that inclusive growth is not about growth through income redistribution and taxes but about creating productive employment opportunities (Ianchovichina and Lundstrom, 2009; Ianchovichina and Lundstrom-Gable, 2012; Klasen, 2010).

This shift in thinking about the role of growth in poverty reduction can also be seen in the United Nations’ post-2015 approach. The Millennium Development Goals (MDGs) were developed in 2000 as a reaction to the growth-first policies of the Washington Consensus and did not include growth as one of the goals to be achieved by 2015. In the last decade, there has been a growing consensus among governments and donor organizations that inclusive growth should be more prominent as a development goal (Bergh and Melamed, 2012). Today, the lack of jobs is considered as one of the main causes of poverty, and creating more productive employment opportunities is a requirement for inclusive growth (McKinsey Global Institute, 2012). Therefore, the Sustainable Development Goals, which set development targets for 2030, include two goals that specifically refer to inclusive growth: Goal 8 promotes sustained, inclusive and sustainable economic growth, and full and productive employment and Goal 10 reduces inequality within and among countries (United Nations, 2015). This change signals the shift from a strong focus on social outcomes to one that also recognizes the need for economic growth.

**Inclusive growth versus pro-poor approaches**

One of the main criticisms of the inclusive growth approach is that it represents no substantial difference from the pro-poor growth approach. There are, however, a few significant differences. Rauniyar and Kanbur (2010a) identify one difference by defining growth as an increase in real per capita income and pro-poor growth as the growth that also reduces poverty. The latter means that the increment of income accrues disproportionately to those with lower incomes. According to this definition, growth can be pro-poor but with rising inequality. Ianchovichina and Lundstrom (2009) argue that while pro-poor growth solely focuses on people below the poverty line, inclusive growth aims to benefit people from a large proportion of a country’s labor force through productive employment and entrepreneurship. Inclusive growth is the growth that reduces the disadvantages of the poorest while benefitting everyone, whereas “pro-poor growth may be obtained either in the absence of benefits to one or more groups or at the expense of one or more groups” through redistribution (Ranieri and Ramos, 2013a: 1). Inclusive growth is about widening the size of the economy and not about redistributing existing resources as pro-poor growth sometimes is. The 2008 World Bank Growth Report “Strategies for Sustained Growth and Inclusive Development” suggests that the inclusive growth approach takes a longer term perspective since it focuses on generating productive employment rather than on direct redistribution of income as a means of improving the financial well-being of the excluded groups (Commission on Growth and Development, 2008). Inclusive growth analysis focuses on integrating poverty, business environment and other types of micro-level ***indicators*** with growth analysis at the macro level (Ianchovichina et al., 2009). Pro-poor growth programs, on the other hand, have mostly focused on creating opportunities at the micro level. They are about poverty alleviation and have not always focused on economic growth strategies at a macro level.

**International development banks and inclusive growth programs**

Presented below is an overview of the utilization of the inclusive growth development approach by some major development institutions and where notable, their application in the area of tourism. Besides the three development banks mentioned here, the European Union, the UN Development Programme’s International Policy Centre for Inclusive Growth, the OECD, the WEF, the Caribbean Growth Forum and the International Trade Centre are also exploring inclusive growth as a development strategy.

**World Bank**

The April 2004 meeting of the Joint Ministerial Committee of the World Bank and the IMF on the progress of the MDGs was one of the first instances where the World Bank referred explicitly to inclusive growth. They stated that “sustainable and inclusive growth needs to be accelerated in many developing countries” (World Bank, 2004). In April 2013, the World Bank set two new goals: (i) to end extreme poverty and (ii) to promote shared prosperity. The philosophy behind the dual goals is that reducing inequality needs to come from growing the economy while at the same time increasing the share of the bottom 40% of the population. The target is to reduce extreme poverty (people living on less than US$1.25 a day) to 3% of world population by 2030. The second goal does not just focus on the poorest developing countries but on raising the income of the poor in every country. The World Bank announced a new “Shared Prosperity ***Indicator***,” which will track per-capita income growth of the bottom 40% in each country annually where survey data are available (WBG, 2015). The World Bank has recently started programs supporting inclusive growth in Myanmar, Republic of Georgia, Pakistan and the Philippines. The Bank’s growing use of a systematic country diagnostic in defining growth approaches is contributing to greater consideration of inclusive growth strategies. However, there have been no programs specifically identifying tourism as a driver for inclusive growth yet.

**Asian Development Bank**

The priorities of the ADB (2007) “moved from principally eradicating absolute poverty to generating and sustaining rapid and more inclusive growth, creating well-paying job opportunities in adequate numbers, and improving living standards in sophisticated and complex economies—while at the same time confronting the challenges of economic success” (p. 12).

While markets are central in generating growth, the ADB’s inclusive growth strategy incorporates economic policies and government programs that address market failures and permit all segments of the society to participate more fully in the new economic opportunities (ADB, 2007). For example, the ADB is funding US$50 million for the *Mekong sub-region tourism infrastructure for inclusive growth project* that is being implemented from 2014 to 2018. This project aims to stimulate economic growth across the economic corridors in Vietnam, Laos and Cambodia through improving infrastructure facilities, connecting tourism routes and destinations and improving environmental conditions (ADB, 2014b).

**African Development Bank**

In its 2013–2022 ***strategic*** plan, the AfDB announced its dual objectives towards growth: (i) inclusive growth and (ii) green growth. The plan states that “the first and overarching objective is to achieve growth that is more inclusive, leading not just to equality of treatment and opportunity but to deep reductions in poverty and a correspondingly large increase in jobs” (AfDB, 2013: 1).

The AfDB defines inclusive growth as “economic growth that results in a wider access to sustainable socioeconomic opportunities for the majority, while protecting the vulnerable, all being done in an environment of fairness, equality and political plurality” (Kanu et al., 2014: iii). In 2014, the AfDB conducted a comprehensive study of ***agriculture***’s role in inclusive growth (Kanu et al., 2014). No tourism-specific inclusive growth projects have been announced yet.

**Shifting from pro-poor tourism to tourism-driven inclusive growth**

Pro-poor growth has been a widely accepted approach for using tourism to eradicate poverty since the late 1990s and pro-poor tourism is often defined as tourism that generates net benefits for the poor (Roe et al., 2004). Pro-poor tourism has been considered a viable development option for the poor in developing countries as these countries possess assets such as wildlife, landscape and cultural heritage experiences in which tourists are interested. The poor can potentially use these assets through developing tourism even if they lack financial resources (Ashley et al., 2001). The United Nations World Tourism Organization (UNWTO) used the pro-poor tourism approach to develop the Sustainable Tourism-Eliminating Poverty initiative in 2003 (Nawijn et al., 2008). Other organizations that have embraced pro-poor tourism and initiated relevant projects are ADB, Netherlands Development Organization and the Overseas Development Institute (ODI).

Ashley and Goodwin (2007), in an opinion paper for ODI, discuss what has “gone right and what has gone wrong” with pro-poor tourism. One of their main concerns is that pro-poor tourism has had a limited focus noting that it has been very much restricted to the micro level. It has often focused on community-based tourism projects, and has, therefore, not been able to reach the scale required for achieving significant impact. Harrison (2008) agrees with this notion and he argues that in order to use tourism as a tool for creating productive employment, rather than just a few local projects, a country’s entire tourism strategy should be part of the country’s inclusive growth strategy for poverty alleviation. Ashley and Goodwin’s second concern is the lack of focus on the market. From their perspective, much effort has been exerted to infrastructure development and provision of training but not to find consumers for the tourism products. This deficiency has caused many projects to be unsuccessful in achieving their goals to be sustainable and provide community benefits. The review of 218 community-based tourism enterprises operating in 12 southern African countries identified severe business capacity constraints in such projects (Spenceley, 2008). Their third concern is the lack of a mechanism to document and monitor changes. The deficiency in monitoring procedures for pro-poor tourism projects has also been pointed out by other tourism scholars (Chok et al., 2007; Hall, 2007; Hummel and van der Duim, 2012; Scheyvens, 2012). Chok et al. (2007) critique the pro-poor tourism approach for ignoring structural and power issues as well as inequality. In the end, if structural inequalities are not addressed, pro-poor or other tourism, might not always provide long-term benefits for the poor (Hall, 2007).

Another challenge for pro-poor tourism is caused by the nature of the term itself. Poor and pro-poor can be value-laden labels and contribute to stigmatization (Moncrieffe and Eyben, 2013). These terms are also difficult to define as poverty has become more than an economic concept and is now rather multi-dimensional and multi-disciplinary in nature (Bourguignon and Chakravarty, 2003; Levitas et al., 2007).

**Theoretical frameworks for inclusive growth and tourism**

There is limited literature on tourism and inclusive growth as mentioned before. Furthermore, there are very few theoretical frameworks on inclusive growth in general. The ADB proposes a framework for inclusive growth along the following three policy pillars: (i) promoting high, sustained economic growth; (ii) broadening inclusiveness through greater access to opportunities and (iii) strengthening social protection (ADB, 2011). These three pillars need to be supported by good governance and strong institutions. This framework has been used by the ADB to operationalize a development strategy geared towards inclusive growth. ADB has also developed a set of 35 ***indicators*** to measure inclusive growth that can be divided into the following eight groups: (i) poverty and inequality (income and nonincome), (ii) economic growth and employment, (iii) key infrastructure endowments, (iv) access to education and health, (v) access to basic infrastructure utilities and services, (vi) gender equality and opportunity, (vii) social safety nets and (viii) good governance and institutions (ADB, 2011). This framework and the ***indicators*** are used to measure inclusive growth on a macro level and not on a sector level.

The ADB evaluated its inclusive growth agenda between 2000 and 2012 and found that 60% of its total financing, or more than US$81 billion, was classified under pillar one (growth), 30% under pillar two (access to opportunities) and 10% under pillar three (social protection) (ADB, 2014a). None of the evaluated projects focused on a specific sector except for ***agriculture***. The ADB’s “Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project” has not yet been completed. The majority of the program is focused on removing physical and capacity constraints impeding tourism in areas that are currently excluded from tourism development to decrease geographic inequality. Much of the project involves large infrastructure improvements opening up new regions.

Inclusive growth development requires moving from a project-level approach, that most of the pro-poor tourism initiatives have, towards the macro level. A growth diagnostic model similar to the Hausmann–Rodrik–Velasco (HRV) framework developed by Hausmann et al. (2005) combined with the inclusive growth model as developed by Ianchovichina and Lundstrom (2009) could be used to identify the specific binding constraints to tourism driven inclusive growth. The HRV approach is based on the idea that there can be many reasons why an economy does not grow, but each reason generates a distinctive set of symptoms, such as government failures, information asymmetries and distortions in finance opportunities for diversification and poor project selection or poor policies. Through a systematic approach using the growth diagnostic tree, the binding constraints to growth can be identified (Hausmann et al., 2008). However, many of the current binding constraints that contribute to the exclusion of certain groups to benefit from tourism are not sector specific. Improved health, infrastructure and employability through better education will lead to inclusive growth among all sectors including tourism (Hausmann et al., 2008). While special programs to help the poor and provide safety nets will still be needed, the inclusive growth diagnostic’s focus is on removing constraints and increasing access to the labor markets as well as providing equal opportunities to entrepreneurs (Ianchovichina and Lundstrom-Gable, 2012).

**Implications and next steps**

There is currently a shift in the development thinking paradigm to further embrace inclusive growth. It is still too early to determine how this change will impact the role of tourism in development or how tourism can best contribute to poverty alleviation. Particularly in today’s dynamic global environment where terrorism and political shifts can be unpredictable, rapid and of high impact, inclusive growth efforts in tourism will need to be agile in order to benefit the full spectrum of participants at various stages of economic development. While the principles of inclusive growth and pro-poor growth are similar, the desired scaling up for broad impact in the specific instance of pro-poor tourism has not happened yet (Harrison, 2008). Most pro-poor tourism projects have been small scale and excluding the mainstream tourism sector while they could potentially impact a much larger group of beneficiaries (Mitchell and Ashley, 2010). The question to be addressed is how tourism can have a larger impact on reducing inequality and fostering development. While pro-poor tourism projects have mostly been short to medium term, tourism-driven inclusive growth requires a longer term approach (two to three decades). This perspective means that results from the majority of the ***interventions*** will take much longer to be evident and could be a risk to the further application of inclusive growth to tourism. When following the inclusive growth approach, the tourism sector should be prepared to be part of a country’s overall inclusive growth strategy in order to benefit from synergies. This means the tourism sector should be developed by the private sector while the government plays a facilitating role offering complementary investments that could also benefit other sectors. Governments could for example (i) make cultural investments in heritage areas that can attract tourists; (ii) invest in roads, water and sanitation, and health facilities, which will benefit tourism and other sectors as well as the overall livelihood of the country; (iii) invest in education, especially language training and other hospitality areas enabling jobs in tourism and other service activities and (iv) address information asymmetries through tourism.

Both policy makers and governments are currently trying to understand just exactly how tourism can contribute to inclusive growth. It is clear that tourism is a labor-intensive sector and can provide employment opportunities to youth, women and those living in ***rural*** areas. Tourism can also be an effective ***intervention*** point for achieving reforms, which can later be generalized over the total economy (e.g. land reforms or business policies). Additionally, tourism investment in infrastructure can be designed to benefit not only tourists but also local populations and provide access to communities that previously have been excluded from the economic process (Christie et al., 2014; Christie and Crompton, 2001; Mitchell and Ashley, 2010; Scheyvens, 2002). However, the steps and best approaches for poverty alleviation and shared prosperity continue to grapple with inclusive growth. Beyond presenting the definitions and discussing the terminology, this paper takes the first step in understanding the concept of inclusive growth, its difference from pro-poor growth and its current application across the tourism sector. In order to move forward the academic discussion about the concept of inclusive growth, tourism researchers and development stakeholders are encouraged to further explore the role of tourism as a driver of inclusive growth and to engage with policy makers for utilizing tourism’s potential to contribute to a more equal world.

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DT\1126843EN.docx PE605.918v01-00 EN United in diversity EN European Parliament 2014-2019 Committee on Budgetary Control 15.6.2017 WORKING DOCUMENT on the certification bodies’ new role on CAP expenditure: a positive step towards a single audit model but with significant weaknesses to be addressed Committee on Budgetary Control Rapporteur: Petri Sarvamaa PE605.918v01-00 2/14 DT\1126843EN.docx EN Introduction EU support for ***agriculture*** is granted through the European ***Agricultural*** Guarantee Fund (EAGF) and the European ***Agricultural*** Fund for ***Rural*** Development (EAFRD). The total allocation for these two funds amounts to 363 billion euro (in 2011 prices) for the 2014-2020 programme period, which represents around 38 % of the total Multiannual Financial Framework. Common ***Agricultural*** Policy (CAP) expenditure under both funds can be grouped into two categories - Integrated Administrative and Control System (IACS) expenditure (entitlement-based, consists mainly of annual per hectare payments) and non-IACS expenditure (reimbursement-based payments, consist mainly of investments in farms and ***rural*** infrastructure, as well as ***interventions*** in ***agricultural*** markets). For the 2015 financial year, the IACS and non-IACS expenditure amounted respectively to 86 % and 14 % of the overall funding under CAP. Responsibility for managing the CAP is shared between the Commission and the Member States.

Under shared management, the Commission remains ultimately responsible for the budget, but delegates its implementation to bodies specially designated by the Member States: the paying agencies (PAs). The Directorate-General for ***Agriculture*** and ***Rural*** Development (DG AGRI) oversees the PAs’ implementation of the budget, verifying and reimbursing the expenditure declared monthly (for the EAGF) and quarterly (for the EAFRD) by the PAs and, ultimately, assessing whether expenditure is legal and regular by means of the conformity clearance procedure. At Member State level, the CAP budget is managed by PAs accredited by the relevant Member State’s competent authority (CA). The PAs perform administrative checks on all project applications and payment claims received from beneficiaries, as well as on-the-spot checks for the vast majority of supporting measures. Following these checks, the PAs pay the beneficiaries the amounts due and declare them to the Commission for reimbursement. All the amounts paid are then recorded in the PAs’ annual accounts, which are provided to the Commission by the director of each PA along with a management declaration regarding the effectiveness of the PA’s control system. The Financial Regulation1 requires the Commission, in entrusting the PAs with budget implementation tasks for the CAP under shared management, to ensure that the EU’s financial interests are protected to the same standard as though the Commission were performing these tasks itself. In the case of the CAP, appropriate control and audit responsibilities at Member State level are assumed by the certification body (CB). The CBs have been performing their role as independent auditors of the PAs since the 1996 financial year. The CBs have been required to issue a certificate concerning the compliance of the PAs’ accounts and internal control procedures with internationally accepted audit standards. Since the 2015 financial year, they have been also asked to provide an opinion stating whether the expenditure for which reimbursement has been requested from the Commission is legal and regular. 1 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 DT\1126843EN.docx 3/14 PE605.918v01-00 EN The CAP Horizontal Regulation1 also stipulates that a CB must be a public or private audit body designated by the CA and that it must have the necessary technical expertise and be operationally independent from the PA, as well as from the authority which has accredited that PA. The aim of the CBs’ work on legality and regularity is to increase DG AGRI’s assurance on the legality and regularity of expenditure. The Commission established the framework for the CBs’ audit work through an implementing regulation and additional guidelines. According to this regulation, and in order to obtain reliable reports and opinions from the CBs, the Commission needs to ensure that its guidelines provide appropriate instructions in accordance with internationally accepted audit standards, and that the work carried out by the CBs based on such guidance is sufficient and of appropriate quality. Audit scope and approach The Court focused its analysis on the framework established by the Commission for the CBs’ work on legality and regularity only for the first year of implementation (2015 financial year). The audit aimed at assessing whether the CBs’ new role was a step towards a single audit approach and if the Commission took due account of it in its assurance model. The audit also aimed at assessing whether the framework set up by the Commission enables the CBs to draw an opinion on the legality and regularity of CAP expenditure in accordance with the applicable EU regulations and internationally accepted audit standards. In particular, the Court examined whether the Commission’s guidelines to CBs ensured an appropriate risk assessment by the CBs and a representative sampling, an appropriate level of substantive testing, and a correct estimate of the level of error and audit opinion. European Court of Auditors’ findings and observations I - The CBs’ new role in relation to the legality and regularity of CAP expenditure is a positive step towards a single audit model The concept of single audit is premised upon the need to avoid uncoordinated, overlapping controls and audits. In the context of the EU budget, and for shared management in particular, single audit approach would provide assurance as to the legality and regularity of expenditure for management (internal control) purposes on the one hand and for audit purposes on the other. It should be an effective control framework in which each layer builds on the assurance provided by others. For CAP expenditure, the Commission draws assurance that expenditure is legal and regular from three tiers of information: the checks performed by the PAs, the audit work carried out by the CBs and the results of the Commission’s checks thereon. When such assurance is considered insufficient, the Commission resorts to its own conformity clearance procedures which may result in financial corrections. 1 Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common ***agricultural*** policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008) PE605.918v01-00 4/14 DT\1126843EN.docx EN The Court observed that the CBs’ new role of issuing an opinion on the legality and regularity of expenditure has the potential, during the 2014-2020 period, to considerably strengthen a single audit model for the Commission’s management of ***agricultural*** expenditure. In chronological terms, the CBs are the first auditors to provide assurance as to the legality and regularity of ***agricultural*** spending, and they are the only source of such assurance at national/regional level. Thanks to the audit work carried out by the CBs, the Commission would be able to derive additional management assurance, rather than rely solely on DG AGRI’s own checks. Furthermore, the overall audit and control costs could be reduced, and at the same time Member States’ control systems would be strengthened. II - DG AGRI’s assurance model remains based on the Member States’ control results The Financial Regulation requires DG AGRI’s Director-General to prepare an Annual Activity Report (AAR), declaring that he has reasonable assurance that the control procedures in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. Up until the 2015 financial year, the assurance model used for this purpose took as its starting point the control statistics reported by Member States. DG AGRI needed to adjust the level of error where it found that part of the errors were not detected by the PAs and therefore not reflected in Member States’ control results. The information from the CBs’ new opinions on legality and regularity had only a marginal effect on these adjustments for the 2015 financial year as they were merely one factor take into account in the Commission’s calculation. In its 2015 AAR, DG AGRI acknowledged that it had made a limited use of the CBs’ opinions. This was mainly due to the fact that it was the first year in which the CBs had produced such opinions, the timing of their work, their lack of technical skills and legal expertise, their inadequate audit strategies and the insufficient sizes of the samples audited. In addition, the Court considered that the way the Commission defined the CBs’ work in its guidelines has an important impact on the reliability of that work. In order to meet the internationally accepted audit standards, CBs need to perform a higher volume of work than what is strictly required by the CAP Horizontal Regulation. Similar to the PAs and DG AGRI, CBs should validate control statistics separately for IACS and non-IACS strata, which demands a significant increase in the size of their samples compared to a scenario where only a validation at fund level is necessary. Nevertheless, the Court pointed out that once the CBs’ work is done in a reliable manner, this independent assurance should become the key element for the DG AGRI when assessing whether expenditure is legal and regular. III - Risk assessment and sampling method Basing the risk assessment on the accreditation matrix may inflate the level of assurance the CBs can derive from PAs’ internal control systems Pursuant to internationally accepted audit standards, the CBs obtain their overall level of assurance on legality and regularity from two sources: their assessment of the PAs’ control environment and their substantive testing of transactions. DG AGRI required the CBs to base their rating of the PAs’ internal control systems on a so-called accreditation matrix, which DT\1126843EN.docx 5/14 PE605.918v01-00 EN consists of six functions and eight assessment criteria, making a total of 48 assessment parameters. The overall score, representing the weighted average of these 48 parameters, allows the CBs to form their opinion as to whether the PAs’ internal control systems are functioning properly. However, the Court highlighted that it is inappropriate to use that ***indicator*** to assess the PAs’ internal control systems in relation to legality and regularity of expenditure, as these depend mainly on only two of the 48 assessment parameters: administrative checks and on-the-spot checks on the processing of claims, including their validation and authorisation. If other factors compensate for the low scores on these two parameters of the overwhelming importance to legality and regularity, CBs may overrate internal control systems and derive more assurance from them than is warranted. Moreover, the applied framework does not sufficiently take into account systemic weaknesses previously reported both by DG AGRI and by the Court following audits of PAs and final beneficiaries. It was also noted by the Court that whereas DG AGRI uses key and ancillary controls during its assessment of the PAs internal control systems with respect to legality and regularity of expenditure, it instructs CBs to use a different tool for the same purpose - the accreditation matrix, which is unsuitable. The CBs’ sampling method for IACS transactions, based on the PAs’ lists of randomly selected on-the-spot checks, entailed a series of risks that were not overcome DG AGRI guidelines split the work for substantive testing into two samples. For Sample 1 transactions, which concern a certain part of beneficiaries randomly selected by the PAs for on-the-spot checks, CBs are required to re-perform both these on-the-spot checks and the full range of administrative checks. For Sample 2, drawn from all payments for the year in question, CBs need to re-perform only administrative checks. Since CBs examine the on-the-spot checks performed by the PAs on claims which (if IACS-based) are likely to lead to payments during the corresponding financial year, the results of their testing also help the CBs to form an opinion on the functioning of the PAs’ internal control systems. It is one of the other audit objectives laid down in the CAP Horizontal Regulation. DG AGRI requires CBs to assess the representativeness of the PAs’ samples. In order to comply with such a requirement, both the PAs and the CBs need to maintain a sufficient and reliable audit trail to confirm that the samples are representative, drawn from the entire population using statistically valid methods and have remained unchanged. Any replacement of transactions contained in the initial samples must be appropriately justified and documented. DG AGRI also commands that Sample 1 IACS transactions for substantive testing should be selected based on the amounts claimed by farmers rather than the amounts that are actually paid, so that the CBs can perform their re-verifications as soon as possible after the PAs’ on-the-spot checks and find the selected farms in similar conditions. However, for this method to work as intended, close cooperation and communication between the PAs and the CBs is important. The CBs need to be updated regularly on checks performed PE605.918v01-00 6/14 DT\1126843EN.docx EN by the PA so that the CB can re-perform these checks shortly after the PA’s visit. The Court found that this condition was not met in three of the five Member States visited (Poland, Romania, Germany). Furthermore, for this approach to be valid, the CBs need to have immediate access to the list of on-the-spot checks initially selected by the PAs (to minimise the risk of subsequent changes) and they must not be allowed to exclude transactions from its sample as a result of delays in the PA’s decision granting the relevant aid. If the latter happens, PAs have a possibility to intentionally delay their decisions and payments for certain transactions, which might lead to errors in the CBs’ calculations, undermining of the representativeness of the results and the validity of their extrapolation to overall expenditure, as well as to an incorrect reduction in the error rate found by the CBs. The adequate application of the claim-based selection method also relies on the PAs’ unawareness of the transactions that will be subject to re-***performance***. This safeguard was compromised in the case of Italy, where the CB had given the PA an advance notice of which beneficiaries would be scrutinised before the PA carried out the majority of its initial on-the-spot checks. A portion of the non-IACS transactions upon which the CBs perform substantive testing is not representative of expenditure in the financial year audited For non-IACS transactions (both EAGF and EAFRD), there is a significant disparity between the period for which the on-the-spot checks are reported (the calendar year) and the period for which expenditure is paid (from 16 October 2014 to 15 October 2015 for the 2015 financial year). As a result, some of the beneficiaries subject to on-the-spot checks performed during the 2014 calendar year were not reimbursed in the 2015 financial year, and the CBs cannot include the results of such transactions in their calculation of the error rate for the financial year concerned. Therefore, the Court underlied that the number of transactions the CBs use in calculating the overall error rate is lower, thus reducing its accuracy and, in turn, affecting the reliability of their opinions on the legality and regularity of expenditure for the financial year. IV - Substantive testing For most transactions, the guidelines do not require the CBs to perform on-the-spot testing at final beneficiary level According to internationally accepted audit standards, public sector auditors should use a variety of techniques, such as observation, inspection, inquiry, re-***performance***, confirmation and analytical procedures to gather sufficient and appropriate evidence that serves as basis for conclusions. Under EU law the CBs’ substantive testing of expenditure must cover verifying the legality and regularity of the underlying transactions at final beneficiary level. The Court observed that Sample 2 transactions, for which no on-the-spot testing is done, accounted for the majority of the transactions used by CBs for substantive testing in four of the Member States visited. Nevertheless, gathering evidence based only on a re-***performance*** of administrative checks at PA level will often not provide the CBs with sufficient and appropriate audit evidence as required by the standards. By applying this limited approach, DT\1126843EN.docx 7/14 PE605.918v01-00 EN the CBs are not using two audit collection methods that are very important in the context of the CAP expenditure: inspection and inquiry. Without these methods, important audit evidence cannot be collected, such as evidence that farmers are using their land as stated in their declarations and proof of the existence of physical assets purchased through investment projects. Consequently, the CBs may not be able to obtain reasonable assurance that the relevant expenditure is legal and regular. This issue becomes even more pronounced when considering the Court’s annual reports, which demonstrated that most of the errors in CAP expenditure (particularly for IACS) are found on the spot. The guidelines require the CBs only to re-perform PAs’ initial checks, rather than carry out all the audit procedures the CBs consider necessary to obtain reasonable assurance Re-***performance*** is defined by internationally accepted audit standards as independently carrying out the same procedures already performed by the audited entity. DG AGRI required CBs, for their substantive testing, only to re-perform (re-verify) the PAs’ initial checks (e.g to test whether the correct decisions were made when granting aid), for both Sample 1 and Sample 2 transactions. The Court stated that while re-***performance*** is a valid audit evidence collection method, the Commission should not require the CBs to limit themselves to such method for all transactions subject to substantive testing but instead leave it up to the CBs to determine the extent of its use. In order to obtain sufficient audit evidence and form a reasonable assurance opinion, the CBs should be able to choose and perform audit steps and procedures that they themselves consider appropriate. V - Conclusion and audit opinion The guidelines require the CBs to calculate two different error rates and the use made of these rates by the CBs and DG AGRI is not appropriate CAP Horizontal Regulation requires the CBs to express a limited assurance conclusion in relation to the PA’s management declaration (MD). Such a conclusion does not necessitate fully-fledged audit work, but merely a review, usually limited to analytical procedures and enquiries. Thus, in order to be compliant with internationally accepted audit standards, the conclusion on the MD can be drawn from the results of the audit work done in relation to the reliability of accounts, the proper functioning of the internal control system and the legality and regularity of transactions, reflected by the ERR (‘error rate’). However, DG AGRI guidelines additionally require the CBs to calculate a different rate, the IRR (‘incompliance rate’), in order to give an opinion about the MDs. Furthermore, whereas the CBs’ opinions on the legality and regularity of expenditure are based on the ERR, DG AGRI‘s assurance model uses the IRR in order to estimate the amounts at risk from a legality and regularity perspective. According to the Court, this formula is inadequate as the IRR does not represent the level of error in the expenditure, but rather the financial impact of weaknesses in the PA’s administrative and on-the-spot checks. PE605.918v01-00 8/14 DT\1126843EN.docx EN DG AGRI’s guidelines require the CBs to use the ERR calculated for legality and regularity purposes also to form an opinion on the completeness, accuracy and veracity of the PAs’ annual accounts. The same procedure is used by DG AGRI itself in the financial clearance procedure (annual review of the PAs’ accounts). Yet, the Court stressed that this runs contrary to the CAP Horizontal Regulation, which clearly separates the issue of the reliability of the PAs’ accounts from that of the legality and regularity of expenditure. It is an appropriate distinction because a payment may be properly accounted for despite not being legal and regular, and, vice-versa, a payment may be legal and regular despite being incorrectly accounted for. The CBs’ opinion on the legality and regularity of expenditure is based on an understated total error The Court noted that when calculating the ERR, CBs do not take into consideration the differences between what beneficiaries claimed and what the PA validated after its on-the-spot checks (which constitute the errors reported by the PAs in the control statistics), but only the difference between what the CB considers eligible and what the PA has previously validated. While only 5 % of claims are subject to on-the-spot checks by the PAs as a general rule, for the six Member States visited the average share of transactions that underwent those checks was 38 % for EAGF and 44 % for EAFRD. Hence, such transactions are overrepresented in the overall CB samples. Since the PA has already detected and reported errors for the previously conducted on-the-spot checks, they will be no longer identified when the CBs compare their results to the PAs results. At the same time, potential errors will remain uncorrected for the 95 % of the population subject only to administrative checks. In order to ensure a true representation of the characteristics of the total population, the CBs need to add to their own error rate the PA’s error rate for its random on-the-spot checks on the share of Sample 1 transactions in excess of the 5 % that have previously undergone such checks. In addition, the CBs’ error rate for the Sample 2 transactions which have not been subject to any on-the-spot checks (either by the PA or by the CB) has to be increased likewise by the PA’s error rate from the control statistics. Finally, the Court emphasised that in the absence of the aforementioned adjustments, the ERR is likely to be significantly understated for both Sample 1 and Sample 2, and the CBs will not be in a position to express an opinion on the legality and regularity of the entire population of payments. Conclusions and recommendations As noted, the Commission draws assurance that expenditure is legal and regular from three layers of information: the checks performed by the PAs, the audit work carried out by the CBs and the results of the Commission’s checks thereon. When such assurance is deemed insufficient, the Commission applies its own conformity clearance procedures which may result in financial corrections. Whereas CBs were initially responsible for issuing a certificate on the reliability of accounts and on internal control procedures, since the 2015 financial year they have been also required to provide an opinion, drawn in accordance with internationally accepted audit standards, DT\1126843EN.docx 9/14 PE605.918v01-00 EN stating whether the expenditure for which reimbursement has been requested from the Commission is legal and regular. The Court concluded that although the CBs’ new role is a positive step towards a single audit model, the Commission could take very limited assurance from the CBs’ work on legality and regularity. In addition, the CBs’ opinions do not fully comply with the applicable standards and rules in important areas due to the significant weaknesses in the framework designed by the Commission for the first year of implementation of their new work. For the 2015 financial year, the Commission’s assurance model remained based on the Member States’ controls results and the CBs’ opinions on legality and regularity were merely one factor taken into account during the calculation of error adjustments. However, since these opinions are the only source which provides independent assurance on an annual basis, once the CBs’ work is done in a reliable manner they should become the key element for DG AGRI when assessing whether expenditure is legal and regular. With regard to the Commission’s guidelines on the risk assessment procedure, the Court observed that the CBs were required to use an inappropriate tool, the accreditation matrix, for legality and regularity purposes, which may increase the level of assurance the CBs derive from PAs’ internal control systems without due justification. As for the CBs’ approach to sampling, the Court underlined the need to ensure that the samples initially selected by the PAs are representative. It also pointed towards several risks entailed by the method of selection of IACS transactions that were subject to re-verification. For non-IACS expenditure, there was a disparity between the period for which PAs’ on-the-spot checks were reported and the period for which expenditure was made. The Commission limited the CBs’ substantive testing to re-***performance*** of the PAs’ initial checks, which were only of administrative nature in the majority of Member States visited. This stipulation often prevented the CBs from obtaining sufficient and appropriate audit evidence to form a reasonable assurance opinion. With reference to the use of two ***indicators*** of error in relation to legality and regularity, the Court noted that IRR was not necessary for ensuring the MDs’ compliance with internationally accepted audit standards. At the same time, the Commission incorrectly envisaged using the IRR instead of the ERR in the calculation of the adjusted error rate. On the other hand, the ERR has been wrongly used by both the CBs and the Commission to form a view on the completeness, accuracy and veracity of the PAs' accounts. The Court also concluded that, owing to the CBs’ sampling scheme and an overrepresentation of the transactions which had previously been subject to PA on-the-spot checks, levels of error reported by the CBs were underestimated. Following those conclusions, the Court recommended that: 1. The Commission should use the CBs’ results, when the work is defined and performed in accordance with the applicable regulations and internationally accepted audit standards, as the key element of its assurance model regarding the legality and regularity of expenditure. PE605.918v01-00 10/14 DT\1126843EN.docx EN 2. The Commission should revise its guidelines so that the CBs’ risk assessment as regards legality and regularity is focused on the key and ancillary controls already used by the Commission, complemented by any other evidence that the CBs judge appropriate in accordance with internationally accepted audit standards. 3. For the selection by the CBs of IACS transactions from the list of claims randomly selected by the PAs for on-the-spot checks, the Commission should reinforce its guidelines, requiring CBs to put in place appropriate safeguards that: - ensure that the CBs’ samples are representative, are transmitted upon request to the Commission and that an appropriate audit trail is maintained. This means that the CBs need to check whether the PAs’ samples are representative; - enable the CBs to plan and carry out their visits shortly after the PAs have carried out their on-the-spot checks; - ensure that CBs do not disclose their sample to the PAs before the latter carried out their on-the-spot checks. 4. The Commission should revise its guidelines with regard to the sampling method for non-IACS expenditure, so that the CBs sample non-IACS expenditure directly from the list of payments executed during the financial year being audited. 5. The Commission should revise its guidelines to allow the CBs to carry out: - on-the-spot testing for any transaction audited; - all audit steps and procedures that they themselves consider appropriate, without being limited to re-performing the PAs’ initial checks. 6. The Commission should revise its guidelines so that they do not require the calculation of two different error rates regarding legality and regularity. A single error rate, based on which the CBs expressed their reasonable assurance opinion on legality and regularity of expenditure and limited assurance conclusion on the assertions made in the management declaration, would satisfy the requirements of the CAP Horizontal Regulation. The Commission and the CBs should not use such an error rate for legality and regularity to judge the completeness, accuracy and veracity of the PA’s annual accounts. 7. The Commission should revise its guidelines so that: - for IACS transactions which are sampled from the list of PAs’ random on-the-spot checks, the overall error calculated by the CBs also includes the level of error reported by the PAs in the control statistics, extrapolated to the remaining transactions not subject to PA on-the-spot checks. The CBs have to ensure that the control statistics compiled by the PAs are complete and accurate; - for the transactions sampled by the CBs directly from the full population of payments, no such adjustment is necessary because the sample would be representative of the underlying populations audited. DT\1126843EN.docx 11/14 PE605.918v01-00 EN The above recommendations 2 to 7 have as their implementation target the next revision of the Commission's guidelines applicable from the financial year 2018 onwards. Summary of the European Commission’s replies The management and control system of the CAP expenditure is following a single control and audit approach that is integrated in a pyramid of controls where each upper layer builds its work upon the results of the previous layer, and where each layer may use the results of the upper layer to improve its own controls. It is a dynamic model aiming not only at estimating an error rate but also aiming at detecting the sources of errors, implementing remedial actions and reducing the error rates year after year. In the CAP assurance model applied by the Commission the independent CBs are a layer of the pyramid of control. The CBs deliver every year an opinion on the PA's accounts and systems and, from financial year 2015, on legality and regularity of expenditure. The Commission provides them with guidelines. DG AGRI auditors check the reliability of the opinions of the CBs on legality and regularity, in order to assess whether they can be used as a source of assurance for the EU expenditure covered. DG AGRI auditors also perform system audits which result where necessary in remedial action plans and net financial corrections, as well as interruptions, reductions or suspensions of payments when the Member State concerned does not take remedial actions. With regard to the recommendation 1, the Commission accepts it partially. It agrees that where the audit work of the CBs is done in accordance with the applicable regulations and guidelines, their opinions should be the key element for the Commission's assurance. However, the Commission does not acknowledge that using the opinion of CBs for assurance would be possible only once the work is carried out as defined in recommendations 2 to 7, and not when the work is done as defined in the guidelines applicable from the financial year 2015. The Commission accepts the recommendation 2 and considers it already implemented in the new guidelines for FY2018. The CBs are advised to use the key and ancillary cont

rols when testing the procedures for authorisation of claims. The Commission accepts the recommendation 3 and 4 and considers that they are already implemented in the new, reinforced guidelines for FY2018. In relation to the recommendation 5, the Commission accepts it as regards allowing the CBs to carry out all the audit steps and procedures that they themselves consider appropriate and considers that it is already implemented. Nevertheless, the Commission rejects the recommendation where it would entail that the CBs go on-the-spot for transactions which have not been controlled on-the-spot by the PA. The recommendations 6 and 7 were accepted by the Commission, and considered to be already implemented in the guidelines for FY2018. PE605.918v01-00 12/14 DT\1126843EN.docx EN Recommendations by the Rapporteur The European Parliament: 1. Welcomes the Court's report, and endorses its remarks and recommendations; notes with satisfaction that the Commission accepts most of the recommendations and will consider, or has already begun to implement them; 2. Acknowledges the positive progress made in the CAP expenditure audit model; regrets however that the single audit scheme is still not functioning up to its full potential; 3. Reminds the Commission of its ultimate responsibility over the efficient use of CAP expenditure; encourages the Commission furthermore to ensure that the application of the control methods is sufficiently similar throughout the Union, and all the CBs apply the same criteria in their work; 4. Notes that the CBs have been independently auditing their respective country’s PAs since 1996; welcomes in this regard the fact that in 2015, for the first time, the CBs were required to ascertain the legality and regularity of the related expenditure; considers this to be very positive development as it could help Member States strengthen their controls and reduce audit costs, and enable the Commission to obtain independent additional assurance on the legality and regularity of CAP expenditure; 5. Regrets however that the Commission can use the work of the CBs only to a limited extent, since according to the Court's report, there are significant design weaknesses in the current framework, due to which the CBs’ opinions do not fully comply with audit standards and rules in some important areas; 6. Notes with concern from the Court's report that there were weaknesses in both methodology and implementation, inter alia audit strategies are often inappropriate, inadequate sets of samples are being drawn, and the CBs auditors often lack sufficient level of skills and legal expertise; acknowledges, however, that year 2015 may have been challenging for the Member States, as the relevant EU rules and guidelines were on a kick-off period at the time, and the CBs may not have been provided with enough information and training on their practical implementation, or given enough guidance on the required amount of samples; 7. Calls on the Commission to make further efforts in order to tackle the weaknesses pointed out in the Court's report, and to achieve a truly efficient single audit model in CAP expenditure; encourages the Commission to monitor and actively support the CBs in improving their work and methodology on the legality and regularity of expenditure; 8. Points out in particular the need to develop more reliable work methods in the guidelines relating to the risk of inflating the assurance deriving from internal controls, the inappropriate representativeness of samples and the type of testing allowed, the unnecessary calculation of two different error rates and how the rates are used, and the unreliable opinions that are being based on an understated error; 9. Notes also from the Court’s report that despite the often unreliable nature of the control statistics of the Member States, the Commission continues to base its assurance model on DT\1126843EN.docx 13/14 PE605.918v01-00 EN this data, and that in 2015 the CBs' opinion was merely one factor taken into account; 10. Regrets that the consequences resulting from this unreliability are clear, e.g in direct payments DG AGRI made top ups for 12 out of 69 PAs with an error rate above 2 %, while only one PA had initially qualified its declaration, and in 2015 DG AGRI also issued reservations for 10 PAs. In ***rural*** area DG AGRI made top ups for 36 out of 72 PAs and in 14 cases the adjusted error rate was above 5%, and in 2015 DG AGRI also issued reservations for 24 PAs comprising from 18 Member States; 11. Calls on the Commission to put emphasis on this unreliability and develop measures in order to achieve a reliable basis for its assurance model; believes that the Commission should in this regard actively guide the CBs to carry out adequate opinions, and take advantage of the information and data provided as a result; 12. Encourages the Commission also to require the CBs to put in place appropriate safeguards to ensure the representativeness of their samples, to allow the CBs to carry out sufficient on-the-spot testing, to require the CBs to calculate only one single error rate for legality and regularity, and to ensure that the level of error reported by the PAs in their control statistics is properly included in the CBs’ error rate; 13. Recommends, in particular, that the Commission puts emphasis in opinions on the legality and regularity of the CAP expenditure of a quality and scope which enable the Commission to ascertain the reliability of the PAs' control data, or where appropriate, estimate the necessary adjustment of the PAs' error rates on the basis of the opinions provided by the CBs; 14. Notes that, regarding the ECA recommendation number 7, the Commission has to make sure that the PAs error rate does not inappropriately cumulate in the CBs overall error rate; believes that the guidelines in this regard should be as clear as possible in order to avoid misunderstandings in financial corrections; 15. Notes also from the Court’s report that the safeguard of the PAs’ unawareness of the transactions that will be subject to re-***performance***, was compromised in the case of Italy, where the CB had given the PA an advance notice of which beneficiaries would be scrutinised before the PA carried out the majority of its initial on-the-spot checks; stresses strongly that the adequate application of the claim-based selection method has to be secured in all cases, and advance notices cannot be applied without consequences; 16. Points out that for non-IACS transactions (both EAGF and EAFRD), there is a significant disparity between the period for which the on-the-spot checks are reported (the calendar year) and the period for which expenditure is paid (from 16 October 2014 to 15 October 2015 for the 2015 financial year); notes that as a result, some of the beneficiaries subject to on-the-spot checks performed during the 2014 calendar year were not reimbursed in the 2015 financial year, and the CBs cannot include the results of such transactions in their calculation of the error rate for the financial year concerned; calls on the Commission to come up with an appropriate solution for the synchronization of these calendars; 17. Points out that the control schedules for the PAs can be very tight, especially in Member States with short growing season, and providing the relevant information to the CBs efficiently on time may often prove to be very challenging; notes that this may result in PE605.918v01-00 14/14 DT\1126843EN.docx EN the use of multiple different control methods and duplicated error rates, as the CB cannot fully follow the PAs control procedure; believes that this issue could be resolved for example by means of satellite based monitoring measures; 18. Considers that new technology could be in general better taken advantage of in the control of CAP expenditure: where sufficient level of reliability can be achieved e.g by satellite control, the beneficiaries and the auditors should not be burdened with excessive on-the-spot audits; stresses that while securing the financial interest of the EU funding in CAP expenditure, the ultimate aim of the single audit scheme should be to provide efficient controls, functioning administrative systems and lessening of bureaucratic burden; 19. Stresses furthermore that the single audit model should be able to provide less layers in the control system and less expenses for the EU, the Member States and the beneficiaries. More emphasis should be put on the reliability of the overall control system of the Member State, instead of focusing merely on supplementary checks for the beneficiaries; considers the control system to be still too burdensome for the beneficiaries, in particular in those Member States where irregularities and frauds are more uncommon, the overall audit system is proven sufficient, and reliability can be secured by other methods than excessive on-the-spot checks; 20. Calls on the Commission to take careful note of the Court's report and the European Parliament’s recommendations, and further develop the control system of CAP expenditure towards a truly single audit approach;

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**End of Document**



[***Putin's state of the nation address - Kremlin transcript***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5RSD-VD81-JC8S-C54V-00000-00&context=1516831)

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**Body**

Russian President Vladimir Putin delivered his annual address to the Federal Assembly, a joint sitting of both houses of parliament, in Moscow on 1 March.The first part of the speech focused on economic issues, with the president in particular pledging to halve the number of Russians living below the poverty line. The second half of the speech focused on Russian advancements in military technology. Putin announced a new generation of nuclear weapons, including an intercontinental ballistic missile that, he said, could hit anywhere on the planet. The following is the text of the speech published in English by Russian presidential website on 1 March ([*http://bit.ly/2oyMdnb*](http://bit.ly/2oyMdnb)); subheadings have been inserted editorially:

Presidential Address to the Federal Assembly March 1, 2018, Moscow

The President of Russia delivered the Address to the Federal Assembly. The ceremony took place at the Manezh Central Exhibition Hall.

The presentation of the Address was attended by Federation Council members, State Duma deputies, members of the Government, leaders of the Constitutional Court and Supreme Court, governors, speakers of the legislatures of the constituent entities of the Russian Federation, the leaders of traditional religions, public figures, including the heads of regional civic chambers, as well as the leaders of major media outlets.

\* \* \*

'Very special landmark event'

President of Russia Vladimir Putin: Citizens of Russia, members of the Federation Council and State Duma,

Today's Address is a very special landmark event, just as the times we are living in, when the choices we make and every step we take are set to shape the future of our country for decades to come.

It is at such turning points that Russia has proven, time and again, its ability to develop and renew itself, discover new territories, build cities, conquer space and make major discoveries. This unwavering forward-looking drive, coupled with traditions and values, ensured the continuity in the thousand-year-long history of our nation.

We have gone through major challenging transformations, and were able to overcome new and extremely complex economic and social challenges, preserved the unity of our country, built a democratic society and set it on the path to freedom and independence.

We ensured sustainability and stability in almost all areas of life, which is critical for a huge and multi-ethnic country like ours with its complex federative structure and diversity of cultures, with historical divides that are still alive in people's memory and major challenges Russia had to face over the course of its history.

However, sustainability is the foundation of development but not its guarantee. We have no right to allow a situation when the stability that has been achieved would lead to complacency, all the more so as many problems remain unresolved.

Today, Russia ranks among the world's leading nations with a powerful foreign economic and defence potential. But we have not yet reached the required level in the context of accomplishing our highly important task and guaranteeing people's quality of life and prosperity. But we must do this, and we will do this.

'Technological lag'

As I said in the past, the state's role and positions in the modern world are not determined only or predominantly by natural resources or production capacities; the decisive role is played by the people, as well as conditions for every individual's development, self-assertion and creativity. Therefore, everything hinges on efforts to preserve the people of Russia and to guarantee the prosperity of our citizens We must achieve a decisive breakthrough in this area.

I repeat, a solid foundation has been created for this. Therefore, we can now set and accomplish new tasks. We already have substantial experience in implementing ambitious programmes and social projects. The Russian economy has proved its resilience, and the current stable macro-economic situation opens up new opportunities for surging ahead and maintaining long-term growth.

Finally, the world is now accumulating a tremendous technological potential making it possible to achieve a real breakthrough in improving the people's quality of life and modernising the economy, the infrastructure and state governance and administration. How effectively we will able to use the colossal potentialities of the technological revolution, and how we will respond to its challenges depends on us alone. In this sense, the next few years will prove decisive for the country's future. I reiterate, these years will be decisive.

I will tell you why. What I will say now has no connection to the domestic political cycle or even the presidential election. No matter who is elected President, each Russian citizen and all of us together must be able to see what is going on in the world, what is happening around us, and what challenges we are facing.

The speed of technological progress is accelerating sharply. It is rising dramatically. Those who manage to ride this technological wave will surge far ahead. Those who fail to do this will be submerged and drown in this wave.

Technological lag and dependence translate into reduced security and economic opportunities of the country and, ultimately, the loss of its sovereignty. This is the way things stand now. The lag inevitably weakens and erodes the human potential. Because new jobs, modern companies and an attractive life will develop in other, more successful countries where educated and talented young people will go, thereby draining the society's vital powers and development energy.

As I have said, changes concern the entire civilization, and the sheer scale of these changes calls for an equally powerful response. We are ready to provide it. We are ready for a genuine breakthrough.

My confidence is based on the results we have achieved together, even though they may seem modest at first glance, as well as on the unity of Russian society and, most importantly, on the huge potential of Russia and our talented and ingenious people.

In order to move forward and to develop dynamically, we must expand freedom in all spheres, strengthen democratic institutions, local governments, civil society institutions and courts, and also open the country to the world and to new ideas and initiatives.

It is high time we take a number of tough decisions that are long overdue. We need to get rid of anything that stands in the way of our development and prevents people from fully unleashing their potential. It is our obligation to focus all resources and summon all our strength and willpower in this daring effort that must yield results.

Otherwise, there will be no future for us, our children or our country. It is not a question of someone conquering or devastating our land. No, that is not the danger. The main threat and our main enemy is the fact that we are falling behind. If we are unable to reverse this trend, we will fall even further behind. This is like a serious chronic disease that steadily saps the energy from the body and destroys it from within step by step. Quite often, this destructive process goes unnoticed by the body.

We need to master creative power and boost development so that no obstacles prevent us from moving forward with confidence and independently. We must take ownership of our destiny.

Poverty

Colleagues,

What should be our priority? Let me reiterate that I believe that the main, key development factor is the well-being of the people and the prosperity of Russian families.

Let me remind you that in 2000, 42 million people lived below the poverty line, which amounted to nearly 30 percent - 29 percent of the population. In 2012, this ***indicator*** fell to 10 percent.

Poverty has increased slightly against the backdrop of the economic crisis. Today, 20 million Russian nationals live in poverty. Of course, this is much fewer than the 42 million people in 2000, but it is still way too many. There are even working people who have to live very modest lives.

For the first time in our recent history, the minimum wage was equated with the subsistence level. This provision will come into force on May 1, 2018, and will benefit about 4 million people. This is an important step but it still falls short of offering a fundamental solution.

We need to upgrade the employment structure that has become inefficient and archaic, provide good jobs that motivate people, improve their well-being and help them uncover their talents. We need to create decent well-paid jobs. This would help deliver on one of the key objectives for the next decade, which is to guarantee sustained long-term real income growth, and to reduce the poverty rate by at least one half over the next six years.

It is our moral duty to provide all-round support to members of the older generation, who have made a tremendous contribution to national development. Senior citizens must have worthy conditions for a long, active and healthy life. Most importantly, we must raise pensions and index them regularly, so that they outpace inflation. We will also strive to reduce the gap between the size of pensions and pre-retirement wages. And, of course, we must raise the quality of healthcare and social support for senior citizens and help people who are alone and those facing problems in life.

We need to address all these issues using a comprehensive approach. As I see it, the future new Government will have to draft a special programme for the systematic support of senior citizens and for improving their quality of life.

We consider every person important and valuable. People need to know that they are needed, and they must live a long and healthy life and enjoy their grandchildren and great-grandchildren. They need to see their children grow up and become successful in a powerful, rapidly developing and successful country that is attaining new development levels.

Russia must firmly assert itself among the five largest global economies, and its per-capita GDP must increase by 50 percent by the middle of the next decade. This is a very difficult task. I am confident that we are ready to accomplish it.

Of course, life expectancy is a highly important fundamental parameter for gauging the well-being of citizens and the country. In 2000, Russia posted a life expectancy of just over 65 years, with men's life expectancy falling below 60 years. This is not just low, it is a tragedy, and this parameter is tragically inadequate.

In the past few years, Russia has been posting a major increase in average life expectancy levels, which is among the highest in the world. We have managed to accomplish this task. Life expectancy levels have increased by over seven years and now total 73 years. But, of course, this is not enough either. Today, we must set an entirely new goal. By the end of the next decade, Russia must confidently join the club of countries posting a life expectancy of 80-plus years, which includes Japan, France and Germany.

At the same time, life expectancy levels for people living a healthy, active and full life, when they are not hampered and pinned down by illness, must grow faster than planned. I am confident that we can achieve this goal, considering the positive trends of the previous years. For this purpose, the whole of Russia will have to make a quantum leap in its development, so that the life of every person is transformed.

'Spatial development programme'

Colleagues,

We need to create a modern living environment and transform cities and villages across the country. In doing so, we must make sure that they preserve their identity and historical heritage. We already have positive experience in renovating the urban environment and infrastructure. Let me elaborate on this point. Cities like Kazan, Vladivostok and Sochi have already benefited from upgrades of this kind. Change is underway in many regional capitals and smaller cities. Overall, we now know how to do it.

I propose launching a large-scale spatial development programme in Russia, which would include developing cities and other communities by at least doubling spending in this area over the next six years.

It is obvious that the effort to develop cities and other communities goes hand in hand with the need to overcome challenges in other areas, including healthcare, education, environment and transport. Initiatives in all these segments will require additional funding. I will talk about this matter further in my Address.

Urban renovation should be supported by the introduction of state-of-the-art construction technology and materials, modern architectural solutions, digital technology for social services, transport and utilities sectors. Among other things, this would make the housing and utilities sector more transparent and efficient, so that people receive quality services at a reasonable cost.

This large-scale project brings the promise of better economic and social development prospects, a modern living environment, and a favourable climate for cultural and civil initiatives, for small businesses and start-ups. All this would facilitate the emergence of a large and creative middle class in Russia.

Of course, a lot will depend on municipal and local authorities and whether they will be receptive to new ideas. The ability to respond to the diverse needs of various generations, including families with children, retirees and people with disabilities, will also be instrumental. People must have a decisive say in the future of their cities and villages. We have discussed this many times, including at meetings with heads of municipalities. Today, I am not saying it just to check the box. I ask you to bring it to the attention of decision-makers at all levels.

It is important that the development of cities becomes the driving force for the whole country. Russia is a country with a vast territory, and its active, dynamic life cannot be concentrated in several metropolitan cities. Big cities must distribute their energy, and serve as a support for the balanced, harmonious spatial development of the whole of Russia.

Therefore, there is an urgent need for an appropriate modern infrastructure. I will return to this later. However, it is obvious that developed utilities is what will enable residents of small towns and villages to take advantage of all the opportunities and modern services that are available in big cities, and smaller towns will be closely integrated into Russia's single social and economic space. At the same time, we will support initiatives that will help our small towns and villages to preserve their cultural identity, to re-discover their unique potential in a new way.

Particular attention will be paid to the social and infrastructural development of ***rural*** areas. Russian ***agriculture*** has already become a globally competitive industry. Therefore, people who work for this success should live a comfortable and modern life.

Housing

Colleagues,

I understand how important it is for everyone, for every family, to have their own house, their own home. I know this is the problem of problems in Russia. It lingers from decade to decade. How many times governments promised and tried, sincerely tried to resolve it. But we can and must do it now.

In 2017, three million families in Russia improved their living conditions. Now we need to reach a stable level (I emphasise this: it is the first time in the history of modern Russia) - to a level where at least five million families improve their housing conditions annually. This is a difficult task - to jump from three million to five. We reached 3.1 million last year, but we need to make it five. Yet, it is an attainable goal.

I see three key factors for increasing the affordability of housing. The first is the growth of people's incomes. I have spoken about this in the past, and we must ensure this. Next, a decrease in mortgage interest rates and, of course, an increased supply in the housing market.

I would like to remind you of something that few people remember, which is that only 4,000 mortgage loans were issued in 2001. Only 4,000. The interest rate was as high as 30 percent, including on foreign currency loans. By the way, half of the mortgage loans were issued in foreign currency. Few people could afford to take out mortgage loans then. Last year, the number of mortgage loans almost reached one million. In December, the average interest rate on ruble loans for the first time decreased to below 10 percent.

We know, of course, that loan terms are individual and may differ from one borrower to another. But we must continue to lower the average interest rate to 7-8 percent. We held long discussions on the figure I should say here. I am sure that the target figure should be 7 percent. In the next six years, mortgage loans must become accessible to the majority of Russian families, working people and young professionals.

Here are some more figures. In the 1950s through 1970s, we annually built approximately 60 million square metres of housing a year. The figure rose to 70 million by the late 1990s. Now we annually build around 80 million square metres of housing every year. We built even more housing in some years, but the average figure is 80 million. We must move forward and reach new heights in this sphere, that is, increase the volume of housing built every year from 80 million to 120 million square metres. This is an ambitious but realistic goal, given new technologies, the experience our construction companies have accumulated, as well as new materials. The rise from 80 to 120 million square metres is what we need and can achieve. I will tell you why: if we want 5 million families to receive new housing every year, we must reach the figure of 120 million square metres.

Those who invest their money in housing projects must be securely protected. We should gradually proceed from unit construction to project financing, when developers and banks, but not people, shoulder the risks.

I also propose revising the personal property tax. It must be fair and affordable.

Some people, including those in this hall, tried to convince me that this tax should be based on the market value of property. They told me that using obsolete valuation by the Technical Inventory Bureau is an anachronism. But it turned out in reality that cadastral value, which should be comparable to market value, often exceeded it by far. This was not the agreement. And the people did not expect this from us.

We must revise the mechanism for calculating the tax and also the calculation of the cadastral value of property. One way or another, it must not exceed the real market value. All decisions regarding this must be taken without delay in the first six months of this year.

Infrastructure development, high-speed internet

Colleagues,

We must penetrate the whole country with advanced communications to develop cities, towns, to enhance business activity and to meld together Russia's entire territory.

The Crimean Bridge will open to cars in just a few months and to trains next year. This will stimulate the development of Crimea and the entire Russian Black Sea region.

We have overhauled federal roads. Now we must modernise regional and local routes. I am not going to talk about the figures now, but I know them. It is a fact that federal roads have mostly been renovated. The situation is somewhat worse with regional roads, and it is completely unacceptable with local roads. I address this to regional and city heads: you must constantly focus your attention on the roads. You must improve the quality of road construction using advanced technology and solutions, infrastructure mortgage loans and life cycle contracts.

Of course, another critical task is to improve safety on the roads and to decrease the mortality rate in road accidents to the minimum.

Overall, in the next six years, we must almost double the spending on road construction and repairs in Russia and to allocate more than 11 trillion roubles for this from all sources. This is a lot; keep in mind that we have allocated 6.4 trillion rubles in 2012-2017, but we need 11 trillion.

Large Eurasian transport corridors will also be developing. An automobile road that will become part of the Europe - Asia-Pacific corridor is already under construction. Our Chinese and Kazakhstani partners involved in this project together with us have already completed their part. Their sections have already been opened, so we need to speed up our work.

The throughput capability of the Baikal-Amur Mainline and the Trans-Siberian Railway will grow 1.5 times, up to 180 million tonnes, in six years. It will take seven days for containers from Vladivostok to reach the western borders of Russia. This is just one of the infrastructure projects that will bring quick economic returns. It includes freight, so all investment will be paid off very quickly and will contribute to these regions' development.

The volume of transit shipments on our railways must grow almost fourfold. This means that Russia will become a global leader in transit shipping between Europe and Asia.

In 1990, the ports of the Soviet Union had an aggregate capacity of 600 million tonnes, but after the country broke apart, we lost almost half. In the early 2000s, Russian ports could handle only 300 million tonnes. Over the last 17 years, this figure has tripled. In early 2017, the aggregate port capacity in Russia exceeded 1 billion tonnes for the first time in history. As you can see from the charts, this exceeds the level reached by the Soviet Union by more than two thirds. By the way, these are the figures for early 2017, and the capacity currently stands at 1,025 billion tonnes.

We need to further expand this capacity, including by increasing the capacity of railway links to ports in the Azov and Black Sea basin 1.5-fold to 131 million tonnes.

The Northern Sea Route will be the key to developing the Russian Arctic and Far East. By 2025, cargo traffic along this route will surge tenfold to 80 million tonnes. Our goal is to make it a truly global and competitive transport route. Let me remind you that the Northern Sea Route was used more actively in Soviet times compared to how we have been using it so far. We will definitely develop this route and reach new horizons. I have no doubt about it.

We will continue our proactive policy to attract investment and create social and economic growth centres in Russia's Far East. We will create all the conditions to ensure a people-friendly living environment, so that people move to this region and its population grows.

A number of large-scale industrial projects have been launched in the Arctic. They comply with the highest environmental standards. We are strengthening the research, transport, navigation and military infrastructure, which is expected to guarantee Russia's interests in this ***strategic*** region. Russia builds cutting-edge nuclear icebreakers. We have had the most powerful icebreaker fleet in the world, and this will remain so.

We will renovate and expand the network of regional airports across Russia. In six years, half of the regions will be connected between each other by direct flights. The situation where you had to make a connection in Moscow when flying to a neighbouring region will become a thing of the past. We are already working on this. This includes efforts to develop aviation and airports.

The Spatial Development Strategy will serve as a foundation for preparing a comprehensive plan to modernise and expand the backbone traffic infrastructure. I believe this to be a priority for the future Government.

Russia must not just become the world's key logistics and transport hub, but also, which is very important, a global centre for the storage, processing, transfer and reliable protection of large volumes of information, so-called big data.

Overall, infrastructure development must take into account global technological changes. In other words, the projects we are now considering must include practical solutions for combining infrastructure with drones and digital marine and air navigation, as well as use AI to streamline logistics.

Likewise, we must introduce new technologies for the generation, storage and relay of energy. In the next six years, we plan to attract some 1.5 trillion rubles in private investment for modernising our power generation sector. All power systems throughout the country must convert to digital technology. We must use the so-called distributed generation method to supply electricity to remote areas.

By 2024, high-speed internet will be available throughout the country. We will complete the construction of fibre optic lines in the majority of populated areas with a population of more than 250 people. Small remote towns in the Extreme North, Siberia and the Russian Far East will access internet via a network of Russian satellites.

We will use advanced telecommunications to give our people access to the digital world. As we know, this is more than just modern services, online education and telemedicine, although all this is very important. More than that, people will be able to use digital space to conduct research, organise volunteer and project groups or run companies. In our vast country, this combination of talent, competencies and ideas amounts to a huge ground-breaking resource.

Healthcare

Colleagues,

A crucial task facing every one of us is to make advanced high-quality healthcare widely accessible. We must be guided by the highest international standards in this area.

In 2019-2024, we need to spend over 4 percent of the GDP each year to develop the healthcare system. At the same time, the goal we must bear in mind is 5 percent. In absolute terms, this means that healthcare spending must double. In addition, we must find new funding opportunities that would not limit economic growth.

I would like to thank doctors, paramedics and nurses for their difficult and highly necessary work. A great deal depends on these people, as well as on teachers, counsellors and cultural workers, and they must receive decent salaries.

We have done a lot to implement the 2012 May executive orders. I must say that there were several failures, but overall, despite the demanding targets of these orders, without them we would not have had the results we can see today. We must always set ambitious tasks.

We must not lose the positions we have already attained. I am referring to the level of wages. Wages in the public sector must continue growing, as well as the quality of work and skills of the people working in healthcare, education and other areas that define people's wellbeing.

In recent years, we have optimised the hospital network in the country. This was done in order to build an effective healthcare system. However, in some case, I have to say this today, too many administrative changes were introduced: hospitals in small towns and villages have been closed. No one proposed an alternative, and people were left with practically no medical aid. The only advice they were given was, "Go to the city to get treatment there." I must say that this is unacceptable. They forgot about the main thing: the people, their interests and needs, equal opportunities and justice.

This must not happen in healthcare or any other area. We must provide, or restore where necessary, easy access to primary healthcare. We can do this, but we should have done this from the very beginning, when we started the reforms.

This must be done as quickly as possible. In the period from 2018 to 2020, we must ensure that each small town with a population of 100 to 2,000 people has a paramedic station and an outpatient clinic. For villages with less than 100 people - we also have villages as small as that - we will organise mobile medical units, all-terrain vehicles with all the necessary diagnostic equipment.

These projects should be closely monitored. I consider them extremely important. And I also ask the Russian Popular Front to stay in contact with people, to keep an eye on the situation on the ground. At the same time, outpatient clinics and paramedic stations, regional healthcare facilities and leading medical centres should be linked into a single digital network so that the entire national healthcare system is involved in helping each person.

Disease prevention is a vitally important task. In the 1990s, this work was largely neglected. We began to restore it. We need to provide all people with a real opportunity to have a complete physical at least once a year. This is also important for encouraging a responsible attitude to one's own health.

Modern diagnostics will reduce mortality among the working age population, and consolidate the positive trends in treating cardiovascular disorders. We can see these positive trends, which is very good. But we also need to fight other threats such as cancer.

Colleagues, I think that practically every one of us has relatives or friends or friends of friends afflicted with this disease - cancer. I propose to implement a special national cancer programme, to involve scientists and the national pharmaceutical industry, to modernise oncological centres, to build a modern system from early diagnosis to timely effective treatment that will protect people. We have positive experience in this area. We must reach the cutting-edge, the highest level of all the key ***indicators*** that show the effectiveness of cancer care - experts should know what they are.

Environment

Colleagues,

Medical assistance alone is not enough to protect public health. We must also ensure high standards of environmental safety across Russia.

A long a healthy life is hard to achieve when millions of people drink substandard water, when we see black snow, as it happened in Krasnoyarsk, and when people in large industrial centres such as Cherepovets, Nizhny Tagil, Chelyabinsk or Novokuznetsk do not see the sun for weeks on end.

We have tightened environmental requirements for companies, which should reduce industrial pollution. Starting in 2019, 300 industrial enterprises with a negative impact on the environment must convert to the best available environmentally friendly technology, and all enterprises in the high environmental risk group must do this starting in 2021.

We had a go at this problem many times, and every time our companies complained about the difficulties involved. There is no going back now. I want everyone to know that we will not delay this programme any longer.

We also need to modernise our thermal power plants, boiler houses and utility services, build bypass routes to ease transit traffic congestion in large cities, as well as use low-impact public service vehicles. The authorities and public volunteers have reported some 22,000 landfill sites. We must address this problem as a priority, starting with the removal and reclamation of landfill sites within city limits.

We must seriously improve the quality of drinking water. In some small towns, water is only available for several hours a day. We must use defence industry technologies to settle these problems.

We will launch conservation projects for the unique natural systems of Lake Baikal and Lake Teletskoye, as well as the entire Volga Basin, which will help improve living conditions for nearly half of Russia's population.

We will establish 24 new nature reserves and natural parks. They should be open for ecotourism, which is important for encouraging a caring and responsible attitude to nature.

Culture, education, information technologies

Colleagues,

The year 2018 in Russia has been declared the Year of Volunteers. It is highly symbolic that the year started with the adoption of a law whereby authorities at all levels were tasked with assisting volunteers. Today, proactive and concerned citizens and socially-minded NPOs contribute to addressing crucial issues. It is the involvement of the people in national affairs and their civic engagement, as well as cultural, moral and spiritual values that make us a single people capable of achieving ambitious goals.

It is essential that we preserve our identity in the era of major technological shifts. In this regard, culture has a key role to play as a national civilisational code that can unlock the human creative potential.

I propose launching a programme to establish cultural, educational and museum complexes in the regions. They will offer concert venues, drama, music and dance schools and other creative institutions, as well as exhibition spaces where the country's leading museums can display their treasures. Why store so many works of art in museum warehouses? I am talking about centres of culture that would be open to young people and people of all ages. The first project of this kind will be carried out in Vladivostok, and other regions and cities across Russia will be selected at a later time.

Colleagues, our children want to see a forward-looking Russia. You can find many sincere reflections along these lines in school essays. Having bold dreams always helps if you are seeking to achieve an ambitious goal. We must help every child discover his or her talent and help them live up to their potential. The future of Russia is in its classrooms. Schools must respond to the current challenges in order for the country to do the same.

International experts agree that Russia has one of the best primary school systems in the world. We will keep up our proactive efforts to develop general education at all levels. Let me emphasise that every child should have access to a quality education. Equal educational opportunities are a powerful driver in terms of promoting national development and social justice.

We need to shift to completely new education methods, including personalised learning, in order to cultivate in our children a readiness for change and creative curiosity, and teach them to work in teams, which is very important in the modern world, and other life skills applicable to the digital era. We will absolutely support talented teachers who are motivated to pursue continuous professional growth. And, of course, we need to build an open and modern system for school management selection and training. School administrators are the ones in charge of building a strong faculty and productive morale.

We will continue to enhance the comprehensive system to support and develop our children's creative skills and talents. This system must extend to the entire country and incorporate the resources of such projects as Sirius and Quantorium, as well as extracurricular education centres and children's creative centres all over Russia.

We need to build a modern career guidance system where schools partner with universities, research groups and successful companies. I propose starting a new early career guidance programme for schoolchildren, Ticket to the Future, from the next academic year. The programme will allow kids to try out real jobs in major Russian companies. We will allocate 1 billion rubles for this project this year alone.

I believe mentorship is another important aspect to improve. Only by bringing together advanced knowledge and moral foundations, by ensuring a true partnership and mutual understanding between generations can we become stronger.

Colleagues, today knowledge, technology and expertise make the most important competitive advantages. They are the key to a real breakthrough and improved quality of life.

As soon as possible, we need to develop a progressive legal framework and eliminate all barriers for the development and wide use of robotic equipment, artificial intelligence, unmanned vehicles, e-commerce and Big Data processing technology. And this legal framework must be continuously reviewed and be based on a flexible approach to each area and technology.

We have all the resources to promptly implement 5G and Internet of Things technologies.

We need to build our own digital platforms. It goes without saying that they should be compatible with the global information space. This would pave the way to reorganising manufacturing processes, financial services and logistics, including using blockchain technology, which is very important when it comes to financial transactions, property rights, etc. These initiatives have real-world application.

We need to start making or localising key technologies and solutions, including those used in developing the Arctic and the sea shelf, and building new energy, transport and urban infrastructure systems. This is also important in areas related to improving the quality of life, such as cutting-edge rehabilitation tools for people with disabilities.

It is our duty to support high-technology companies, offer start-ups a favourable environment and introduce new industrial solutions. I am talking about a user-friendly infrastructure, taxation systems, technical regulations and venture financing.

Technological development should be firmly rooted in fundamental research. Over the recent years, we have been able to expand research, and are now leading in a number of areas. The Russian Academy of Sciences and Russia's leading research institutions made a major contribution to achieving this.

Building on the advances made in the preceding years, including in developing the research infrastructure, we need to take our research to a new level. Projects to build cutting-edge mega science research facilities are already underway in Gatchina and Dubna. The Council for Science and Education has adopted a decision recently to build a powerful synchrotron collider at the Novosibirsk Akademgorodok and a new generation collider in Protvino, Moscow Region.

With these facilities, Russia will become one of the world's leading countries in terms of the capability and ***performance*** of its research infrastructure. These units will give a serious competitive edge to Russian research teams and high-technology companies, for example for developing new medications, materials and microelectronics.

Of course, this infrastructure and ambitious research projects will not fail to attract our compatriots and researchers from abroad. In this regard, we need to create a legal framework that would enable international research teams to operate in Russia.

Large research and education centres should begin working to full capacity. They will integrate the possibilities of universities, academic institutions, and high-tech companies. Such centres are already being set up in Kazan and Samara, Tomsk and Novosibirsk, Yekaterinburg and Tyumen, Vladivostok and Kaliningrad, and other cities.

It is important to focus them on the implementation of major interdisciplinary projects, including in such a promising field as genome research. A cardinal breakthrough in this area will pave the way to developing new methods for diagnosing, preventing and treating many diseases, and will expand the selection possibilities in ***agriculture***.

We need to reinforce the superiority of the national mathematics school. It gives Russia a strong competitive edge in the age of digital economy. International mathematics centres will also provide platforms for such work. These are already operating in Kazan and Novosibirsk. Following the adopted decisions, we will open more in St Petersburg, Moscow and Sochi.

Young Russians are already proving their leadership in science and in other areas. Last year, Russian schoolchildren won 38 medals at international academic competitions. Our teams triumphantly won the Olympiad in natural sciences and robotics, the WorldSkills competition, and our students showed the best results in programming for the twelfth time.

Based on the best practices and experience, we need to quickly modernise the vocational education system, achieve qualitative changes in the training of students, especially in the advanced areas of technological development, to establish the 'applied bachelor' level in those vocational professions that actually require an engineering degree, and also to organise centres for advanced professional retraining and professional growth.

I also propose creating the most convenient and attractive conditions for talented young people from other countries to enrol at our universities. They already come to study here. But we also need to create conditions for the best foreign graduates of our universities to work in Russia. This fully applies to foreign scientists and qualified specialists.

I think we need to seriously improve the procedure for granting Russian citizenship. The focus should be on the foreign nationals Russia needs: on young, healthy and well-educated people. For them, we need to create a simplified system for obtaining Russian citizenship.

Economy

Colleagues,

To ensure breakthrough development and upgrade education, healthcare and the quality of the urban environment and infrastructure, it will be necessary to allocate considerable additional funds in the next six years for these purposes.

Question: at what expense? Where do we get these funds? First of all, it is essential to clearly prioritise these tasks and enhance the efficiency of government spending. It is necessary to involve private companies more actively in funding major projects. The future Government will have to establish new taxation rules as soon as possible. They should be stable and fixed for the next few years.

Let me emphasise that we need such fiscal solutions that would ensure budget revenues at all levels and guarantee the implementation of all social commitments. Importantly, they should encourage rather than impede economic growth. It is the build-up of economic potential of the country and each of its regions that is the main source of additional resources. To achieve this, our economic growth rates should exceed those of the world's. This is a difficult task but not instance case of wishful thinking. This is a fundamental condition for a breakthrough in resolving social, infrastructure, defence and other tasks. The new Government should set itself the goal of reaching such growth rates as its key guideline.

In the last few years, we have enhanced the sustainability of our economy. The dependence of the economy on hydrocarbon prices has been substantially reduced. We have increased our gold and currency reserves. Inflation has dropped to a record low level - just over two percent. Of course, we all understand that the growth of prices for many basic necessities is much higher. This should be strictly monitored by different agencies, including the Anti-Monopoly Service. But on the whole, this low inflation level creates additional opportunities for development. Let me remind you that quite recently, in 2015, inflation was almost 13 percent - 12.9 percent to be exact.

In effect, Russia has formed a new macroeconomic reality with low inflation and general economic sustainability. For the people this is a condition for real income growth and cheaper mortgage loans. For entrepreneurs it means predictability in business and cheaper loans. Business should also adapt to these new macroeconomic conditions. Finally, it makes it possible to attract long-term loans and private investment into large-scale infrastructure projects.

Now we have an opportunity, without speeding up inflation, and maintaining a careful and responsible approach, to gradually cut interest rates and make loans more affordable. I count on the support of the Bank of Russia in that, while making its decisions, implementing monetary policy measures and developing financial markets, it will work in contact with the Government in the interests of the common goal of creating a proper environment for increasing the economic growth rates.

In order to further change the national economy structure and improve its competitiveness, it is imperative to use the sources of growth at a fundamentally different level. Where are they? First of all, it is important to increase labour productivity on a new technological, managerial and personnel basis. We are still lagging noticeably behind in terms of this ***indicator***.

It is necessary to ensure that labour productivity in medium-sized and large enterprises of basic industries, such as manufacturing, construction, transport, ***agriculture*** and trade, grows at a rate of at least 5 percent per year, which will allow us to reach the level of the leading world economies by the end of the next decade.

I want to emphasise that increasing productivity is also about higher wages and, hence, increased consumer demand. In turn, this constitutes an additional driver for economic growth.

All our actions should push companies to produce technically complex products and to implement more efficient technologies. It is necessary to make an inventory of subsidies and other instruments for direct support of industries, and to target them on making competitive goods.

Increased investment is the second source of growth. We have already set the task of bringing it up to 25 percent of the GDP, and then to 27 percent. Unfortunately, this goal has not been achieved yet. To ensure sustainable growth, we need to do so at all costs. I hope that the new Government in conjunction with the Bank of Russia will present a concrete plan of action in this area.

Investment should be primarily used for upgrading and technologically re-equipping the industries and retrofitting the manufacturing industry. We need to ensure the highest dynamics here, to reach a level where, on average, every second enterprise within a year carries out technological changes. That is when the renewal effort in the economy and industry will be noticeable.

Promoting small businesses is the third large-scale reserve of economic growth. By the middle of the next decade, their contribution to the country's GDP should approach 40 percent, and the number of employed there should grow from 19 million to 25 million people.

One of the main problems facing entrepreneurs is access to financial resources. There is a government programme in place for small production businesses that offers loans with only 6.5 percent interest. I think this programme must continue. Overall, this support mechanism must become widely available.

Finally, another source of growth is the development of non-resource exports. It is necessary to remove all administrative barriers and create the most favourable conditions for the companies entering foreign markets.

Within the next six years, we must double the amount of non-resource and non-energy exports to reach $250 billion - specifically, increase machine engineering exports to $50 billion. Exports of services, including education, healthcare, tourism and transport, must reach $100 billion per year.

In the early 2000s, we were deeply dependent on food imports. The situation has turned around completely. Now we are on the verge of more changes. In just four years from now, we plan to be supplying more food to global markets than we will be importing from abroad. We need to increase exports of meat and high-added value products, as well as to make the country more self-sufficient in beef, milk and vegetable supplies.

I want to stress that development of the ***agricultural*** industry is strongly related to commodity production. However, this development must not be at the expense of small farms and their workers. We must support family businesses and farmers. We will develop cooperative ***agriculture*** and create conditions for residents of ***rural*** areas to increase their income. Every now and then we hear about problems with people's interests being affected, I am aware of them. Such cases must be taken very seriously.

Nevertheless, I want to say thank you to the ***agricultural*** industry workers for the record-breaking harvest of 134 million tonnes. Note that it is more than the record harvest in the Soviet Union. In 1978, the USSR produced 127.4 million tonnes. Now it is common for Russia to exceed 100 million tonnes.

Clearly, such a large harvest has a downside as well. The prices have gone down; there are some storage and transport issues. We have established discount rates on transporting crops by railway until July 1, 2018, to support our producers.

It is necessary to consider extending this measure to the next harvesting seasons as well as to arrange additional deliveries to the Urals, Siberia and the regions far away from ports. We must help those who want and can process crops locally. Added value needs to be increased. Then we can go into the livestock industry with this product. We will certainly discuss these and other problems reported by ***agricultural*** workers at the ***agricultural*** producers' forum in March, and will elaborate on additional measures to support the industry.

Business climate

Colleagues,

In order for the economy to operate at its full capacity, we need to radically improve the business climate and guarantee entrepreneurial freedom and competition.

Let me highlight a fundamental point in this regard. The state must gradually reduce its share in the economy. In this connection, it has to be noted that the state has taken over a number of financial assets in an effort to revive the banking sector. These initiatives are headed in the right direction and have my support. That said, these assets should be put on the market and sold without delay.

We need to get rid of everything that enables corrupt officials and law enforcement officers to pressure businesses. The Criminal Code should not serve as a tool for settling corporate disputes. These should be referred to administrative and arbitration courts.

I ask the Working Group on Monitoring and Analysing Law Enforcement Practice in Entrepreneurial Activity, together with the Supreme Court, law enforcement agencies, the Prosecutor's Office and representatives of the business community to draft specific proposals on this subject. This matter should not be approached in a light-minded manner. All the proposals must undergo careful examination and approval, and this should be done as soon as possible.

At the same time, criminal law should be strictly enforced in the case of offences infringing upon the interests of citizens or society or violating economic freedoms. I am referring to offences against property and assets held by citizens, illegal takeovers, competition law violations, tax evasion and embezzlement of public funds.

I would now like to move on to another important subject. While the number of various inspections seems to be declining, during meetings with businesses I often hear that radical change has yet to materialise. The presence of inspectors at enterprises should become the exception, and be limited to high-risk facilities. Otherwise, remote monitoring methods can be used. The entire control and oversight system should move to a risk-oriented approach within two years. Let me remind you that the relevant legislative framework is already in place.

It is important to support start-up entrepreneurs, to help people take the first step, so that they can open their own businesses with just one click, make the compulsory payments, receive services and loans online.

Sole proprietors and self-employed individuals who use digital services, generally need to be freed from reporting, and allowed to pay taxes via a simple transaction in automatic mode. As for businesses that use cash register equipment, their tax reporting needs to be simplified. You know, this is just a routine issue, at first glance, but this tedious routine is what prevents us from moving forward vigorously. We need to do everything to clean out this space. I will add that the intensive introduction of digital technologies and platforms will allow us to make consistent progress towards greater transparency and away from shadow economy.

Now I would like to address all representatives of Russian business, those who run their own small business, a family enterprise or a farm, an innovative company or a large industrial enterprise. I know, I know we still have a lot to do. And I assure you, we will do everything to give our entrepreneurs new opportunities to expand production, to open businesses and to create modern jobs. But at the same time I expect that Russian business will increase its contribution to the country's breakthrough development, and respect for entrepreneurial work in society will grow. It is very important.

Colleagues, we need to build modern services for business, but this is not all; the system for interaction between the state and society, between the state and the people should be clear and understandable, convenient and comfortable.

We have already set up a network of multifunctional centres. A person anywhere in the country can now use public services as a one-stop-shop. Allow me to remind you that it was a special programme which we have developed and implemented.

We need to move forward, to ensure the provision of virtually all public services in real time via remote services within six years. All document circulation between state agencies should be digitised, which is important both for the state agencies and for citizens, so as not to browse the Internet for hours looking for information. It will be possible to get everything in one place. I will add that digitalisation of the entire public administration system and its greater transparency is also a powerful factor in fighting corruption.

Government officials of all levels should be interested in improving their efficiency and be strictly focused on obtaining concrete results. By the way, we are always talking about corruption and officials. I have to say, and I do not have the right to not say this: the vast majority of our public servants are honest, decent and goal-oriented people. However, what I said will help everyone, including government officials and users of government services. This line of thinking should be used to rebuild the public service system, where appropriate, and to introduce project work methods.

Of course, it is necessary to ensure the advancement of modern professional personnel in the government and municipal service, business, the economy, science and industry, in all spheres.

As you may be aware, the first Leaders of Russia competition took place, and a number of other projects are being implemented to support young workers, entrepreneurs, innovators, volunteers, schoolchildren and students. They brought together hundreds of thousands of young people from all regions, and became an important step in their lives and professional careers.

I want to emphasise: for all those who want to work, show themselves, and are ready to honestly serve the Fatherland and the people, and to succeed, Russia will always be a country of opportunity. This is the guarantee of our successful development and confident movement forward.

All the projects and the priorities that I mentioned today, such as spatial development, investment in infrastructure, education, healthcare, the environment, innovative technologies and research, measures to support the economy, to promote talent, the youth, all of this is designed to work for one ***strategic*** task - Russia's breakthrough development.

New ***strategic*** weapons

At the same time, we cannot forget about reliably ensuring its security.

Colleagues,

The operation in Syria has proved the increased capabilities of the Russian Armed Forces. In recent years, a great deal has been done to improve the Army and the Navy. The Armed Forces now have 3.7 times more modern weapons. Over 300 new units of equipment were put into service. The ***strategic*** missile troops received 80 new intercontinental ballistic missiles, 102 submarine-launched ballistic missiles and three Borei nuclear-powered ballistic missile submarines. Twelve missile regiments have received the new Yars intercontinental ballistic missile. The number of long-range high-precision weapons carriers has increased by 12 times, while the number of guided cruise missiles increased by over 30 times. The Army, the Aerospace Forces and the Navy have grown significant stronger as well.

Both Russia and the entire world know the names of our newest planes, submarines, anti-aircraft weapons, as well as land-based, airborne and sea-based guided missile systems. All of them are cutting-edge, high-tech weapons. A solid radar field to warn of a missile attack was created along Russia's perimeter (it is very important). Huge holes appeared after the USSR disintegrated. All of them were repaired.

A leap forward was made in the development of unmanned aircraft; the National Defence Control Centre was established; and the operational command of the far maritime zone was formed. The number of professional service members has increased by 2.4 times, and the availability of equipment in the Armed Forces grew from 70 percent to 95-100 percent. The years-long queue for permanent housing was eliminated, and the waiting period was cut by 83 percent.

Now, on to the most important defence issue.

I will speak about the newest systems of Russian ***strategic*** weapons that we are creating in response to the unilateral withdrawal of the United States of America from the Anti-Ballistic Missile Treaty and the practical deployment of their missile defence systems both in the US and beyond their national borders.

I would like to make a short journey into the recent past.

Back in 2000, the US announced its withdrawal from the Anti-Ballistic Missile Treaty. Russia was categorically against this. We saw the Soviet-US ABM Treaty signed in 1972 as the cornerstone of the international security system. Under this treaty, the parties had the right to deploy ballistic missile defence systems only in one of its regions. Russia deployed these systems around Moscow, and the US around its Grand Forks land-based ICBM base.

Together with the ***Strategic*** Arms Reduction Treaty, the ABM Treaty not only created an atmosphere of trust but also prevented either party from recklessly using nuclear weapons, which would have endangered humankind, because the limited number of ballistic missile defence systems made the potential aggressor vulnerable to a response strike.

We did our best to dissuade the Americans from withdrawing from the treaty. All in vain. The US pulled out of the treaty in 2002. Even after that we tried to develop constructive dialogue with the Americans. We proposed working together in this area to ease concerns and maintain the atmosphere of trust. At one point, I thought that a compromise was possible, but this was not to be. All our proposals, absolutely all of them, were rejected. And then we said that we would have to improve our modern strike systems to protect our security. In reply, the US said that it is not creating a global BMD system against Russia, which is free to do as it pleases, and that the US will presume that our actions are not spearheaded against the US.

The reasons behind this position are obvious. After the collapse of the USSR, Russia, which was known as the Soviet Union or Soviet Russia abroad, lost 23.8 percent of its national territory, 48.5 percent of its population, 41 of the GDP, 39.4 percent of its industrial potential (nearly half of our potential, I would underscore), as well as 44.6 percent of its military capability due to the division of the Soviet Armed Forces among the former Soviet republics. The military equipment of the Russian army was becoming obsolete, and the Armed Forces were in a sorry state. A civil war was raging in the Caucasus, and US inspectors oversaw the operation of our leading uranium enrichment plants.

For a certain time, the question was not whether we would be able to develop a ***strategic*** weapon system - some wondered if our country would even be able to safely store and maintain the nuclear weapons that we inherited after the collapse of the USSR. Russia had outstanding debts, its economy could not function without loans from the IMF and the World Bank; the social sphere was impossible to sustain.

Apparently, our partners got the impression that it was impossible in the foreseeable historical perspective for our country to revive its economy, industry, defence industry and Armed Forces to levels supporting the necessary ***strategic*** potential. And if that is the case, there is no point in reckoning with Russia's opinion, it is necessary to further pursue ultimate unilateral military advantage in order to dictate the terms in every sphere in the future.

Basically, this position, this logic, judging from the realities of that period, is understandable, and we ourselves are to blame. All these years, the entire 15 years since the withdrawal of the United States from the Anti-Ballistic Missile Treaty, we have consistently tried to reengage the American side in serious discussions, in reaching agreements in the sphere of ***strategic*** stability.

We managed to accomplish some of these goals. In 2010, Russia and the US signed the New START treaty, containing measures for the further reduction and limitation of ***strategic*** offensive arms. However, in light of the plans to build a global anti-ballistic missile system, which are still being carried out today, all agreements signed within the framework of New START are now gradually being devaluated, because while the number of carriers and weapons is being reduced, one of the parties, namely, the US, is permitting constant, uncontrolled growth of the number of anti-ballistic missiles, improving their quality, and creating new missile launching areas. If we do not do something, eventually this will result in the complete devaluation of Russia's nuclear potential. Meaning that all of our missiles could simply be intercepted.

Despite our numerous protests and pleas, the American machine has been set into motion, the conveyer belt is moving forward. There are new missile defence systems installed in Alaska and California; as a result of NATO's expansion to the east, two new missile defence areas were created in Western Europe: one has already been created in Romania, while the deployment of the system in Poland is now almost complete. Their range will keep increasing; new launching areas are to be created in Japan and South Korea. The US global missile defence system also includes five cruisers and 30 destroyers, which, as far as we know, have been deployed to regions in close proximity to Russia's borders. I am not exaggerating in the least; and this work proceeds apace.

So, what have we done, apart from protesting and warning? How will Russia respond to this challenge? This is how.

During all these years since the unilateral US withdrawal from the ABM Treaty, we have been working intensively on advanced equipment and arms, which allowed us to make a breakthrough in developing new models of ***strategic*** weapons.

Let me recall that the United States is creating a global missile defence system primarily for countering ***strategic*** arms that follow ballistic trajectories. These weapons form the backbone of our nuclear deterrence forces, just as of other members of the nuclear club.

As such, Russia has developed, and works continuously to perfect, highly effective but modestly priced systems to overcome missile defence. They are installed on all of our intercontinental ballistic missile complexes.

In addition, we have embarked on the development of the next generation of missiles. For example, the Defence Ministry and enterprises of the missile and aerospace industry are in the active phase of testing a new missile system with a heavy intercontinental missile. We called it Sarmat.

Sarmat will replace the Voevoda system made in the USSR. Its immense power was universally recognized. Our foreign colleagues even gave it a fairly threatening name.

That said, the capabilities of the Sarmat missile are much higher. Weighing over 200 tonnes, it has a short boost phase, which makes it more difficult to intercept for missile defence systems. The range of the new heavy missile, the number and power of its combat blocs is bigger than Voevoda's. Sarmat will be equipped with a broad range of powerful nuclear warheads, including hypersonic, and the most modern means of evading missile defence. The high degree of protection of missile launchers and significant energy capabilities the system offers will make it possible to use it in any conditions.

Could you please show the video.

(Video plays.)

Voevoda's range is 11,000 km while Sarmat has practically no range restrictions.

As the video clips show, it can attack targets both via the North and South poles.

Sarmat is a formidable missile and, owing to its characteristics, is untroubled by even the most advanced missile defence systems.

But we did not stop at that. We started to develop new types of ***strategic*** arms that do not use ballistic trajectories at all when moving toward a target and, therefore, missile defence systems are useless against them, absolutely pointless.

Allow me to elaborate on these weapons.

Russia's advanced arms are based on the cutting-edge, unique achievements of our scientists, designers and engineers. One of them is a small-scale heavy-duty nuclear energy unit that can be installed in a missile like our latest X-101 air-launched missile or the American Tomahawk missile - a similar type but with a range dozens of times longer, dozens, basically an unlimited range. It is a low-flying stealth missile carrying a nuclear warhead, with almost an unlimited range, unpredictable trajectory and ability to bypass interception boundaries. It is invincible against all existing and prospective missile defence and counter-air defence systems. I will repeat this several times today.

In late 2017, Russia successfully launched its latest nuclear-powered missile at the Central training ground. During its flight, the nuclear-powered engine reached its design capacity and provided the necessary propulsion.

Now that the missile launch and ground tests were successful, we can begin developing a completely new type of weapon, a ***strategic*** nuclear weapons system with a nuclear-powered missile.

Roll the video, please.

(Video plays.)

You can see how the missile bypasses interceptors. As the range is unlimited, the missile can manoeuvre for as long as necessary.

As you no doubt understand, no other country has developed anything like this. There will be something similar one day but by that time our guys will have come up with something even better.

Now, we all know that the design and development of unmanned weapon systems is another common trend in the world. As concerns Russia, we have developed unmanned submersible vehicles that can move at great depths (I would say extreme depths) intercontinentally, at a speed multiple times higher than the speed of submarines, cutting-edge torpedoes and all kinds of surface vessels, including some of the fastest. It is really fantastic. They are quiet, highly manoeuvrable and have hardly any vulnerabilities for the enemy to exploit. There is simply nothing in the world capable of withstanding them.

Unmanned underwater vehicles can carry either conventional or nuclear warheads, which enables them to engage various targets, including aircraft groups, coastal fortifications and infrastructure.

In December 2017, an innovative nuclear power unit for this unmanned underwater vehicle completed a test cycle that lasted many years. The nuclear power unit is unique for its small size while offering an amazing power-weight ratio. It is a hundred times smaller than the units that power modern submarines, but is still more powerful and can switch into combat mode, that is to say, reach maximum capacity, 200 times faster.

The tests that were conducted enabled us to begin developing a new type of ***strategic*** weapon that would carry massive nuclear ordnance.

Please play the video.

(Video plays.)

By the way, we have yet to choose names for these two new ***strategic*** weapons, the global-range cruise missile and the unmanned underwater vehicle. We are waiting for suggestions from the Defence Ministry.

Countries with high research potential and advanced technology are known to be actively developing so-called hypersonic weapons. The speed of sound is usually measured in Mach numbers in honour of Austrian scientist Ernst Mach who is known for his research in this field. One Mach is equal to 1,062 kilometres per hour at an altitude of 11 kilometres. The speed of sound is Mach 1, speeds between Mach 1 and Mach 5 is called supersonic, and hypersonic is above Mach 5. Of course, this kind of weapon provides substantial advantages in an armed conflict. Military experts believe that it would be extremely powerful, and that its speed makes it invulnerable to current missile and air defence systems, since interceptor missiles are, simply put, not fast enough. In this regard, it is quite understandable why the leading armies of the world seek to possess such an ideal weapon.

Friends, Russia already has such a weapon.

The most important stage in the development of modern weapons systems was the creation of a high-precision hypersonic aircraft missile system; as you already know for sure, it is the only one of its kind in the world. Its tests have been successfully completed, and, moreover, on December 1 of last year, these systems began their trial service at the airfields of the Southern Military District.

The unique flight characteristics of the high-speed carrier aircraft allow the missile to be delivered to the point of discharge within minutes. The missile flying at a hypersonic speed, 10 times faster than the speed of sound, can also manoeuvre at all phases of its flight trajectory, which also allows it to overcome all existing and, I think, prospective anti-aircraft and anti-missile defence systems, delivering nuclear and conventional warheads in a range of over 2,000 kilometres. We called this system Kinzhal (Dagger).

Video, please.

(Video plays.)

But this is not all I have to say.

A real technological breakthrough is the development of a ***strategic*** missile system with fundamentally new combat equipment - a gliding wing unit, which has also been successfully tested.

I will say once again what we have repeatedly told our American and European partners who are NATO members: we will make the necessary efforts to neutralise the threats posed by the deployment of the US global missile defence system. We mentioned this during talks, and even said it publicly. Back in 2004, after the exercises of the ***strategic*** nuclear forces when the system was tested for the first time, I said the following at a meeting with the press (It is embarrassing to quote myself, but it is the right thing to say here):

So, I said: "As other countries increase the number and quality of their arms and military potential, Russia will also need to ensure it has new generation weapons and technology.

In this respect, I am pleased to inform you that successfully completed experiments during these exercises enable us to confirm that in the near future, the Russian Armed Forces, the ***Strategic*** Missile Forces, will receive new hypersonic-speed, high-precision new weapons systems that can hit targets at inter-continental distance and can adjust their altitude and course as they travel. This is a very significant statement because no country in the world as of now has such arms in their military arsenal." End of quote.

Of course, every word has a meaning because we are talking about the possibility of bypassing interception boundaries. Why did we do all this? Why did we talk about it? As you can see, we made no secret of our plans and spoke openly about them, primarily to encourage our partners to hold talks. Let me repeat, this was in 2004. It is actually surprising that despite all the problems with the economy, finances and the defence industry, Russia has remained a major nuclear power. No, nobody really wanted to talk to us about the core of the problem, and nobody wanted to listen to us. So listen now.

Unlike existing types of combat equipment, this system is capable of intercontinental flight at supersonic speeds in excess of Mach 20.

As I said in 2004, in moving to its target, the missile's gliding cruise bloc engages in intensive manoeuvring - both lateral (by several thousand km) and vertical. This is what makes it absolutely invulnerable to any air or missile defence system. The use of new composite materials has made it possible to enable the gliding cruise bloc to make a long-distance guided flight practically in conditions of plasma formation. It flies to its target like a meteorite, like a ball of fire. The temperature on its surface reaches 1,600-2,000 degrees Celsius but the cruise bloc is reliably guided.

Play the video, please.

(Video plays).

For obvious reasons we cannot show the outer appearance of this system here. This is still very important. I hope everyone understands this. But let me assure you that we have all this and it is working well. Moreover, Russian industrial enterprises have embarked on the development of another new type of ***strategic*** weapon. We called it the Avangard.

We are well aware that a number of other countries are developing advanced weapons with new physical properties. We have every reason to believe that we are one step ahead there as well - at any rate, in the most essential areas.

We have achieved significant progress in laser weapons. It is not just a concept or a plan any more. It is not even in the early production stages. Since last year, our troops have been armed with laser weapons.

I do not want to reveal more details. It is not the time yet. But experts will understand that with such weaponry, Russia's defence capacity has multiplied.

Here is another short video.

(Video plays.)

Those interested in military equipment are welcome to suggest a name for this new weaponry, this cutting-edge system.

Of course, we will be refining this state-of-the-art technology. Obviously, there is far more in development than I have mentioned today. But this is enough for now.

I want to specifically emphasise that the newly developed ***strategic*** arms - in fact, new types of ***strategic*** weapons - are not the result of something left over from the Soviet Union. Of course, we relied on some ideas from our ingenious predecessors. But everything I have described today is the result of the last several years, the product of dozens of research organisations, design bureaus and institutes.

Thousands, literally thousands of our experts, outstanding scientists, designers, engineers, passionate and talented workers have been working for years, quietly, humbly, selflessly, with total dedication. There are many young professionals among them. They are our true heroes, along with our military personnel who demonstrated the best qualities of the Russian army in combat. I want to address each of them right now and say that there will absolutely be awards, prizes and honorary titles but, because I have met many of you in person many times, I know you are not after awards. The most important thing is to reliably ensure the security of our country and our people. As President and on behalf of the Russian people, I want to say thank you very much for your hard work and its results. Our country needs them so much.

As I have already said, all future military products are based on remarkable advances that can, should and will be used in high-technology civilian sectors. I would like to stress that only a country with the highest level of fundamental research and education, developed research, technology, industrial infrastructure and human resources can successfully develop unique and complex weapons of this kind. You can see that Russia has all these resources.

We will expand this potential and focus on delivering on the ambitious goals our country has set itself in terms of economic, social and infrastructure development. Effective defence will serve as a guarantee of Russia's long-term development.

Let me reiterate that each of the armament systems I referred to is uniquely important. Even more importantly, taken together all these advances enable the Defence Ministry and General Staff to develop a comprehensive defence system, in which every piece of new military equipment will be assigned a proper role. On top of ***strategic*** weapons that are currently on combat alert and benefit from regular updates, Russia will have a defence capability that would guarantee its security in the long term.

Of course, there are many things that we have to do in terms of military construction, but one thing is already clear: Russia possesses a modern, high-technology army that is quite compact given the size of the territory, centred on the officer corps, who are dedicated to their country and are ready to sacrifice anything for its people. Sooner or later, other armies will also have the technology, the weapons, even the most advanced ones. But this does not worry us, since we already have it and will have even better armaments in the future. What matters is that they will never have people or officers like the Russian pilot Major Roman Filipov.

I hope that everything that was said today would make any potential aggressor think twice, since unfriendly steps against Russia such as deploying missile defences and bringing NATO infrastructure closer to the Russian border become ineffective in military terms and entail unjustified costs, making them useless for those promoting these initiatives.

It was our duty to inform our partners of what I said here today under the international commitments Russia had subscribed to. When the time comes, foreign and defence ministry experts will have many opportunities to discuss all these matters with them, if of course our partners so desire.

For my part, I should note that we have conducted the work to reinforce Russia's defence capability within the current arms control agreements; we are not violating anything. I should specifically say that Russia's growing military strength is not a threat to anyone; we have never had any plans to use this potential for offensive, let alone aggressive goals.

We are not threatening anyone, not going to attack anyone or take away anything from anyone with the threat of weapons. We do not need anything. Just the opposite. I deem it necessary to emphasise (and it is very important) that Russia's growing military power is a solid guarantee of global peace as this power preserves and will preserve ***strategic*** parity and the balance of forces in the world, which, as is known, have been and remain a key factor of international security after WWII and up to the present day.

And to those who in the past 15 years have tried to accelerate an arms race and seek unilateral advantage against Russia, have introduced restrictions and sanctions that are illegal from the standpoint of international law aiming to restrain our nation's development, including in the military area, I will say this: everything you have tried to prevent through such a policy has already happened. No one has managed to restrain Russia.

Now we have to be aware of this reality and be sure that everything I have said today is not a bluff - and it is not a bluff, believe me - and to give it a thought and dismiss those who live in the past and are unable to look into the future, to stop rocking the boat we are all in and which is called the Earth.

In this connection, I would like to note the following. We are greatly concerned by certain provisions of the revised nuclear posture review, which expand the opportunities for reducing and reduce the threshold for the use of nuclear arms. Behind closed doors, one may say anything to calm down anyone, but we read what is written. And what is written is that this strategy can be put into action in response to conventional arms attacks and even to a cyber-threat.

I should note that our military doctrine says Russia reserves the right to use nuclear weapons solely in response to a nuclear attack, or an attack with other weapons of mass destruction against the country or its allies, or an act of aggression against us with the use of conventional weapons that threaten the very existence of the state. This all is very clear and specific.

As such, I see it is my duty to announce the following. Any use of nuclear weapons against Russia or its allies, weapons of short, medium or any range at all, will be considered as a nuclear attack on this country. Retaliation will be immediate, with all the attendant consequences.

There should be no doubt about this whatsoever. There is no need to create more threats to the world. Instead, let us sit down at the negotiating table and devise together a new and relevant system of international security and sustainable development for human civilisation. We have been saying this all along. All these proposals are still valid. Russia is ready for this.

International cooperation

Our policies will never be based on claims to exceptionalism. We protect our interests and respect the interests of other countries. We observe international law and believe in the inviolable central role of the UN. These are the principles and approaches that allow us to build strong, friendly and equal relations with the absolute majority of countries.

Our comprehensive ***strategic*** partnership with the People's Republic of China is one example. Russia and India also enjoy a special privileged ***strategic*** relationship. Our relations with many other countries in the world are entering a new dynamic stage.

Russia is widely involved in international organisations. With our partners, we are advancing such associations and groups as the CSTO, the Shanghai Cooperation Organisation and BRICS. We are promoting a positive agenda at the UN, G20 and APEC. We are interested in normal and constructive cooperation with the United States and the European Union. We hope that common sense will prevail and our partners will opt for honest and equal work together.

Even if our views clash on some issues, we still remain partners because we must work together to respond to the most complex challenges, ensure global security, and build the future world, which is becoming increasingly interconnected, with more and more dynamic integration processes.

Russia and its partners in the Eurasian Economic Union seek to make it a globally competitive integration group. The EAEU's agenda includes building a common market for electricity, oil, petroleum products and gas, harmonising financial markets, and linking our customs authorities. We will also continue to work on a greater Eurasian partnership.

Colleagues, this is a turning period for the entire world and those who are willing and able to change, those who are taking action and moving forward will take the lead. Russia and its people have expressed this will at every defining moment in our history. In just 30 years, we have undergone changes that took centuries in other countries.

We will continue to confidently chart our own course, just as we always have. We will stick together, as we always have. Our unity is the most durable foundation for future progress. In the coming years, it is our goal to further strengthen this unity so that we are one team that understands that change is necessary and is ready to devote its energy, knowledge, experience and talent to achieving common goals.

Challenges and big goals give special meaning to our lives. We must be bold in our plans and actions, take responsibility and initiative, and grow stronger, which means being of use to our families, children, the whole country; changing the world and our country for the better; and creating the Russia that we all dream about. Only then will the next decade and the entire 21st century undoubtedly be an age of outstanding triumphs for Russia and our shared success. I believe it will be so.

Thank you.

Source: President of the Russian Federation website in English 1 Mar 18

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[***We should’ve made a revolution: A critical rhapsody of the Hungarian education system’s catching-up revolutions since 1989***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BNK-7DJ1-DY41-747X-00000-00&context=1516831)

Policy Futures in Education

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**ABSTRACT**

From the perspective of the world-systems theory and post-colonial studies, the 1989 transition in Hungary was a part of the re-integration of former Soviet countries into an inferior position in the world system. The political–economic transition was in no sense a revolution, but a replacement of dictatorial/totalitarian state capitalism with neoliberal global capitalism. In this paper we will analyze how Hungary’s semi-peripheral “catching-up revolution” consisted of stabilizing the neoliberal hegemony in education. As a result, one of the most decentralized, diverse, vertically, and horizontally stratified, and hence extremely selective education systems emerged from the gloomy Central-East European semi-periphery with exemplary diligence in conserving and reproducing social inequalities. Some 27 years after the transition, the teaching staff from Herman Ottó High School in Budapest wrote a public letter analyzing the problems of public education and criticizing the Hungarian government’s ***interventions***, which led to one of the country’s biggest movements since the political–economic transition in 1989. To understand the conditions that led to these situations, wherein education under siege triggered the biggest protests since 1989, we will first describe how the Hungarian education system was affected by the political–economic transition. Second, we will point to a rupture in the post-socialist history of Hungary, namely the neoconservative ***interventions*** of Hungary’s post-fascist, far-right government which has been in power since 2010. And lastly, we will try to place the teacher’s movement (and, briefly, the pro-Central European University protests) in this post-socialist rhapsody by showing how they interweave with Hungary’s forever lasting semi-peripheral catching-up revolution. In our conclusion we will try to propose a strategy drawing on Immanuel Wallerstein’s idea of an anti-systemic Rainbow Coalition, by which new social and anti-systemic movements could organize their resistance more effectively.

**FULL TEXT**

**Sticks and stones**

Massive protests have emerged in Hungary since Parliament passed a law in April 2017 targeting one of the country’s most prestigious and internationally recognized universities, the Central European University (CEU). The right-wing government (Fidesz) changed national law on higher education in an accelerated procedure, setting out conditions that put CEU’s very existence at risk. The protesters decry the lack of negotiations and often refer to a May 1988 interview—an emotional outburst from the young Viktor Orbán (now prime minister) just a few weeks after Fidesz was established: The political system that is unwilling to negotiate with the organized forces of society can only blame itself when people shoot at it. It can only blame itself! And it is not those who shoot who should bear the burden of responsibility, but those who refused to negotiate with peaceful people. (Elbert et al., 1988)The protesters’ critique of the unilateral, top–down, and antidemocratic processes was also characteristic of the teachers’ movement, which emerged in January 2016 when the teaching staff of Herman Ottó High School (Miskolc) wrote a public letter analyzing the problems of public education and criticizing the Hungarian government’s ***interventions***.

This open letter led to one of the country’s biggest movements since the political–economic transition of 1989. Teachers demanded decentralization of the system; suspension of reforms; civic and professional consensus; reduction of administration and bureaucracy; revision of the inspection system and teachers’ career model; and radical reduction of content in the national curriculum. “We see the education system is now in danger,” the teachers wrote. “It all became chaotic. Insecurity, despair, apathy reign in the teachers’ rooms” (Herman Ottó Gimnázium, 2016).

To understand the conditions that led to these situations, in which education under siege triggered the biggest protests since 1989, we will first describe how the political–economic transition affected the Hungarian education system. Second, we will point to a rupture in Hungary’s post-socialist history; that is, the ***interventions*** of the post-fascist, far-right government that has been in power since 2010. Finally, we will try to place the teacher’s movement (and, briefly, the pro-CEU protests) in this post-socialist rhapsody by showing how it interweaves with Hungary’s endless semi-peripheral *catching-up revolution* (cf. Böröcz, 2012; Habermas, 1990). In our conclusion, we will propose a strategy, drawing on Wallerstein, through which new social and anti-systemic movements could organize more effective resistance.

**1989 and Scrooge McDuck’s gold**

On December 12, 1993, as many Hungarians who were 5–10 years old at the time remember, Hungarian Television went dark during a “Duck Tales” episode as the death of Prime Minister József Antall, who had led the first freely elected government after the transition in 1989, was announced (Jekel, 2010). This was the first time the children of the transition faced politics and the interplay between the glorious West and Hungary’s gloomy semi-periphery. To understand this interplay, we will use Wallerstein’s (1974, 1980) *world-systems analysis* as an approach that assumes every country operates to maximize profits, determined by the logic of accumulation of capital. This global framework refers to the transnational division of labor, which divides the world into core, semi-peripheral and peripheral countries, and outlines a series of power relations.

From the perspective of world-systems analysis and post-colonial studies, the 1989 transition in Hungary was a part of the re-integration of former socialist countries into an inferior position in the world system. Wallerstein (1983) argues that the socialist countries already had much in common with the capitalist world-system before 1989—for example, the belief in linear progress of economic growth and development—and they were already, in a sense, part of the capitalist world-system even before the transitions. From this point of view, the “really-existing” socialism was a *form of totalitarian state capitalism* and had many features in common with the capitalist world-system, which was also based on “commodity production, wage work, social division of labor, labor subjected to capital, … the only missing element was market coordination, which was replaced with central planning [cf. planned economy]” (Tamás, 2008: 8). Wallerstein also argues that while Western conservatives celebrated the “watershed” of the transitions from 1989 to 1990, they were actually a terrible challenge for the capitalist world-system. The socialist leaderships ensured people’s faith in development and progress, and thus functioned as “stabilizing power because they sat on the adventurous leftism of the masses. Now when you remove these people from power, what you eliminate is the control that was sitting on the disgruntled masses on behalf of the capitalist system” (Wallerstein and Dunaway, 1999: 297).

Despite the interpretations that hold that Central-Eastern European transitions were built exclusively from outside, through the multinational influx of capital and knowledge, the history of the transitions was not written solely by either the nations in the semi-periphery or the core authorities, but by the interplay between them. The transition in Hungary was a top–down process on a national scale, conducted by the elite and by late-Kádárian technocracy. The technocracy successfully aligned with the North Atlantic vision of global neoliberal capitalism even before 1989 (Szigeti, 2010), exploiting the belief that the “experts” can “pursue ‘development’ more effectively than the indigenous bourgeoisie” (Wallerstein, 1976: 478). The late-Kádárian technocracy was already prepared—with the help of international economic-political backup—to convert their political, economic and cultural capital into global, international capital, and to push through the reforms necessary for this process (Bozóki and Szalai, 2011). The overnight implementation of neoliberal stabilization and liberalization policies in Poland, Czechoslovakia, Hungary, and the Soviet Union during 1989-91 was thus not simply a ceremonial bow to the orthodox Western doctrine … but was interpreted by East European economic transformers. (Bockman and Eyal, 2002: 342)This interplay between the core authorities and the semi-periphery was also determined by the termination of the dual structure of the external dependency of the former socialist semi-peripheral countries: political dependence on the Soviet imperial center and economic catching-up with Western core countries (Böröcz, 1992). In subsequent years after the transition, the core countries, including those from the European Union, aimed to extend their economic influence by integrating new states into political superstructure with its ambivalent system of governance. However, as József Böröcz (2001) argues, it is impossible for the (semi)periphery to take a share in the benefits of this historical-economic core position typical for core countries (that is, one fundamentally based on unequal exchange). Prosperity, power, and centrality connected to it are admittedly attractive for the semi-peripheral countries; however, these countries’ catching-up narratives constitute and result from an imitative model of developments, which presents “modernization” as a shared interest. In it, however, “the foreigner of the contiguous peripheries embodies an underdeveloped state of the center’s past, and is therefore necessarily inferior” (Böröcz, 2001: 35–40).

Thus, it is no surprise that Hungary has willingly and successfully aligned with the culture of global capital. Deregulation, privatization, monetarism, and new individualism became parts of the political–economic agenda, planting a specific neoliberal climate in an already particular post-socialist, semi-peripheral context. This climate was characterized by the narratives of catching up with the West: the *promises of upward mobility*, and mobility toward the core from the periphery. Western values became equivalent with *improvement* and the Eastern context with *decline* (Gagyi, 2014). As Wallerstein put it, “[u]nder pressure from core states and putting pressure on peripheral states, their [the semi-peripheral countries’] major concern is to keep themselves from slipping into the periphery and to do what they can to advance themselves toward the core” (Wallerstein, 2006: 29).

Despite the promises of the catching-up narrative, because of the historically and economically structural character of unequal exchange, “while exports and imports nearly doubled” during the subsequent period after the transition, “the country’s shares in GWP [Gross World Product] remained virtually constant, and at much lower levels than the country’s shares in world trade, … steep export and import growth failed to generate a growth in GDP relative to GWP” (Böröcz, 2012: 23). Just as 1968 was a symbolic beginning of the disillusionment with the Old Left and 1989 was a “culmination of that disillusionment” (Wallerstein and Dunaway, 1999: 297), the illusions of the revolutionary potential of 1989 also quickly vanished. In 2005, only 14% of the respondents said their lives had become easier after the transition (Vásárhelyi, 2005). Expectations of the transition were naïve in all post-socialist countries, but in 1989 there was hope that everything would be better, even if the possible outcomes were not completely unknown.

The National Roundtable in Hungary, organized with the intention of laying the foundations of the new order in 1989, brought attention to the potential social-economic collapse even before the transition. Participants predicted the evaporation of 2 million jobs, the collapse of ***agriculture***, the polarization of society, etc. But the official communication after the transition was that everything would be better, and the intelligentsia1 gave the public very limited information about the estimations, since the question of which political-economic system to choose had already been made. For the elite, the obvious choice was a *Thatcherite neoliberal turn*. But a huge number of people actually wanted democratic socialism without the Communists (Vásárhelyi, 2005), and even before the transition, “[t]hroughout the 1980s, Eastern Europeans sought to realize non-state socialisms” (Bockman, 2012). Thus, we agree with the interpretation that the National Roundtable was not legitimate in Hungary (Krausz, 2010). However, in 1989 a pre-neoliberal, capitalist, bureaucratic, bourgeois democracy had been established2 (Bartha, 2012; Éber et al., 2014; Gille, 2010; Krausz, 2010).

**Post-socialist reform package**

Some contend that the transition in education started even before the political-economic transition with the Public Education Act of 1985 (Kozma, 2009a). In these interpretations, the post-socialist history of education is characterized by constant changes between leftist and rightist political regimes after 1989. György Mészáros (2013) argues, though, that the post-socialist history of education is a story of the *stabilization of neoliberal capitalism* and not so much about alternating governments. The Public Education Act was modified in 1993, and the new elite and the experts reached a full consensus on the principles of autonomy, freedom, plurality, and national values. As a result, one of the most decentralized education systems emerged from the gloomy Central-Eastern European semi-periphery, which provided great autonomy for teachers and schools, and supported alternative pedagogies and private institutions. But as an effect of these ***interventions***, the foundations had already been laid for one of the most diverse, vertically and horizontally stratified, and hence extremely selective education systems in Europe, with exemplary diligence in conserving and reproducing social inequalities. While the elite of the transition and their experts – probably well-intentioned – created the new education system on the basis of freedom in Hungary … they in fact set the school to serve the interest of the capital. The ultimate winner of this continuing structure is the capitalist economy and the elite, who have interest in the reproduction of social inequalities. (Mészáros, 2013: 87)The education sector in our “happiest barrack” was already different from those in other Soviet bloc countries before 1989. Decentralization and integration had been on the political agenda since the beginning of the 1970s. In the mid-1980s the Hungarian Parliament adopted a law that expanded autonomy and political space for alternative initiatives, thus largely contributing to a diversity of institutions (Halász, 2011). The 1990 reform of the Public Education Act made the establishment of private schools as well as schools set up by foundations possible, and the 1993 reform destroyed the state monopoly on schooling, promoted further decentralization and created more space for alternative solutions and autonomy. This act remained almost unchanged until 2010, since there was a consensus on the basic principles3 (Kelemen, 2003; Mészáros, 2013). But this consensus was reached by the elite, the technocracy and the experts. It is not completely true that there was no consultation at all, but subsidiarity has never been a strength of the Hungarian political acropolis. Obviously, the idea of self-governing, autonomous schools could have been the first step toward a radical democratic horizontal governance, but the political vacuum after the fall of dictatorial regimes raised the diverse interests of competing groups of experts, technocrats, and new policymaking think tanks (Kozma, 2009b). Thus, pedagogues could never really become part of the debate about education (Kotasek, 1993) despite the vivid activities of their interest protection groups. While workers’ movement and self-management, councils and unions were strengthened and expanded in Hungary throughout the 1980s, Yugoslavia and especially Poland, where “[r]oundtable negotiations between Solidarity and the communist regimes in 1989 reaffirmed the rights of worker self-management” (Orenstein, 2001: 27), the elites weakened the political cooptation of these interest groups after 1989 and “maintained their own power … by dislodging and restricting new forms of political representation” (Bockman, 2012: 314).

Despite these restrictions, several attempts were made in Hungary to foster debate with the new forms of interest protection groups after 1989. The 1993 Education Act established new local interest reconciliation bodies and forums (Halász, 2011). But the overall experiences of these attempts at political cooptation were twofold. First, there was a general lack of culture for dialogue because education policy in Hungary was accustomed to central instructions rather than the negotiations with local bodies (Kozma, 2009b). Second, for that reason, the forums’ impact fell short of expectations (cf. Halász, 2010).

Nevertheless, the political negotiations in the post-socialist acropolis established a laboratory for neoliberal reforms within education from 1989 onward. In the legislative fever, more than 150 government regulations in education were declared from 1990 to 1999 (Kelemen, 2003). Thus, since the mid-1990s teachers have had enough of legislation; they became “sick and tired” of reforms (Halász, 2010; Mészáros, 2013)—but not because they thought the education system was at its best. After 2006, teachers were still tired of reforms, but one third of them still thought education needed more reform.

This contradiction between the unbearable reform-dumping and the continuous need for reforms is a basic dichotomy of neoliberalization in education, and not exclusively in Hungary. The key elements of the neoliberal discourse are the narrative of an *omnipresent crisis* in the education systems and the continuous promotion of the need for reforms and modernization. The neoliberal, “post-socialist education reform package” encompassed precisely this sublime dichotomy of the narratives of “crisis,” “danger,” and “decline” (namely, any deviations from the Western agenda) and the narratives of “‘progress,’ ‘hope,’ and ‘salvation,’ which the West is inevitably positioned to bring to the newly emerging societies of the post-socialist region” (Silova, 2010: 5–6). In post-socialist, semi-peripheral countries, the promises of education inscribed in “the post-socialist education reform package”4 were a continuation of the pre-1989 belief that education is conducive to national growth and, on the other hand, the beginning of (an endless) attempt to catch up with the core countries, where “upward mobility” became a synonym for “development,” “progress,” “hope,” and “salvation” (Hopkins and Wallerstein, 1977). The image of the glorious West, caroling the education gospel (cf. Grubb and Lazerson, 2006) provided the “core” iconography for the re-composition of the education system. Decentralization, marketization, and assessment became the cornerstones of the imaginary catching-up.

Just as the coordination of the transition, the coordination of the implementation of the post-socialist reform package was not constructed solely on the national level. The directions were also determined by international and intergovernmental organizations with strong economic interests (the Organization for Economic Cooperation and Development (OECD), the World Trade Organization, the International Monetary Fund, the World Bank). In terms of Hungary, the multilateral negotiation with these international organizations was vital to survival because of the drastic fall in GDP after 1989 and the increase of the budget deficit and external debt, which also had a huge effect on education (Halász, 2011). Thus, the first decade of the post-socialist era was characterized by bilateral and multilateral negotiations with international organizations, and the outsourcing of the national credits to the international platform (Halász, 2011; Kotasek, 1993; Kozma, 2009b). The establishment of international (inter-)dependency in education were part of the process, in which core groups manipulate education in periphery nations in order to disseminate ideologies supportive of their interests. From this perspective, international educational “assistance” projects … can be seen as hegemonic ventures dedicated to the engineering of consent in periphery nations to a variety of inequitable and exploitative international structures and relationships. (Clayton, 1998: 484)In sum, the Hungarian semi-peripheral catching-up revolution thus consisted of stabilizing the core neoliberal hegemony in semi-peripheral education discourse.

But, as discussed above, these processes also contributed to huge inequalities. While the experts believed that the competition between the institutions would contribute to the quality of education, it contributed to *huge vertical and horizontal selectivity*. Hungary is currently facing the greatest segregation and selectivity an education system can achieve in Europe, reproducing inequalities from a very early age (Mészáros, 2013). Twenty-seven years of neoliberal ***interventions*** and the incredible amounts of money invested in research and development processes and think tanks have made very little change; Hungary is still facing bad cost-effectiveness, fragmented control, no appreciation for teachers, growing inequalities and segregation of Roma children, while the country provides a cheap workforce for multinational corporations in the semi-periphery and in the global auction of workforce.

**Neoconservative siege**

Inequalities are, of course, not limited to education. In 2014, almost a million people (counting their families, about 2.5 million) were either registered as public works laborers or as unemployed, passive-unemployed or receiving no aid. While in 2011, 685,000 of the lowest income quintile (2 million) were children (under 18), and by 2014 the figure had increased to 800,000 (Ferge, 2008). In addition, in 1990 one of the most enclosed party systems was established in Hungary, and a politico-economic oligarchy of a few hundred thousand people organized as the other (well-off) end of the inequality spectrum. The Hungarian elite became a *feudalistic conglomerate with class characteristics*: strong economic power characterized by informal connections, and cooperative corruption based on loyalty or friendship (Bozóki and Szalai, 2011). This division of society greatly contributed to what is described above as *the continuation of disillusionment* after 1989, and to the need for a second, “real” revolution after the promises of 1989 ended in failure. Given the general disillusionment with the (non-existing) Left in Hungary, which “did not seem to end poverty [and] didn’t seem to end nondemocratic governments” (Wallerstein and Dunaway, 1999: 297), far-right discourses could gain strong support from the public (Szigeti, 2010). This is one reason why a neo-fascist party, Jobbik, received 17% of the vote in 2010, when the far-right party Fidesz was voted into power. While the “left wing” tried to dissolve the imperialism of centrum countries in presenting the possible decline, inscribed in national values and the West as the promise of improvement, the right wing dissolved the problem of the national oligarchy by emphasizing national values and promoting confrontation with the “real” sources of the problem: Western liberal imperialists, Roma families, and migrants (Gagyi, 2014). This latter discourse seemed to resonate much better with the people’s disillusionment.

As Wallerstein argues, the condition of possibility of re-emerging neoconservative discourses is repeated economic downturns, the inevitable crises of capitalism that lead to incredible inequalities. During the downturns, semi-peripheral countries have an increased opportunity to expand their control of their national markets at the expense of core states and to establish new alliances reflected in the increasing degrees of nationalism and militance, while core countries have decreased ability to intervene. During the downturn of production and trade patterns, because of the increased capacity of semi-peripheral countries to act at the expense of core powers, the indigenous bourgeoisie and the professional strata look upon the state as their negotiating instrument with the rest of the capitalist world-economy … [T]hey are ‘nationalist’; that is, they will always be ready to brandish the flag if they believe it has a blackmail effect, and to put the flag in cold storage for a price. (Wallerstein, 1976: 469)Just as recently in Poland (cf. Cervinkova, 2016), the spreading neoconservative discourse in Hungary started to form a mixture with neoliberalism from 2010. Wacquant (2012) argues that neoconservatism and neoliberalism tend to come together in the transnational phenomenon in which the “bureaucratic field of the new Centaur state tilts ‘rightward’” (Bockman, 2012: 311). The imagination of a strong state and a strong nation, the concept of hard government, and a society based on work, combined with nationalist, patriarchal, and Protestant morality, are just a few of the directives in the project of neoconservatism.

In 2010 the far-right Fidesz regime started to implement various neoliberal and neoconservative education reforms: first the centralization and nationalization of the education system; then a teacher appraisal and school inspection system; and finally the inclusion of chauvinist and ethnicist discourses in the national curriculum. We cannot provide here a detailed presentation of these often hybrid (neoliberal and neoconservative) processes because the number of systemic reforms is huge and the changes introduced since 2010 are more than eclectic.5 Instead, we would like to focus on neoconservatism—the dominant discourse that characterizes the government’s ***interventions***.

Since 2010, the government’s intention has been to create a strong basis for the rediscovered traditions of authority, control, and punishment, and for a mono-cultural ethos of a patriotic establishment addressing the lost prestige of the school and the eroded authority of teachers (Mészáros, 2013). The introduction of a normative value system with the New Education Act in 2010, emphasizing the word “upbringing” instead of “education,” was the first step toward a new philosophy of educating “good” citizens. In this new approach, the state is the basis of good education; thus, total centralization and control are legitimate *per se*, just like bringing back the school inspection system, abolished in 1985. The government also makes a strong reference to commonweal as a break with pluralism, presenting education as a public interest for preserving norms and values. These norms and values are often deduced from the Horthy era and characterized by the realization of the “*fight among nations*,” and of a need to restore our lost cultural supremacy. In this sense, the ultimate purpose of education is the “*rise of the nation*” (Paár et al., 2011).

It is also important to mention that, just as the Anglo-Saxon model became the main direction in reformulating education policy after 1989, the Hungarian national bourgeoisie has also found a “spiritual” alliance in the recent neoconservative, right-wing, Tory philosophy that has been dominating education reforms in the UK since 2010. The main criticism addressed the deteriorating quality of schools and the eroded national values (moral atrophy and broken society) in both countries, supplemented with the slogans of “Big Society” in the UK, and the “rise of nation” in Hungary, promoting opportunities and mobility.

While there are obvious similarities in the development of the neoconservative siege in the UK and Hungary, there are also big differences in the implementation. For instance, while centralization—the intention to unify a relatively freely formulated education system—was a process prepared on a long-term basis in the UK, in Hungary it was an accelerated process. Closing and merging institutions in the process of total centralization contributed to the already huge white flight, with more families choosing schools in bigger cities, especially from regions with bigger Roma populations (Magyar Progresszív Intézet, 2012). And while the government in the UK at least intended to make efforts to ensure equal opportunities, in Hungary the intention itself is missing. After centralization, the children of the poor still remain in the decaying learning environments of eroding ***rural*** or suburban public schools. The increases in the dropout rate and early school-leavers are already starting to form an army of public-works laborers, whose segregation the government calls segregation “*full of love*.”

Generally speaking, in both Hungary and the UK, the reforms followed the logic of the hybrid and contradictory discourse—neoliberal and neoconservative. On the one hand, there was the continuing neoliberal emphasis on the minimal state and a belief in the sanctity, efficiency and effectiveness of the market … On the other hand, coalition policy6 was characterized by neoconservatism, evident in the continued central command and control over knowledge and values, and the ongoing mistrust and surveillance of the teacher. (Bailey and Ball, 2016: 128–129)The rhetorical cornerstones of this political project are the teachers; hence, the promise to restore their authority met the government’s expectations in terms of getting support from them. But in practice the neoconservative project didn’t bring back teachers’ prestige and recognition; it only created the panoptical ethos for quality assurance (control and supervision). For instance, a teacher who does not meet the requirements would not accomplish the race to the top inscribed in the new career model, and thus would not be paid more. Moreover, since teachers qualify other teachers, they have been divided into qualifiers and qualified, surveyors and inspectors. In this process, evaluating teachers became a technique of control and coordination, and the narrative is built on one of the central questions of neoliberalism, namely *whether teachers contribute to the country’s prosperity*. This rhetoric, however, leads to a paradox. It is true that neoliberal discourse pays special attention to the teacher’s role, articulating professionalism, self-management, and new roles according to lifelong learning. On the other hand, a profile of wage workers emerges from the narratives of the government and the clientele about the “*roustabouts of the nation*,” who are immature or incapable of working autonomously, or of participating in democratic decision-making (Cadiero-Kaplan and Hinchey, 2005). Moreover, teachers in post-socialist countries are facing a general mistrust from the public. Not only did they inherit the distorted image of the servant for indoctrination, but also, in post-socialist neoliberal discourse, society became “oriented to ***performance***, in which individuals strive for their personal growth and self-realization … [and] do not see the teaching profession to be sufficiently ‘modern,’ lucrative, and prestigious” (Kotasek, 1993: 486). The transition also had a bad effect on teachers in Hungary, whose social and economic appreciation have both been very low since 1989 (Kelemen, 2000). Like other public-sector workers, they are incredibly underpaid. In general, they have been receiving two-thirds of the salaries of their colleagues in the OECD countries. And while on the level of rhetoric the neoconservative siege opposes the neoliberal outburst against the “roustabouts of the nation,” in practice it implements “concerted attacks on teachers (and curricula) based on a profound mistrust of their quality and commitments” (Apple, 2014: 20).

We should not forget that even though the teachers were sick of reforms, they also became accustomed to an apparent (neoliberalizing) stability of the education discourse. Starting in 2010, this “stability” disappeared, and the climate of uncertainty and authoritarianism started to infiltrate the schools. Teachers’ daily struggle became that of developing techniques for survival in the stomach of the bureaucratic giant.

**The silence of defense**

Since the Public Education Act was ratified in 2011, the Teachers’ Union Strike Committee has been negotiating with the government but has not been able to put pressure on it. But on 5 January 2016, a public letter by the faculty of Herman Ottó High School escalated into an unexpectedly enormous movement (Tanítanék Mozgalom, the “I’d Like to Teach” Movement), and by March, 35,000 individuals and 940 educational institutions had joined. The government’s first reaction came very soon. On 23 January, Zoltán Balog, Minister of Human Resources, announced the Public Education Roundtable, to which the government invited experts and teachers who met the requirement of minimum loyalty toward the government. A few days later, Balog admitted in an interview that “we pushed the bike too far … a bit,” which meant the government was aware that it had messed up the education system. After this honest admission, dissatisfaction increased. In the meantime, the Teachers’ Union organized a demonstration in Miskolc, and solidarity demonstrations took place in 10 other cities on 3 February. The Public Education Roundtable’s professional credibility became more and more questionable. Many organizations left the table because they thought it was already too late for this kind of negotiation. János Lázár, then Minister of the Prime Minister’s Office, openly responded after the demonstration: “They should negotiate with the government, accept its terms, rather than rebelling against it.” The Teachers’ Union refused the invitation to the Public Education Roundtable and announced a response in which it argued that the union was “always ready to negotiate, if the partners at the table are equal and not arbitrarily chosen guests who were selected by the government without any consultation, and where the ‘political menu’ is already composed” (Pedagógusok Szakszervezete, 2016).

The tension first peaked on 13 February, when the Teachers’ Union and other organizations brought together a huge demonstration. Tens of thousands of teachers, students, healthcare workers, and members of various trade unions stood silently in the pouring rain in front of the Parliament building that day. The silence was originated by Mária Sándor, president of the Hungary for the Hungarian Healthcare Sector Civil Association and a prominent figure among protesters for the healthcare sector. Though only five minutes of silence, this moment became the protesters’ strongest, most memorable shared experience.

A few weeks later, both the movement’s managing body and the Teachers’ Union started to elaborate their demands. The Civic Education Platform (CEP), founded on 16 February as a refusal of government’s Public Education Roundtable, released immediate demands: postponement of the Maturity Amendments; immediate suspension of any changes planned by the government in the secondary vocational training system; reduction of academic burdens on pupils; immediate, remedial measures for the equitable and effective care of children with special needs; reduction of the increasing segregation of Roma students; freedom of choice in textbooks; immediate suspension of the teacher qualification and appraisal system; ensuring of the most basic sources for financing education; honest and public communication on education; and development of a new public education system based on achieved results.

However progressive these demands seemed, from this moment the movement went through a complete disintegration, and it finally lost its groundbreaking power. There were two strikes though, on 30 March and 20 April, in different regions. But teachers and children were performing an invisible strike—civic obedience inside the schools. The movement’s last event before the summer break was the post-modern Hungarian rhapsody of the grading ceremony on 11 June, when berserk, elated teachers graded politicians from Fidesz, including Prime Minister Viktor Orbán, who received such a huge “picket”—children’s slang for the lowest grade in the grading system—that it could not possibly have fit into his schoolbag.

Although many people began to think and talk about the issues of the public sector, the movement’s communication was not clear about the directions. The communication was divided—a few still urged starting discussions with the government—and the two largest Teachers’ Unions (Teachers’ Union and Teachers’ Democratic Union) continuously competed with each other. The former had more hope in the possibility of negotiating with the government, while the latter demanded more radical steps in enforcing its demands. The general critique of the movement was that it could not use its huge support properly. The movement was unable to form a strong base for social resistance because it remained only in education and intentionally *avoided larger political issues*. (Marton, 2016)

**The convergence of struggles**

In addition to the contradictory character of the hybrid neoliberal and neoconservative politics discussed above—the “tension between a weak but strong state, and between freedom and control, liberty and authority” (Bailey and Ball, 2016: 131)—there is another, crucial paradox. While the conservative turn can be understood as a reaction to what Wallerstein has called the “culmination of disillusionment,” the ***interventions*** of the neoconservative state also embodied deviations from the Western agenda, described above as the narratives of “crisis,” “danger” and “decline”—centralization, control, authority, nationalism, etc. But this paradox is itself a part of the cycles of the world-system. As Wallerstein argues, while the two broad organizing tendencies – that of integrating production on a world-scale and that of forming strong national states – are in principle deeply contradictory, … the ever-present tension or antinomy between them is one of the perspective’s [world-system analysis’] basic, orienting concerns. (Hopkins and Wallerstein, 1977: 113)We argue that while the culmination of disillusionment was the condition for the teachers’ movement, *the danger of deviation from the Western agenda brought back several reflexes*, inherited from 1989: precipitance, the lack of social dialogue, uncritical acceptance of Western salvation, and *the tremendous influence of experts.*

Although the thematic groups in the government’s Public Education Roundtable lacked the very core of transparency, the CEP also built an obscure, top-heavy management structure that was completely in the hands of the experts, those who by hook or by crook were also there during the transition in 1989. As Géza Takács, chief editor of New Pedagogical Review, argued, the real questions in education are the questions of the last 27 years. There is no advocacy or agency for teachers, and the way the CEP was organized is an ***indicator*** of this void (Takács, 2016).

In our interpretation, the CEP’s and the movement’s directives fit into the narrative of the catching-up revolution that characterized the decades after the transition. All the formulated demands (CEP, Teachers’ Union, Student Parliament) embraced the policies that encompass a clarified neoliberal future in which Hungary will be closer to the core countries by eliminating the neoconservative ***interventions***. The movement’s vocabulary was the same as in 1989: decentralization; autonomy; free choice of schools; political neutrality; and meeting the clientele’s needs and the market’s demands, combined with equity and social mobility. The reflexes and the vocabulary of the transition came up quickly. The power and demands of those tens of thousands of people who stood silently in the rain was allocated to an arbitrarily cobbled Civic Platform, whose task of setting the directives has been again transferred to the same experts from the post-socialist era. There was no evaluation or legitimization of their proposals, which were accepted as the common, mainstream canon. Just as the experts “separated these movements’ [social movements, unions, cooperatives during the transition] claims for redistribution, recognition and representation, and selectively enlisted each element, in a limited and distorted way, to legitimate neoliberal capitalism” (Bockman, 2012: 314), the experts of the Civic Platform expropriated the proposals and the vocabulary of the teachers’ movement in the same way.

The way the memorable moment of the silence turned into a “schoolish,” silly “grading ceremony” is a tragedy, and a sign that the movement did not recognize what that silence tried to say. In a small survey, we asked volunteers and activists about their experiences in making that silence speak. The most common answers in terms of what the movement meant to them were “unity is strength”; “we cannot merge all individual aims to one common goal”; “I experienced the potential of joining forces”; and “the protest offered community experience, but the ***rural*** people and teaching staff still have to be reached and the movement should be more based on dialogue.”

Communality, multitude, democracy, dialogue—these are the basic principles we should have learned from global, anti-systemic movements, since the globalizing tendencies of neoliberal and neoconservative colonization brought demonstrations and protests to life all around the world in recent years, in education as well.7 While each and every movement is important, they are often left alone in a social void, but we know about myriad other local actions, trade union collaborations, etc. What we propose here is an approach acknowledging that modern societies should at least recognize the multitude of struggles. In global neoliberal capitalism, the only viable large-scale and long-term, anti-systemic movement is one that has the ability to open a common, public space for all possible struggles, with recognizing the possible “*convergence of struggles*.” (cf. Sourice, 2016).

Wallerstein argues in a very similar fashion. For him the fundamental strategy of past movements was twofold; namely, to achieve state power and then change the world. However, the fundamental acknowledgement of new social movements is that achieving state power doesn’t really change anything, since state power is already constrained by the world-system. Wallerstein argues, that in order to construct workable egalitarian institutions, … [m]ovements need to do a lot more talking to each other, collectively, worldwide. … What we need to design is a global “Rainbow Coalition,” that is, a confederation of many little movements, representing all kinds of particular grievances, a vast loosely connected movement, without a single organizing theme. (Wallerstein and Dunaway, 1999: 302).A good example could be the case of the CEU in Hungary, briefly discussed in the introduction, and the protests that it also triggered on the international level. It is crucial to mention that Hungarians have very limited access to higher education and to carry out research, and the huge inequalities in education also stands at CEU. A vast majority of Hungarian families have either never heard about the university or never considered it as a possibility. The opportunity the CEU provides in Hungary is far from the career prospects of the average Hungarian. Thus, the motto of the protest—“the case of the CEU is everyone’s case”—is highly problematic. But the very fact that so many people (80,000) went out protesting in April 2017 is magnificent *despite* the fact that the CEU’s case is largely *not* everyone’s case. It is solidarity, alliance, and civic support of those people who had really had enough of Fidesz’s post-fascist politics. A decisive moment in the future would be if the protesters and organizers could acknowledge that a convergence of struggles is already inscribed in this mono-themed movement.

In sum, it is important to recognize that education in post-socialist countries is still equivocal with the notions of “progress,” “hope” and “salvation,” and thus education under relative siege is capable of triggering large protests and laying the foundation for new social movements. But it is also crucial to acknowledge that public support of the defense of education reflects people’s overall disillusionment in the attempts to catch up with the core countries.

**Conclusion**

As we have shown, the political–economic transition in Hungary was in no sense a revolution, but rather a replacement of dictatorial/totalitarian state capitalism with global neoliberal capitalism. The teachers in this gloomy semi-peripheral context (just like some 60% of the population) were part of the losers in the transition. Any movement that brings back the slogans of the transition has to keep in mind that the words they use are part of the scam of 1989. Instead of focusing on words, we agree with Koczanowicz (2015), who, drawing on Wittgenstein, understands democracy as a “form of life” based on dialogue: that is, *understanding* instead of consensus. Thus, we argue that a movement that fights for democracy must itself become a democratic form of life. Furthermore, Koczanowicz locates the “level-zero” state of such a democracy in Mikhail Bakhtin’s concept of carnival “as a site of resistance of official political power. … Carnival itself, of course, does not contain sophisticated communication, but is a quasi-transcendental condition of such communication” (Koczanowicz, 2015: 80–84).

We argue that the silence on 13 February 2016, was a “level-zero” state of democracy. A carnival without the need for words. A moment when everything seemed permitted. A communal ***performance*** without boundaries. It created the possibility of a situation “in which diverse voices are heard and interact, breaking down conventions and enabling genuine dialogue … the chance for a new perspective and a new order of things, by showing the relative nature of all that exists” (Robinson, 2011). The principles of communality, multitude, democracy and dialogue were inscribed in that very moment, just as they were in 1989. But the reflexes of the transition transferred the possibility embedded in the silence into the same processes that have characterized the Hungarian semi-peripheral catching-up revolutions since 1989.

**Notes**

1The intelligentsia served only as a moral legitimation, since the late-Kádárian technocracy had no moral base and needed legitimation.; 2The transition was in no sense a revolution. As the first democratically elected prime minister, József Antall, said, “You should’ve made a revolution!”; 3These common principles also appeared in the New Education Acts in the Czech Republic and Slovakia in 1990 and in Poland in 1991: the abolition of state monopoly, pluralization, allocation of power to regional authorities, decentralization, autonomy, and authorization of private and religious schools (Kelemen, 2000).; 4It is important to note that the post-socialist reform package had a different composition in each country. For example, a full-fledged accountability regime has never been established in Hungary.; 5To mention just a few changes: the elimination of organizational, professional and economic autonomy; the suspension of quality management; implementation of teachers’ external, administrative control; the liquidation of teacher training systems and professional services; the centralization of the curriculum; the elimination of the textbook market and the introduction of new, centrally approved textbooks; the promotion of segregation; the complete shutdown of school improvements; the centralization of the public institutions; the introduction of a compulsory kindergarten from age three; the reduction of the age limit for compulsory education from 18 to 16; the regulation of the local curricula of schools, which could differ from the state curriculum by only 10%; the introduction of daily physical education. And this list could continue for several pages.; 6The Conservative–Liberal Democrat coalition (2010–2015) in Britain and the Alliance of Young Democrats (Fidesz)–Christian Democratic People’s Party (KDNP) coalition in Hungary.; 7One basis for these protests was the so-called “millennium strikes” in Mexico in 1999, which completely paralyzed the Independent National University for more than nine months. In the mid-2000s, the European Social Forum began to function as an organizing force in student movements. The most dominant movements in recent years have been: (a) the Chilean student movement against political corruption; (b) the “Indignados” movement in Spain, demonstrations organized by students and their professors against the government’s state-controlled test system; and (c) the “block book” movement, which aims to connect student movements around the world on a transnational basis (Fernández, 2014; Zolcsák, 2013).

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RR\1126688EN.docx PE599.809v02-00 EN United in diversity EN European Parliament 2014-2019 Plenary sitting A8-0201/2017 24.5.2017 REPORT on increasing engagement of partners and visibility in the ***performance*** of European Structural and Investment Funds (2016/2304(INI)) Committee on Regional Development Rapporteur: Daniel Buda PE599.809v02-00 2/26 RR\1126688EN.docx EN PR\_INI CONTENTS Page MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION ............................................ 3 EXPLANATORY STATEMENT ............................................................................................ 12 OPINION OF THE COMMITTEE ON BUDGETS ................................................................ 14 OPINION OF THE COMMITTEE ON EMPLOYMENT AND SOCIAL AFFAIRS ............ 18 INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE ................................ 25 FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE .................................... 26 RR\1126688EN.docx 3/26 PE599.809v02-00 EN MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION on increasing engagement of partners and visibility in the ***performance*** of European Structural and Investment Funds (2016/2304(INI)) The European Parliament, – having regard to Articles 174, 175 and 177 of the Treaty on the Functioning of the European Union, – having regard to Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European ***Agricultural*** Fund for ***Rural*** Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (hereinafter ‘the CPR’)1, – having regard to Commission Delegated Regulation (EU) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investments Funds2, – having regard to its resolution of 16 February 2017 on investing in jobs and growth – maximising the contribution of European Structural and Investment Funds3, – having regard to its resolution of 16 February 2017 on delayed implementation of ESI Funds operational programmes – impact on cohesion policy and the way forward4, – having regard to its resolution of 10 May 2016 on new territorial development tools in cohesion policy 2014-2020: Integrated Territorial Investment (ITI) and Community-Led Local Development (CLLD)5, – having regard to its resolution of 26 November 2015 on towards simplification and ***performance*** orientation in cohesion policy 2014-20206, – having regard to the Council conclusions of 16 November 2016 on results and new elements of cohesion policy and the European structural and investment funds7, – having regard to the Commission communication entitled ‘Ensuring the visibility of 1 OJ L 347, 20.12.2013, p. 320. 2 OJ L 74, 14.03.2014, p 1. 3 Texts adopted, P8\_TA(2017)0053. 4 Texts adopted, P8\_TA(2017)0055. 5 Texts adopted, P8\_TA(2016)0211. 6 Texts adopted, P8\_TA(2015)0419. 7

[*http://www.consilium.europa.eu/press-releases-pdf/2016/11/47244650399\_en.pdf*](http://www.consilium.europa.eu/press-releases-pdf/2016/11/47244650399_en.pdf) PE599.809v02-00 4/26 RR\1126688EN.docx EN Cohesion Policy: Information and communication rules 2014 - 2020’1, – having regard to the Flash Eurobarometer 423 of September 2015 commissioned by the Commission entitled ‘Citizens’ awareness and perceptions of EU: Regional Policy’2, – having regard to the Van den Brande report of October 2014 entitled ‘Multilevel Governance and Partnership’, prepared at the request of the Commissioner for Regional and Urban Policy Johannes Hahn’3, – having regard to the communication plan of the European Committee of the Regions for the year 2016 entitled ‘Connecting regions and cities for a stronger Europe’4, – having regard to the study of July 2016 commissioned by the Commission entitled ‘Implementation of the partnership principle and multi-level governance in the 2014-2020 ESI Funds’5, – having regard to the presentation of the Interreg Europe Secretariat entitled ‘Designing a project communication strategy’6, – having regard to the report prepared as part of the Ex post evaluation and forecast of benefits to EU-15 countries as a result of Cohesion Policy implementation in V4 countries, commissioned by the Polish Ministry of Economic Development and entitled ‘How do EU-15 Member States benefit from the Cohesion Policy in the V4?’7, – having regard to the European Anti-Poverty Network (EAPN) handbook of 2014 entitled ‘Giving a voice to citizens: Building stakeholder engagement for effective decision-making – Guidelines for Decision-Makers at EU and national levels’8, – having regard to the study by its Directorate-General for Internal Policies (Department B: Structural and Cohesion Policies) of November 2014 entitled ‘Communicating Europe to its Citizens: State of Affairs and Prospects’, – having regard to the briefing by its Directorate-General for Internal Policies (Department B: Structural and Cohesion Policies) of April 2016 entitled ‘Research for REGI Committee: Mid-term review of the MFF and Cohesion Policy’, – having regard to the Commission summary report of 19 September 2016 on the Ex-post evaluation of the ERDF and Cohesion Fund 2007-2013 (SWD(2016)0318), 1   [*http://ec.europa.eu/regional\_policy/en/information/publications/brochures/2014/ensuring-the-visibility-of-cohesion-policy-information-and-communication-rules-2014-2020*](http://ec.europa.eu/regional_policy/en/information/publications/brochures/2014/ensuring-the-visibility-of-cohesion-policy-information-and-communication-rules-2014-2020). 2   [*http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/67400*](http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/67400). 3   [*http://ec.europa.eu/regional\_policy/sources/informing/dialog/2014/5\_vandenbrande\_report.pdf*](http://ec.europa.eu/regional_policy/sources/informing/dialog/2014/5_vandenbrande_report.pdf) 4   [*http://cor.europa.eu/en/about/Documents/CoR-communication-plan-2016.pdf*](http://cor.europa.eu/en/about/Documents/CoR-communication-plan-2016.pdf) 5   [*http://ec.europa.eu/regional\_policy/sources/policy/how/studies\_integration/impl\_partner\_report\_en.pdf*](http://ec.europa.eu/regional_policy/sources/policy/how/studies_integration/impl_partner_report_en.pdf) 6   [*http://www.interregeurope.eu/fileadmin/user\_upload/events/Rotterdam/pdf/Designing\_communication\_strategy.pdf*](http://www.interregeurope.eu/fileadmin/user_upload/events/Rotterdam/pdf/Designing_communication_strategy.pdf) 7   [*https://www.strukturalni-fondy.cz/getmedia/fdc8a04e-590d-47ac-9213-760d4ac76f75/V4\_EU15\_manazerske-shrnuti.pdf?ext=.pdf*](https://www.strukturalni-fondy.cz/getmedia/fdc8a04e-590d-47ac-9213-760d4ac76f75/V4_EU15_manazerske-shrnuti.pdf?ext=.pdf) 8   [*http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2014-eapn-handbook-Give-a-voice-to-citizens-Guidelines-for-Stakeholder-Engagement.pdf*](http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2014-eapn-handbook-Give-a-voice-to-citizens-Guidelines-for-Stakeholder-Engagement.pdf) RR\1126688EN.docx 5/26 PE599.809v02-00 EN – having regard to Rule 52 of its Rules of Procedure, – having regard to the report of the Committee on Regional Development and the opinions of the Committee on Budgets and the Committee on Employment and Social Affairs (A8-0201/2017), A. whereas cohesion policy has contributed significantly to enhancing growth and jobs, and to reducing disparities among EU regions; B. whereas EU cohesion policy funding has a positive impact on both the economy and citizens’ lives, as shown by several reports and independent evaluations, but the results have not always been well communicated and awareness of its positive effects remains rather low; whereas the added value of EU cohesion policy goes beyond the proven positive economic, social and territorial impact, as it also implies the commitment of Member States and regions towards strengthening European integration; C. whereas the awareness of local EU-funded programmes among end-users and civil society is crucial, irrespective of the funding levels in a specific region; D. whereas the partnership principle and the multi-level governance model, which are based on enhanced coordination among public authorities, economic and social partners and civil society, can effectively contribute to better communicating EU policy objectives and results; E. whereas a permanent dialogue and the engagement of civil society is essential in providing accountability and legitimacy for public policies, creating a sense of shared responsibility and transparency in the decision-making process; F. whereas increasing the visibility of ESI Funds can contribute to improving perceptions about the effectiveness of cohesion policy and to regaining citizens’ confidence and interest in the European project; G. whereas a coherent communication line is essential, not only downstream with regard to the concrete results of ESI Funds, but also upstream in order to make project initiators aware of funding opportunities, with a view to increasing public involvement in the implementation process; H. whereas methodologies for providing information and for the diversification of communication channels should be increased and improved; General considerations 1. Emphasises that cohesion policy is one of the main public vehicles of growth that, through its five ESI Funds, ensures investment in all EU regions and helps to reduce disparities, to support competitiveness and smart, sustainable and inclusive growth and to improve the quality of life of European citizens; 2. Notes with concern that overall public awareness and perceptions about the effectiveness of the EU’s regional policy have been declining over the years; refers to Eurobarometer survey 423 of September 2015, in which just over one third (34 %) of PE599.809v02-00 6/26 RR\1126688EN.docx EN Europeans claim to have heard about EU co-financed projects improving the quality of life in the area in which they live; notes that the majority of respondents mentioned education, health, social infrastructure and environmental policy as important domains; considers that not only the quantity but mainly the quality of projects funded under the ESI Funds and their added value in terms of tangible results are pre-requisites for positive communication; underlines, therefore, that the assessment, selection, implementation and finalisation of projects must focus on achieving the expected results, in order to avoid ineffective spending which could lead to negative publicity for cohesion policy; draws attention to the fact that communication measures must be selected with special consideration for their contents and scope, while reiterating that the best form of advertising is to illustrate the significance and usefulness of the implemented projects; 3. Notes that ensuring the visibility of cohesion policy investments should remain a shared responsibility of the Commission and the Member States, with a view to formulating effective European communication strategies designed to ensure the visibility of cohesion policy investments; notes, in this context, the role of the managing authorities and of the competent local and regional authorities in particular, through institutional communication as well as beneficiaries, as they constitute the most effective interface of communication with citizens by providing information in situ and bringing Europe closer to them; recalls, moreover, that these authorities have the best knowledge of local and regional realities and needs, and that improving visibility requires more efforts for better information and transparency at grassroots level; 4. Underlines that providing visibility for a policy involves a dual process of communication and interaction with partners; highlights, moreover, that, in the context of complex challenges, and in order to ensure legitimacy and provide effective long-term solutions, public authorities need to involve relevant stakeholders during all negotiation and implementation phases of the Partnership Agreement and the operational programmes, in line with the partnership principle; stresses, moreover, the need to strengthen the institutional capacity of public authorities and partners and reiterates the role that the European Social Fund (ESF) can play in this regard; 5. Stresses in this context the uneven progress registered across Member States towards streamlining administrative procedures in terms of the broader mobilisation and involvement of regional and local partners, including economic and social partners and bodies representing civil society; recalls the importance of social dialogue in this regard; Challenges to be addressed 6. Points to the increase in Euroscepticism and in anti-European populist propaganda, which distorts information on Union policies, and calls on the Commission and the Council to analyse and address their underlying causes; stresses, therefore, the urgent need to develop more effective communication strategies, ensuring citizen-friendly language and aiming to bridge the gap between the EU and its citizens, including the unemployed and those at risk of social exclusion, via a variety of media platforms at local, regional and national levels that are capable of conveying an accurate and coherent message to citizens on the added value of the European project for their quality RR\1126688EN.docx 7/26 PE599.809v02-00 EN of life and prosperity; 7. Invites the Commission and the Council to analyse, both for the current framework and for the post-2020 reform of cohesion policy the impact on the perception of EU policies of the measures aimed at strengthening the link with the European semester and at implementing structural reforms via programmes financed by ESI Funds; 8. Acknowledges the limitations of the legal framework as regards ensuring that cohesion policy has adequate visibility; stresses that, as a result, communication on its tangible achievements has not always been a priority for the different stakeholders; considers that the recommended communication activities on tangible achievements should be constantly updated; notes, in this context, the fact that the technical assistance of the ESI Funds does not include a dedicated financial envelope for communication, at either Union or Member State level; stresses, however, the responsibility of managing authorities and beneficiaries to monitor regularly compliance with the information and communication activities, as provided for in Article 115 and Annex XII of the Common Provisions Regulation (EU) 1303/2013; 9. Reiterates the imperative of finding a proper balance between the need to simplify the rules governing the implementation of cohesion policy and the need to preserve sound and transparent financial management and combat fraud while still communicating this properly to the public; recalls, in this context, the need to clearly distinguish between irregularities and fraud, so as not to create public distrust in the managing authorities and local administrations; insists, moreover, on the need to simplify and lessen the administrative burden for beneficiaries, without affecting necessary controls and audits; 10. Underlines that it is essential to increase ownership of the policy on the ground, both locally and regionally, in order to ensure efficient delivery and communication of the results; appreciates that the partnership principle adds value to the implementation of European public policies, as confirmed by a recent Commission study; points out, however, that mobilising partners remains rather difficult in some cases on account of the partnership principle being implemented formally but not allowing for real participation in the governance process; recalls that more efforts and resources need to be invested in partnership involvement and in the exchange of experiences through dialogue platforms for partners, with a view, moreover, to making them multipliers of EU funding opportunities and successes; 11. Recalls, furthermore, that the long-term, ***strategic*** nature of cohesion policy investments means that results are sometimes not immediate, a situation that is detrimental to the visibility of cohesion policy instruments, especially when compared with other Union tools, such as the European Fund for ***Strategic*** Investments (EFSI); urges, therefore, that communication activities should, where appropriate, continue for another four years after closure of the project; stresses that the results of certain investments (especially those in human capital) are less visible and harder to quantify than ‘physical’ investments and calls for a more detailed and differentiated evaluation of the long-term impact of cohesion policy on citizens’ lives; considers, moreover, that special attention should be paid to the ex-post evaluation and communication activities on the contribution of ESI Funds to the Union’s strategy for smart, sustainable and inclusive growth, as the long-term European development strategy; PE599.809v02-00 8/26 RR\1126688EN.docx EN 12. Notes the important role played by the media in informing citizens on various EU policies and EU affairs in general; regrets, however, the rather limited media coverage of EU cohesion policy investments; stresses the need to develop information campaigns and communication strategies that target the media, that are adapted to the current informational challenges and that deliver information in an accessible and attractive form; stresses the need to harness the growing influence of social media, the advantages offered by digital advancements and the mix of the different types of communication channels available, in order to utilise them better when promoting the opportunities provided and achievements delivered by ESI Funds; Improving communication and the engagement of partners during the second half of the 2014-2020 period 13. Calls on the Commission and the Member States to increase the coordination and accessibility of existing communication means and instruments at EU level, with a view to addressing topics that have an impact on the EU agenda; emphasises, in this context, the importance of providing guidelines that set out techniques and methods for communicating effectively how cohesion policy delivers tangible results for the everyday lives of EU citizens; calls on the managing authorities and beneficiaries to communicate the results, benefits and long-term impact of the policy actively and systematically, while taking into account the different project development stages; 14. Points out that, given the quantity and quality of information transmitted on traditional and modern media, it is no longer enough simply to display the Commission logo on project description panels; calls on the Commission to devise more effective means of identification; 15. Welcomes the current specific communication activities, such as the ‘Europe in My Region’ campaign, the Commission’s ‘EU Budget for Results’ web application, the cooperation with CIRCOM Regional1, the Europe for Citizens Programme and the opportunities provided by the newly created European Solidarity Corps; stresses, in addition, the key role played by Europe Direct information Centres in decentralised communication, with a view to increasing awareness of cohesion policy impact on the ground, both locally and regionally; stresses, moreover, the need to concentrate efforts on reaching students and journalists as potential communication vectors, and on ensuring a geographical balance in the communication campaigns; 16. Underlines the need to adjust the communication arrangements laid down in the Common Provisions Regulation (EU) 1303/2013; invites the Commission to consider the added value of providing a specific financial envelope for communication within the technical assistance, as well as of increasing, where appropriate, the number of binding publicity and information requirements for cohesion policy projects; calls on the Commission to provide clear guidance in 2017 on how technical assistance could be used for communication in the current funding period, with a view to ensuring legal certainty for local and regional authorities and other beneficiaries; reiterates, furthermore, that the ordinary communication and advertising standards, while well-conceived in the case of structural and technological investments, are not as effective 1 Professional Association of Regional Public Service Television in Europe. RR\1126688EN.docx 9/26 PE599.809v02-00 EN for intangible investments in human capital; 17. Underlines the need to give greater precedence to communication within the hierarchy of EU cohesion policy priorities, especially in the context of the work of management staff not directly responsible for communication, and to incorporate communication into the normal procedure of ESI Funds; calls for further professionalism in the field of communication, especially in going local and avoiding EU jargon; 18. Welcomes the ex-post evaluation of cohesion policy programmes for the period 2007-2013 undertaken by the Commission, which provide excellent sources for communicating the results achieved and impact made; takes note of the initiative of the V4 countries on the externalities of cohesion policy in EU-151 and calls on the Commission to draft a broader objective study at EU-28 level; further urges the Commission to differentiate its communication strategies towards net contributor and net beneficiary Member States, and to highlight the specific benefits that cohesion policy brings in terms of boosting the real economy, fostering entrepreneurship and innovation, creating growth and jobs in all EU regions and improving community and economic infrastructure, both through direct investments and direct and indirect exports (externalities); 19. Calls on the Commission and the managing authorities to identify ways to facilitate and standardise access to information, to promote an exchange of knowledge and good practices on communication strategies in order to better capitalise on the existing experience and increase the transparency and visibility of funding opportunities; 20. Welcomes the introduction of e-cohesion in the current programming period, which aims to simplify and streamline the implementation of ESI Funds; underlines its capacity to contribute effectively to accessing information, the monitoring of programme development and the creation of useful links among stakeholders; 21. Considers that there is a need for enhanced communication through new media channels, which will require a strategy for digital and social media platforms designed to inform citizens and give them the opportunity to voice their needs, focusing on reaching end-users through different sets of tools such as interactive online means, developing more accessible mobile-based content and applications, as well as ensuring that information is tailored to different age groups and available in different languages, where appropriate; invites the managing authorities to provide the relevant DGs with up-to-date information on the financial data and achievements and investments, with a view to displaying easily readable data and charts within the ESI Funds Open Data Platform, for the benefit of journalists; calls for the launch of regional award initiatives for the best projects, inspired by RegioStars; 22. Suggests, furthermore, that the monitoring and evaluation of current communication activities be improved and proposes the establishment of regional communications taskforces involving actors across a number of levels; 1 Report prepared as part of the Ex-post evaluation and forecast of benefits to EU-15 countries as a result of Cohesion Policy implementation in V4 countries, commissioned by the Polish Ministry of Economic Development and entitled ‘How do EU-15 Member States benefit from the Cohesion Policy in the V4’. PE599.809v02-00 10/26 RR\1126688EN.docx EN 23. Highlights the importance of the European code of conduct on partnership and the role of the partnership principle in enhancing the collective commitment to and ownership of cohesion policy; calls for the link between public authorities, potential beneficiaries, the private sector, civil society and citizens to be strengthened through open dialogue, and for the make-up of the partnership participants to be altered during implementation where necessary, with a view to ensuring the right mix of partners to represent community interests at every stage of the process; 24. Welcomes the innovative model of multilevel and multi-stakeholder cooperation proposed by the EU Urban Agenda and recommends its replication, where possible, in the implementation of cohesion policy; 25. Highlights the need to enhance the communicational dimension of cross-border and inter-regional cooperation, including at the level of ongoing macro-regional strategies, which should be made more visible for EU citizens, through the dissemination of good practices and of investment success stories and opportunities; Fostering post-2020 communication on cohesion policy 26. Calls on the Commission and Member States to boost the attractiveness of EU cohesion policy funding through further simplification and limitation of gold plating, and to consider reducing the complexity and, where appropriate, the number of regulations and guidelines, in the light of the recent recommendation by the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the ESI Funds; 27. Taking into consideration how EU cohesion policy contributes to positive identification with the European integration project, calls on the Commission to consider a compulsory communication field in the project application forms, as part of an increased use of technical assistance through an envelope set aside for communication, at programme level, , while guarding against increasing the number of constraints and ensuring the necessary flexibility; calls, in addition, on the managing and local and regional authorities to improve the quality of their communication on the final results of projects; 28. Highlights the imperative of increasing the Union’s dialogue with citizens, of rethinking communication channels and strategies and, given the opportunities offered by social networks and new digital technologies, of adapting messages to local and regional contexts; emphasises, moreover, the potential role of civil society stakeholders as vectors for communication; reiterates, nevertheless, that educational content is as important as media strategies and promotion via different platforms; 29. Emphasises, in the context of communication and visibility, the need for further simplification of the policy post 2020, including with regard to shared management and audit systems, in order to strike the right balance between a policy geared towards results, an appropriate number of checks and controls, and simplified procedures; 30. Calls for the partnership principle to be further strengthened within the framework of the post-2020 programming period; is convinced that actively engaging stakeholders, including organisations that represent civil society, in the process of negotiating and implementing the Partnership Agreement and the operational programmes, could RR\1126688EN.docx 11/26 PE599.809v02-00 EN contribute to enhancing the ownership and transparency of policy implementation and could also entail better policy implementation with regard to the EU budget; calls on the Member States, therefore, to consider implementing existing models of participatory governance, bringing together all relevant societal partners and involving stakeholders in a participatory budgeting process in order to determine the resources allocated for national, regional and local co-financing, where appropriate, with a view to increasing the mutual trust and engagement of citizens in public spending decisions; suggests, furthermore, that participatory outcome assessments involving the beneficiaries and different stakeholders be carried out, in order to gather relevant data which could contribute to boosting active participation and visibility with regard to future action; 31. Further insists on increasing urban-***rural*** cooperation to develop territorial partnerships between cities and ***rural*** areas through fully exploiting the potential of synergies between EU funds and building on the expertise of urban areas and their greater capacity in managing funds; 32. Urges the Commission and the Member States to focus, moreover, in their respective communication action plans, on strengthening cooperation among the different Directorate-Generals, ministries and communicators at different levels, and on establishing an overview of target audiences, with a view to developing and conveying messages tailored to specific target groups in order to reach citizens on the ground more directly and inform them better; 33. Stresses in this context the importance of a culture shift, in the sense that communication is a responsibility of all actors involved, and beneficiaries themselves are becoming main communicators; 34. Further asks the Commission and the Member States to strengthen the role and position of pre-existing communication and information networks and to use the interactive EU e-communication platform on cohesion policy implementation, so as to collect all relevant data on ESI Fund projects, allowing end-users to give their feedback on the implementation process and the results achieved, beyond a scant description of the project and the expenditure incurred; takes the view that such a platform would also facilitate the evaluation of the effectiveness of cohesion policy communication; ° ° ° 35. Instructs its President to forward this resolution to the Council, the Commission, the Committee of the Regions, and the national and regional parliaments of the Member States. PE599.809v02-00 12/26 RR\1126688EN.docx EN EXPLANATORY STATEMENT Cohesion policy is the most important investment vehicle of growth of the Union with a budget of 351,8 billion euro, having an impact on all EU regions and citizens. With a major contribution to the economies of the Member States, Cohesion Policy investments alongside national co-financing accounted on average for 15% of total public investment in the EU 28, in certain Member States going up to 60 – 80%. Cohesion Policy instruments have proved useful and effective tools for channelling the funding to poorer regions and in areas most affected by the economic crisis and investing in key sectors for growth and jobs. Beside its main role of reducing disparities among EU regions, cohesion policy and the synergy with the research and development funds have significantly contributed to developing the smart specialization platforms, fostering innovation and promoting excellence in all EU regions. While the main priority of cohesion policy remains providing support less developed regions, it focuses on increasing the growth and competitiveness in more developed regions. Thus, the investments in less prosperous regions provide opportunities for more developed regions.1 The EU funding policies have an impact to all EU citizens; nevertheless, the results have not always been well communicated as regards the extent to which ESI Funds investments changed the daily life of EU citizens. Therefore, the report proposes new ways of advertising the results of cohesion policy investments. In the wake of Brexit and the rise of populism movements throughout Europe, there is a stringent need to rethink communication methods, counteracting the anti-European and Euro-sceptic rhetoric and delivering clear message to citizens, aiming to regain the confidence in the common vision of the European project. The own-initiative report seeks to scrutinize actual experiences and work on an increased visibility of the structural and investment funds and proposes an approach to link Cohesion Policy instruments with local policies, in order to increase the effectiveness of decisions at the local level through developing participatory governance as an effective tool to increase the visibility of ESI Funds. Moreover, the report will evaluate how the impact of communication through social media can be increased, given the democratisation of the media content. The draft report also aims encouraging the public support and involving the local community in decision making, through participatory budgeting, where appropriate, as well as through public consultation and other tools. EU should focus on identifying new ways to increase ownership, vertically and horizontally, putting together all relevant societal partners in all stages related to cohesion policy implementation.2 1   [*http://ec.europa.eu/regional\_policy/sources/information/cohesion-policy-achievement-and-futu*](http://ec.europa.eu/regional_policy/sources/information/cohesion-policy-achievement-and-futu)

re-investment/factsheet/en.pdf 2 Multilevel Governance and Partnership – Van den Brande Report, European Commission, 2014. RR\1126688EN.docx 13/26 PE599.809v02-00 EN While there are signs of economic recovery, EU’s social crisis continues. Opinions and solutions coming directly from stakeholders involved in local development projects and regular dialogue and engagement with civil society provide accountability and legitimacy to government’s policies. The partners have to assume a common responsibility to a stronger EU and an increasingly more connected world, while the development of ‘multi-layered governance’ architecture1 is essential for implementing the EU 2020 objectives. The beneficiaries of ESI Funds projects shall take up the role of ‘ambassadors’ of Cohesion Policy. 1 Commission Working Document – Consultation in EU 2020 Strategy COM(2009)647/3. PE599.809v02-00 14/26 RR\1126688EN.docx EN 12.5.2017 OPINION OF THE COMMITTEE ON BUDGETS for the Committee on Regional Development on increasing engagement of partners and visibility in the ***performance*** of the European Structural and Investment Funds (2016/2304(INI)) Rapporteur: Jan Olbrycht SUGGESTIONS The Committee on Budgets calls on the Committee on Regional Development, as the committee responsible, to incorporate the following suggestions into its motion for a resolution: 1. Underlines that, although the Common Provisions Regulation defines precisely the information and communication responsibilities of Member States and managing authorities implementing projects cofinanced by the European Structural and Investment (ESI) Funds, there are no specific provisions ensuring a financial envelope devoted to such activities at either Union or Member State level; 2. Notes with concern that there is a visible gap between the documented results of cohesion policy ***interventions*** and the added value of the policy in general, on the one hand, and the perception and recognition of EU-funded projects on the ground, on the other; believes that this gap needs to be addressed urgently, especially given the increased scepticism regarding the EU that can currently be observed in many Member States; calls on the Commission to allocate an adequate amount of financial resources for expanding the scope of the RegioStars award, with the aim of holding annual competitions to reward the best performing projects at regional level in all Member States; considers that this initiative would allow the best examples of cohesion policy initiatives to obtain media coverage and become known to a wider public; 3. Underlines the potential of the partnership principle in enhancing the ownership of cohesion policy and the commitment to better dissemination of the policy’s results; 4. Stresses the need for simplification of the rules governing the implementation of cohesion policy and the need to preserve sound financial management while properly communicating this to the public; RR\1126688EN.docx 15/26 PE599.809v02-00 EN 5. Invites the Commission to consider earmarking a dedicated financial envelope for information and communication activities as part of the technical assistance relating to the ESI Funds; considers that the ongoing revision of the Common Provisions Regulation in the framework of the simplification presented as part of the MFF mid-term review/revision package provides an excellent opportunity in this context; calls for national, regional and local managing authorities to adapt their internal structures with the aim of improving their communication capabilities and subsequently making the most efficient use of the funds earmarked for promoting the ESI Funds; 6. Considers that a higher level of stakeholder engagement and visibility with regard to the implementation of the ESI Funds could result in an increased number of project applications submitted by Member States and a subsequent reduction in the under-implementation of the EU budget; 7. Notes, however, that the perception of the ESI Funds will not be improved by information and communication activities alone, but by quantifiable and tangible added value generated by these funds. PE599.809v02-00 16/26 RR\1126688EN.docx EN INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION Date adopted 11.5.2017 Result of final vote +: –: 0: 30 3 0 Members present for the final vote Jean Arthuis, Lefteris Christoforou, Gérard Deprez, Manuel dos Santos, José Manuel Fernandes, Eider Gardiazabal Rubial, Monika Hohlmeier, Bernd Kölmel, Zbigniew Kuźmiuk, Vladimír Maňka, Clare Moody, Younous Omarjee, Pina Picierno, Paul Rübig, Petri Sarvamaa, Jordi Solé, Patricija Šulin, Eleftherios Synadinos, Indrek Tarand, Isabelle Thomas, Inese Vaidere, Monika Vana, Daniele Viotti, Marco Zanni Substitutes present for the final vote Anneli Jäätteenmäki, Louis Michel, Stanisław Ożóg, Rainer Wieland, Tomáš Zdechovský Substitutes under Rule 200(2) present for the final vote Georges Bach, Gabriele Preuß, Claudia Schmidt, Axel Voss RR\1126688EN.docx 17/26 PE599.809v02-00 EN FINAL VOTE BY ROLL CALL IN COMMITTEE ASKED FOR OPINION 30 + ALDE Jean Arthuis, Gérard Deprez, Anneli Jäätteenmäki, Louis Michel ECR Zbigniew Kuźmiuk, Stanisław Ożóg GUE/NGL Younous Omarjee PPE Georges Bach, Lefteris Christoforou, José Manuel Fernandes, Monika Hohlmeier, Paul Rübig, Petri Sarvamaa, Claudia Schmidt, Inese Vaidere, Axel Voss, Rainer Wieland, Tomáš Zdechovský, Patricija Šulin S&D Eider Gardiazabal Rubial, Vladimír Maňka, Clare Moody, Pina Picierno, Gabriele Preuß, Isabelle Thomas, Daniele Viotti, Manuel dos Santos VERTS/ALE Jordi Solé, Indrek Tarand, Monika Vana 3 - ECR Bernd Kölmel ENF Marco Zanni NI Eleftherios Synadinos 0 0 Key to symbols: + : in favour - : against 0 : abstention PE599.809v02-00 18/26 RR\1126688EN.docx EN 4.5.2017 OPINION OF THE COMMITTEE ON EMPLOYMENT AND SOCIAL AFFAIRS for the Committee on Regional Development on increasing engagement of partners and visibility in the ***performance*** of European Structural and Investment Funds (2016/2304 (INI)) Rapporteur: Claude Rolin SUGGESTIONS The Committee on Employment and Social Affairs calls on the Committee on Regional Development, as the committee responsible, to incorporate the following suggestions into its motion for a resolution: A. whereas raising the profile of EU-funded projects can play a key role in combating the shadow economy; B. whereas the high degrees of synergy and significant efficiency gains which could be achieved by raising the profile of the European Structural and Investment Funds could be secured for all EU funds by implementing a similar and hence comparable communication and publicising strategy; 1. Points out that the European Structural and Investment Funds (ESIF) comprise five different funds that are geared towards improving European citizens’ quality of life; highlights the importance of the ESIF, and in particular the European Social Fund (ESF), which has proved to be one of the most important public tools in promoting growth, jobs and social inclusion and reducing regional disparities, especially with regard to the most vulnerable regions and people; underlines the added value of the ESF and the need to draw up communication plans to ensure better optimisation of the resources invested in its visibility; 2. Notes with concern that in 2015 only 34 % of Europeans said that they had heard about projects co-financed by the EU to improve the area in which they live and to foster sustainable, inclusive growth and jobs, and that this proportion has remained unchanged RR\1126688EN.docx 19/26 PE599.809v02-00 EN since June 20101, and also that in 2015, 75 % of the people who were aware of the funds said that they have had a positive impact, with only 9 % saying that the impact has been negative; stresses, therefore, that there is an urgent need to improve communication strategies targeting citizens, this being all the more important in these times of challenge owing to nationalism and the spread of negativity about the European project; 3. Calls on the Commission, in close cooperation with the local, regional and national authorities as well as the stakeholders concerned, to monitor regularly that all legal provisions as regards information and communication are being implemented thoroughly in order to ensure transparency and the widespread dissemination of information, through institutional communication, social media and any other type of informal communication, about the achievements of the Funds, paying special attention to groups of beneficiaries in vulnerable positions and the exchange of best practices between authorities and beneficiaries of the Funds; 4. Stresses the importance of EU added value, which is one of the core principles against which spending options at EU level should be assessed; believes in this regard that all ESIF funding must be used in a way that adds value to the work already undertaken by the Member States and not to replace national approaches; 5. Calls on the Commission and the Member States to improve the visibility of the ESIF by proposing effective communication and targeted measures which can best illustrate the positive contribution of the ESIF, the European added value of the projects and how the ESIF has positively contributed towards improving the lives of European citizens on the ground, particularly in terms of job creation and social integration, as well as the possibilities offered by the ESF, in particular in terms of social inclusion and employment, through a targeted and detailed institutional communication of results achieved and projects implemented, including information events; recalls the multiplying effect that the active involvement of civil society in the development and implementation of EU grants programmes entails; 6. Draws attention to the growing importance of social media and also the dissemination of anti-European propaganda on the internet; calls on the Commission, the Member States and all stakeholders to make the best use of new communication techniques to increase the visibility of the ESIF; stresses the importance of ensuring citizen-friendly language and suggests increased use of concepts such as ‘simple language’; recommends the more intense use of social media to communicate the successes of cohesion policies and the opportunities related to their use; 7. Recognises the need to take a pedagogical approach with regard to the funds concerned so as to prevent nationalist reactions to an instrument that is based on solidarity with the most deprived regions or with the people who most need that solidarity, such as the unemployed or those at risk of social exclusion; 8. Calls on the Commission to promote partnerships, agreements and initiatives via the networks and communication channels used by the stakeholders who are most closely 1 Flash Eurobarometer 423: Citizens’ awareness and perceptions of EU regional policy. PE599.809v02-00 20/26 RR\1126688EN.docx EN involved, such as the social partners and NGOs; 9. Calls on the Commission to review the provisions contained in Article 115 of, and Annex XII to, Regulation (EU) No 1303/2013 to take account of the specific nature of ESF projects, which mainly focus on human capital, providing in particular the possibility to finance specific dissemination and divulgation of the activities performed and results achieved by actions funded under the ESF, taking into account that the ordinary communication and advertising standards, while well-conceived in the case of structural and technological investments, are not as effective for intangible investments in human capital; 10. Calls on the Commission to reduce the administrative burden, without affecting necessary controls and audits, with a view to ensuring a better absorption rate, in particular for SMEs, micro-businesses and companies in remote ***rural*** areas, in order to foster their capacity to create employment and add economic value, and for civil society organisations; emphasises, in that connection, the need to maintain a balance as regards the beneficiaries’ reporting obligations and accountability vis-à-vis European taxpayers, so that, in the context of the revision of a fund, sufficient data is available to improve the way in which funding is targeted; 11. Recognises the importance of the European Code of Conduct on Partnership, which governs the participation of local authorities, the social partners and other interested parties at all stages of planning, implementation and follow-up with regard to the ESIF; recalls that the partnership principle fundamentally ensures that the programming takes greater account of citizens’ needs and involves consulting stakeholders and integrating their input; points out that civil society actors and social partners should be better involved in the development processes from an early stage and that urban and regional stakeholders should play a bigger role in the implementation of the projects to be carried out; 12. Welcomes the better application of the partnership principle in the 2014-2020 ESIF period as compared with the 2007-2013 period and recognises the contribution of the European Code of Conduct on Partnership in this regard; notes, however, that some challenges remain, in particular the difficulty of mobilising all relevant stakeholders and the lack of time to ensure partner involvement; calls on the Commission and the Member States to review the Code of Conduct in this regard and to ensure the full and effective involvement of economic and social partners and bodies representing civil society at all stages in the implementation of Partnership Agreements and programmes, and to facilitate the exchange of experience and good practices; 13. Recognises that the ESF has taken on new challenges and that there is a need to step up social dialogue; emphasises the importance of ensuring adequate participation, at EU, national and regional level, of the social partners, thereby facilitating their involvement, in all stages of planning, implementation, supervision and assessment of the use of the ESIF; calls on the Commission to ensure and monitor adequate resources for social partners in this regard, as allocated under Article 6 of Regulation (EU) No 1304/2013; 14. Recalls the empowering effect of early-stage funding and pre-financing for projects through the use of ESIF; 15. Underlines the importance of the Tripartite ESF Committee, which facilitates the RR\1126688EN.docx 21/26 PE599.809v02-00 EN administration of the ESF by Member States, and calls on the Commission to consider the creation of similar committees for the other ESIFs in light of the added value created by social dialogue; 16. Stresses the importance of the integration of refugees as an urgent policy matter in the aftermath of the refugee crisis; insists, in this regard, on appropriate allocation of the funds, flexible use of funds, and more appropriate targeting of the risk groups, in order to mitigate the risk of exclusion and social tensions; 17. Calls on the Commission to analyse the real impact of investing EU funds during the previous programming period and to draw specific conclusions regarding the positive and negative experiences as a starting point for adding value to the investment process; 18. Calls on the Commission to adopt instruments able to assess not only the quantity but also the quality of the jobs created, as precarious types of employment without adequate safeguards or contracts that involve the exploitation of workers contribute to a negative perception of the cohesion policies; 19. Believes that one of the greatest challenges is the capacity of regions and partners to use and access EU funding streams; calls on the Member States which have not done so, or which have done so to a lesser extent, to devote an appropriate part of the ESF resources to strengthening the institutional capacity of public authorities and relevant partners in order to ensure in particular an effective partnership and an adequate funding allocation; calls on the Commission to ensure that both the allocated budget of 20 % of the ESF for social inclusion and the minimum guaranteed ESF share in each Member State is fully achieved; 20. Calls on the Commission to ensure that the Member States know the exact finalities of the ESF priorities relating to the partnership involvement, and to accompany them in the realisation of these priorities through the identification and dissemination of best practices; in this context, calls on the Commission to monitor, and to include in the annual implementation report on the ESF programmes, the progress made in the activities carried out in the Member States in this regard, with the purpose of ensuring compliance with the requirement for adequacy of resources; 21. Calls for participatory outcome assessments to be carried out with beneficiaries, local and regional authorities, associations, the social partners and other stakeholders in order to gather relevant data with a view to boosting active participation and visibility with regard to future action; 22. Underlines concerns regarding the exclusion of some regions or municipalities from financing due to the increase in public debt, since this increase usually stems from the activities of the central authorities; 23. Calls on the Member States to ensure a straightforward and transparent management of the ESIF; 24. Stresses that there is a particular need at EU and Member State level to improve simplification for beneficiaries, with more precise targeting to meet their needs; believes, in this regard, that the social partners and stakeholders could contribute to the PE599.809v02-00 22/26 RR\1126688EN.docx EN identification of both good and bad practices and help in introducing simplification options in their respective Member States; underlines that the simplification efforts should not only target beneficiaries, and calls on the Commission to concentrate its simplification efforts also on those responsible for managing and implementing the Cohesion Policy; 25. Underlines that in order to achieve the impact and the added value of ESIF a ‘one size fits all’ approach cannot work in practice, and that impact ***indicators*** in addition to the quantitative analysis should be introduced; calls for the ESIF to allow for appropriate flexibility in their design in order to allow Member States and partner organisations to implement individualised support in line with local needs, without compromising on audit and control; considers that ESIF should address the specific situations and should take into account different social and economic realities. RR\1126688EN.docx 23/26 PE599.809v02-00 EN INFORMATION ON ADOPTION IN COMMITTEE ASKED FOR OPINION Date adopted 3.5.2017 Result of final vote +: –: 0: 45 3 1 Members present for the final vote Laura Agea, Guillaume Balas, Brando Benifei, Mara Bizzotto, Vilija Blinkevičiūtė, Ole Christensen, Lampros Fountoulis, Elena Gentile, Arne Gericke, Marian Harkin, Czesław Hoc, Danuta Jazłowiecka, Agnes Jongerius, Rina Ronja Kari, Jan Keller, Ádám Kósa, Kostadinka Kuneva, Jean Lambert, Jérôme Lavrilleux, Jeroen Lenaers, Verónica Lope Fontagné, Javi López, Thomas Mann, Dominique Martin, Anthea McIntyre, Elisabeth Morin-Chartier, Emilian Pavel, Marek Plura, Sofia Ribeiro, Robert Rochefort, Claude Rolin, Anne Sander, Sven Schulze, Romana Tomc, Yana Toom, Ulrike Trebesius, Marita Ulvskog, Renate Weber, Tatjana Ždanoka, Jana Žitňanská Substitutes present for the final vote Georges Bach, Heinz K. 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Becker, Danuta Jazłowiecka, Ádám Kósa, Jérôme Lavrilleux, Jeroen Lenaers, Verónica Lope Fontagné, Thomas Mann, Elisabeth Morin-Chartier, Marek Plura, Sofia Ribeiro, Claude Rolin, Anne Sander, Sven Schulze, Romana Tomc Guillaume Balas, Brando Benifei, Vilija Blinkevičiūtė, Ole Christensen, Elena Gentile, Agnes Jongerius, Jan Keller, Javi López, Edouard Martin, Emilian Pavel, Marita Ulvskog, Flavio Zanonato Jean Lambert, Tamás Meszerics, Tatjana Ždanoka 3 - ENF NI Mireille D'Ornano, Dominique Martin Lampros Fountoulis 1 0 ENF Mara Bizzotto Key to symbols: + : in favour - : against 0 : abstention RR\1126688EN.docx 25/26 PE599.809v02-00 EN INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE Date adopted 18.5.2017 Result of final vote +: –: 0: 34 3 0 Members present for the final vote Pascal Arimont, Mercedes Bresso, James Carver, Andrea Cozzolino, Rosa D’Amato, Tamás Deutsch, Raymond Finch, Iratxe García Pérez, Michela Giuffrida, Krzysztof Hetman, Ivan Jakovčić, Marc Joulaud, Constanze Krehl, Sławomir Kłosowski, Louis-Joseph Manscour, Martina Michels, Iskra Mihaylova, Jens Nilsson, Andrey Novakov, Younous Omarjee, Konstantinos Papadakis, Mirosław Piotrowski, Stanislav Polčák, Terry Reintke, Liliana Rodrigues, Fernando Ruas, Monika Smolková, Maria Spyraki, Ramón Luis Valcárcel Siso, Monika Vana, Matthijs van Miltenburg, Lambert van Nistelrooij, Derek Vaughan, Kerstin Westphal, Joachim Zeller Substitutes present for the final vote Daniel Buda, Viorica Dăncilă PE599.809v02-00 26/26 RR\1126688EN.docx EN FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE 34 + ALDE Ivan Jakovčić, Iskra Mihaylova, Matthijs van Miltenburg ECR Sławomir Kłosowski, Mirosław Piotrowski EFDD Rosa D'Amato GUE/NGL Martina Michels, Younous Omarjee PPE Pascal Arimont, Daniel Buda, Tamás Deutsch, Krzysztof Hetman, Marc Joulaud, Andrey Novakov, Stanislav Polčák, Fernando Ruas, Maria Spyraki, Ramón Luis Valcárcel Siso, Joachim Zeller, Lambert van Nistelrooij S&D Mercedes Bresso, Andrea Cozzolino, Viorica Dăncilă, Iratxe García Pérez, Michela Giuffrida, Constanze Krehl, Louis-Joseph Manscour, Jens Nilsson, Liliana Rodrigues, Monika Smolková, Derek Vaughan, Kerstin Westphal Verts/ALE Terry Reintke, Monika Vana 3 - EFDD James Carver, Raymond Finch NI Konstantinos Papadakis 0 0 Key to symbols: + : in favour - : against 0 : abstention

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Global Trends to 2035 Geo-politics and international power

Global Trends to 2035 Geo-politics and international power This study considers eight economic, societal, and political global trends that will shape the world to 2035, namely an ageing population, fragile globalisation, a technological revolution, climate change, shifting power relations, new areas of state competition, politics of the information age and ecological threats. It first examines how they may affect some of the fundamental assumptions of the international system. Then it considers four scenarios based on two factors: an unstable or stable Europe and world. Finally, it presents policy options for the EU to address the challenges created by these trends. AUTHOR This study has been written by Oxford Analytica, at the request of the Global Trends Unit of the Directorate for Impact Assessment and European Added Value, within the Directorate General for Parliamentary Research Services (DG EPRS) of the General Secretariat of the European Parliament. ADMINISTRATOR RESPONSIBLE Leopold Schmertzing, Global Trends Unit, EPRS [*eprs@ep.europa.eu*](mailto:eprs@ep.europa.eu) LINGUISTIC VERSIONS Original: EN DISCLAIMER The opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

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PE 603.263 Print: QA-04-17-693-EN-C ISBN 978-92-846-1493-6 DOI:10.2861/22464 PDF: QA-04-17-693-EN-N ISBN 978-92-846-1494-3 DOI:10.2861/800293 Global Trends to 2035 1 TABLE OF CONTENTS Executive Summary .................................................................................................................. 5 Section 1: Trends since 2015................................................................................................... 13 Section 2: Trends to 2035 ........................................................................................................ 15 Trend 1: An ageing global population ................................................................................. 15 I - Developing countries ......................................................................................................... 15 II – Developed world .............................................................................................................. 19 1. 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Adapt to new types of terrorist threat .......................................................................... 102 EPRS - Global Trends Unit 4 ABBREVIATIONS USED A2/AD anti-access/area denial AI artifical intelligence APT advanced persistant threats ASEAN Association of South-East Asian Nations CCS carbon capture and storage CETA Comprehensive Economic and Trade Agreement CIFs Climate investment fund CLCS Comission on the Limits of the Continetal Shelf EDF European Defence Fund EM emerging markets ESA European Space Agenecy FAO Food and ***Agriculture*** Organisation FTA free trade agreement G3 EU, China, and the United States GCF Green Climate Fund GDP gross domestic product GHGs greenhouse gases GMO genetically modified organism ICANN Internet Corporation for the Assignmnet of Names and Numbers IDA International Development Association IMF International Monetary Fund kWh kilowatt hour OPEC Organisation of the Petrolum Exporting Countries R&D Research and Development RCEP Regional Comprehensive Economic Partnership TPP Trans-Pacific Partnership UNCLOS United Nations Convention on the Law of the Sea UNDP United Nations Development Programme UNFCC United Nations Framework Convention on Climate Change UNHCR United Nations High Commissioner for Refugees UUVs underwater unmanned vehicals WIC World Internet Conference Global Trends to 2035 5 EXECUTIVE SUMMARY Section 1: Trends since 2015 In 2015, the European Strategy and Policy Analysis System (ESPAS) launched its report “Global Trends to 2030: Can the EU meet the challenges ahead?” This report aims to update and extend that report by including developments that have occurred in European and global geopolitics since then, and will project developments out to 2035. By paying attention to longer-term trend development, how breakthrough technologies may be overhyped, and the reinforcing intersection of trends, this report attempts to avoid the cognitive trap of placing too much emphasis on the most high-profile events that emerged at the time of its writing. Nonetheless, there are some major stories that, despite being relatively recent, could have major long-term implications for Europe. \_ US President Donald Trump. While immediate US foreign policy is highly uncertain, given Trump’s unorthodox policy agenda, in the long-term it can be expected that the usual pressures and incentives of the international system will come into effect and force the United States to engage with the world along the lines of policy under the Obama Administration and George W. Bush’s second term. \_ Brexit. This report does not make a prediction for how or whether Brexit will be negotiated. It does assume that the population and economy of the UK will remain broadly the same as projected and that by 2035, at least, it will have an extensive relationship with the EU, either as a member or partner. \_ Refugee/migration crisis. Although the numbers of illegal border crossings have dropped since their peak in 2015 and a resolution to the conflicts in Syria and Iraq will presumably reduce the pressure for migration from there, migration pressures overall will increase. It is likely that 2015 could be a precedent for the next time a conflict or natural disaster occurs in Europe’s neighbourhood. \_ Information and cyber warfare. Despite the near-certainty of damaging cyberattacks as internet-enabled devices proliferate and zero-day vulnerabilities are found by criminal actors and hostile governments, this report assumes that the developed world will remain dependent on the internet and technology. In some areas, such as top-level political campaigns, there may be a reversion to pre-internet workflows, but the economic advantages of information and communications technology will continue to outweigh the risks of hacks. \_ Terrorism. The high-profile nature of the lone wolf attacks that have occurred across Europe in the last few years inspire copycats and are difficult to prevent. Security services will not be able to track every potential terrorist in Europe, especially as the collapse of the Islamic State in Syria and Iraq triggers a return for foreign fighters. Individual attacks against ‘soft targets’ are likely to persist as a constant threat in Europe, alongside more traditional modes and sources of terrorism. EPRS - Global Trends Unit 6 Section 2: Trends to 2035 Trend 1: An ageing global population The world is facing an ageing population due to a combination of increased life expectancy and declining fertility rates. As dependency ratios shift with growing elderly populations, governments will be faced with falling saving rates, falling consumption, and growing pressure on social services. There are stark differences in demographic changes between developed countries and developing countries. In general, high-income countries are experiencing population stagnation or decline. Conversely, many developing countries, particularly in sub-Saharan Africa, are experiencing “youth bulges” and expansion of working-age population. Both demographic scenarios pose challenges for governments seeking to create policies that are economically sustainable and politically palatable. Trend 2: Fragile globalisation in a multipolar world Fears about weakening enthusiasm for globalisation have, seemingly, been realised in the past few years. However, there are numerous variables that will shape whether the purported anti-trade environment of 2016 lasts to 2035. In the most likely scenario, globalisation patterns will be shaped less by politics and more by structural factors. Global trade is steady as a percentage of global growth, likely due to China’s reorientation towards domestic consumption and the maturing of trade in goods. A more services-oriented economy will have different requirements for global trade governance, but Beijing, Brussels, and Washington will remain the key decision points for global economic affairs. Trend 3: Industrial and technological revolution By 2035, technological advances will have a major impact on the social and economic foundations of society, potentially more far-reaching than the initial phase of computerisation from the 1980s onwards. Technologies involving automation and machine learning have the potential to disrupt job markets, making millions of jobs obsolete. As technologies like self-driving cars begins to proliferate, governments at all levels will be faced with questions of adaptation, governance, and human development. Countries will be forced to consider how much of their core information infrastructure they will permit to be run by companies domiciled in other countries. Parties may be faced with a trade-off between protecting consumers’ privacy and encouraging the growth of artificial intelligence firms that rely on large amount of data for training and improving algorithms. The question of when platform companies achieve monopolistic power will be a key issue brought before the court system in many countries. Trend 4: Climate change and resource competition Changes in the global climate due to rising greenhouse gases will not be reversed by 2035, even if great strides are made with the implementation of political agreements to greatly reduce carbon usage in the future. As the consequences of climate change become increasingly apparent -- and natural events such as famines and water strain become linked to climate change in popular discourse -- the world is likely to see climate-related political disputes proliferate at the national and international level. Renewable energy will proliferate and become cost-competitive around the world, but will trigger instability in countries dependent on fossil fuels, many of which are in Europe’s neighbourhood. Global Trends to 2035 7 Trend 5: Changing power in the international system In many ways, the power balance in the international system in 2017 looks broadly similar to the world in 2000. Yet in some fundamental ways, the world has changed considerably. The wars in Iraq and Afghanistan have left its participants wary of foreign ***intervention***. China has expanded its global presence. Russia has demonstrated a willingness to intervene in neighbouring countries and attack democracies with information ‘wars’. And the impact of the 2007-08 financial crisis has hit many nations’ capabilities to fund military increases. There are some broad trends that are likely to continue through 2035: the United States will remain the largest military power; China and regional leaders will see their power grow; Russia will focus on areas of asymmetric advantage to counteract its declining population; and the creation of a unified European military structure with significant expeditionary power will be one of the biggest wild cards in the international system. Trend 6: New arenas of state competition When projecting long-term trends in international affairs, it is important to consider the possibility that the major conflicts of 2035 will be centred on issues that barely register in the international arena today, or are secondary matters at best. Over the next two decades, these will likely include: the space market; new weapons systems like unmanned vehicles; policing rogue states; cyberwarfare and internet governance; and the Arctic Ocean. Trend 7: Politics of the Information Age Politics often evolves as a reaction to changing societal and economic trends. There is evidence -- from measures on inequality to the percentage of the economy comprised of services -- that in much of the developed world, the industrial era has transitioned to an information economy. Political reactions to these economic changes are already underway across the United States and Europe. While they are highly unlikely to completely overturn the existing political landscape by 2035, they will add new layers that will shift partisan coalitions and incentive structures. Some of the most important aspects will be industry disruption and political competition for new or more important voting blocs such as newly upper middle class profesionals, former industry workers, gig economy contractors, and the elderly. Trend 8: Ecological threats While climate change is a gradual process that will be felt over the course of decades, it also increases the likelihood of relatively sudden disasters, from stronger hurricanes, deeper famines, or droughts. By 2035, the world will most likely be confronted by more natural disasters, and the political system will be required to adjust to them. Northern Europe will see greater flooding. Southern Europe will experience more frequent heatwaves. The international system will need to create a more robust system to protect climate refugees and migrants, who will grow as climate change increases the power of natural disasters and rapid urbanisation means that natural disasters will affect more people. Section 3: International power to 2035 The eight global trends discussed in the previous section will have significant consequences for some of the more fundamental assumptions about the nature of the international system. They will likely add up to a continued evolution away from what might be known as the post-Cold War order, dominated by a unipolar United States, into a multipolar order, in which EPRS - Global Trends Unit 8 medium-sized powers will have considerably greater power and corporations and international institutions will be major constraints on state action. Two of the major uncertainties of the international system involve states’ freedom of action. If the nuclear taboo remains in place and states’ surveillance and air defence systems improve, the feasibility of interstate conflict or cross-border action declines. However, if states are increasingly unable to prevent domestic politics from spilling over into other countries, either through refugee flows, terrorism, or criminal activity, there may be a pattern of regional coalitions intervening in unstable countries. Another variable is the resilience of global institutions in the face of changing economic and political weights. Countries such as China will demand greater representation, but will be opposed by those countries that would stand to lose influence. If reforms are not undertaken, there is a high probability of alternative institutions being created by those countries pushing for reform. Section 4: Scenarios to 2035 This section uses the scenario planning method developed by Pierre Wack at Royal Dutch Shell in the 1970s to propose alternate futures about the environment in which European decision-makers are operating in 2035. The scenarios are not meant to be predictive of what will happen, but to create internally consistent and plausible scenarios of what could happen, so as to test assumptions and encourage policy-makers to create contingency plans. The scenarios are built from the combinations of the two following variables. 1. Adaptation (or non-adaptation) of European economies to the challenges of the information age, leading to (in)stability in Europe 2. Managed (or disorderly) evolution of the global system towards multipolarity, leading (in)stability outside Europe. The two macro drivers were combined in their extreme versions to create four mutually exclusive scenarios. Scenario 1: Sick men of Europe: unstable Europe in a stable world. In this scenario, Europe fails to adjust to the economic dislocations driven by the information economy and the growing power of China, India, and others are directed towards maintenance of the international order. Europe sees relatively low average economic growth, with a recession affecting many of its members as the United Kingdom leaves the EU without a transitition deal. Greece leaves the euro and speculation is persistent that more countries will leave during the next recession. Political parties across Europe find their support dropping quickly once in government and the political system fragments, with extremist, nationalist, or personal vehicles comprise a greater percentage of the vote share. The United States abandons its “America First” foreign policy quickly, moving to complete its pivot to Asia. Developing countries are brought more closely into international institutions, Global Trends to 2035 9 but find their demands for reform met largely at the expense of Europe’s influence, such as the loss of a UN Security Council seat and voting rights at the IMF. Scenario 2: Cold Wars: stable Europe in a stable world. In this scenario, Europe adapts to the information economy and the United States, Europe, and China collaborate on ensuring that a multipolar world does not descend into conflict. Europe’s growth is in part attributable to a European ‘New Deal’, which revamps the social contract. A Europe-wide fiscal union and social safety net are introduced, minimising the extent to which the common currency is over- or undervalued in each country of use. The result is not an immediate panacea, just as the New Deal under President Franklin D. Roosevelt did not lead to an end to the

Great Depression. Instead, the gradual accumulation of new policies leads to a transformation of the political culture over the course of 15 years to a more federalist system, with greater power for the European and sub-national levels of government. The greater stability in the international system encourages a summit on the norms of cyberwarfare and a series of global agreements, modelled on the ***Strategic*** Arms Reduction Treaty, attempt to create an acceptance that hacking and purposely damaging civilian targets is not permissible and that proportional responses are accepted. The stability of this scenario contains the seeds of future problems. Seeking a peaceful transition to multipolarity leads the United States and Europe to acquiesce to authoritarian regions, climate change may be neglected by a focus on employment, and ageing populations may encourage governments to win votes by delaying pension adjustments, thereby imperilling future fiscal health. Scenario 3: Hollow foundations: unstable Europe in an unstable world. In this scenario, Europe fails to adjust to the information economy, and few European firms are able to compete with tech companies in the United States and China. Global governance is increasingly frayed, as the United States, China, and others clash over the roles they seek to play in shaping the norms of the system. Integration is effectively reversed by states promoting their own policies that had previously been under the aegis of the EU. Ad hoc groups collaborate on various issues together, but rarely achieve a European consensus, while member states frequently clash on foreign policy. The Untied States becomes increasibly isolationist and sees NATO as less relevant for its agenda. Article V remains applicable to the territorial integrity of its members, but is seen not to cover information warfare or terrorism. Tax evasion becomes a greater source of lost revenues for countries around the world and the developed world sees the de facto creation of a two-tiered tax system, with the wealthiest individuals and corporations paying significantly lower taxes. This is a source of contention at international forums and a source of distrust between citizens and their governments. EPRS - Global Trends Unit 10 Scenario 4: The EU as a global power: stable Europe in an unstable world. In this scenario, Europe increases wages for all parts of the population and stabilises the financial system. China is aggressive internationally, in part to distract from domestic economic and governance challenges. Brazil, Russia, Nigeria, and India advocate an end to the Western-led international order. Economic growth and instability elsewhere create the push and pull factors for migration to Europe, which leads to a continent-wide system modelled on Australia’s immigration approach. A series of external crises produce European common responses. These create a new integration momentum which is codified in a new treaty, termed a Constitution. The United Kingdom rejoins the EU. The High Representative becomes a more powerful actor on the international stage. Russia’s declining economy has led to conflicts in neighbouring states, as countries seek to reincorporate Russian-backed enclaves. Europe is requested as a mediating power both in its neighbourhood and abroad, as it is accepted as a credible interlocutor by the United States and non-Western countries. Section 5: Policy challenges and options The trends and scenarios present a number of challenges to the EU for the next two decades. The following is not a proscriptive list of policy recommendations, but an overview of ten areas that the findings of the previous sections show will be of particular importance to Europe in the next two decades. 1. Manage tensions related to NATO NATO is likely to remain the leader in major areas of security and defence for European countries to 2035. However, European governments will need to manage or resolve a series of delemmas surrounding the organisation in the coming years. These include: the US pivot to Asia; whether NATO involves itself with border security; and whether a specific policy is needed for Turkey. 2. Enhance EU defence and security institutions The year 2035 may be too soon for a unified command structure that might rival that of a nation-state. Nonetheless, progress on defence and security integration is likely, in part due to new threats and the possibility of US inattention to European issues. Specific policy challenges that the EU will need to focus on in the next 20 years include: reducing inefficiencies in defence procurement; developing a common ***strategic*** outlook; and how to use piecemeal approaches to defence and security collaboration in the coming years in the service of larger ***strategic*** goals. 3. Strengthen cybersecurity Cyber attacks will present major challenges for EU countries over the next 20 years, in large part due to their unpredictable nature. For example, most cybersecurity experts failed to foresee the apparent Russian attempts to influence the outcomes of the US election by manipulating online information and hacking key participants’ email accounts. Nonetheless, certain specific challenges appear very likely over the next 20 years, such as attempts by Global Trends to 2035 11 foreign intelligence services or related groups to influence European elections; data localisation regulations, as EU citizens’ pressure may mount to stop non-EU intelligence agencies or criminal groups from accessing their online data; and the development of a cyberwarfare doctrine. 4. Employ sustainability as a source of soft power Over the next 20 years, the EU will be challenged in areas of soft power in which it currently enjoys leadership. An important one of these is the area of sustainable trade and investment. The EU and its member states have developed some of the most comprehensive sustainability legislation worldwide. In the long term, this provides strong support for the reputation of both the EU and EU corporations. This body of legislation gives the EU a platform from which to drive similar change towards sustainable trade and investment in other parts of the world. As sustainability and environmental awareness becomes a greater concern to countries around the world, the EU could use its leading position to increase its power in this area, countering some of the loss in diplomatic influence that its relative economic decline would otherwise entail. 5. Regain fiscal space in an environment of ageing workforces Over the long term, the EU will need new policies to combat the impact of ageing populations. As European governments seek to enact further reforms to social programmes to account for an ageing population, they will face the prospect of voting publics who will not accept the prospect of diminished living standards in their retired years. Over the next 20 years, policies in the EU may need to include: measure to increase the pension age in a politically sustainable manner; schemes to extend the working life of citizens or enhance their productivity; and policies to increase participation in the labour force for working-age citizens. 6. Harness the power of artificial intelligence Automation and artificial intelligence will accentuate several economic and public policy trends over the next 20 years. While there is a tendency to emphasise employment displacement, there is also a positive impact, as new jobs are established in R&D, programming and technology-related services. Major policy challenges and potential solutions include: building a social consensus around the future of automation; encouraging the rapid adoption of relevant new technologies, particularly by small- and medium-sized companies, which are at a disadvantage in any field that requires access to large amounts of data; re-assessing the development models for poorer countries; and considering income assistance programmes for those whose jobs have been eliminated by technological change. 7. Combat food and water scarcity in Africa and the Middle East Between now and 2035, climate change and resource competition could increasingly make food and water scarcity in Africa and the Middle East into a geopolitical and security issue for the EU, rather than primarily a development issue. There is a chance that there will be a sharp rise in the number of people displaced by climate change seeking to migrate to the EU. Some responses to this include: expanding aid budgets on issues such as governance, corruption, social safety nets and quality of institutions; better managing global grains stocks, which can prevent price spikes on the most basic foodstuffs; and encouraging developments in biotechnology, in areas such as drought-resistant crop technology. EPRS - Global Trends Unit 12 8. Gain from the opportunities of space exploration From its genesis at the end of the 1950s, the development of Europe’s space activities has been unique in its purely scientific origins. In the European Space Agency (ESA), it has also produced an organisation that has flourished in parallel with the EU, but with a remit that can offer membership to a wider range of countries. Over the next twenty years, several factors are likely to feed into the development of European space policy, such as: considering Europe’s emphasis on heavy lift rockets as a commercial product; integrating space into military doctrines; and deciding whether to compete with the private sector in commercial areas, or focus governmental action on non-commercial tasks such as space exploration. 9. Create business clusters to build Europe’s leading edge Clusters of interconnected businesses and institutions can drive productivity and innovation in various fields, and often rely on government support, either directly (through the location of a government facility) or indirectly (through grants to universities). In order to compete with firms in the United States, China, and Japan, European businesses would benefit from the development and deepening of clusters. However, this may go against the political impetus of the EU, to ensure that prosperity is spread evenly across the union, rather than concentrated in a few areas that may already be wealthy. Some ways to balance these two needs include: developing cluster-based policies to replace industry-level and firm-level policies; encouraging more government funding of basic research at universities; facilitating European-level social services and pension policies, to encourage migration from across the Union to clusters; and ensuring access to capital and markets to help an innovative business find the success that grows a cluster wherever it emerges. 10. Adapt to new types of terrorist threat The threat from terrorism will remain a major challenge for European policymakers to 2035. In addition to seeking ways to respond to the currently known types of terrorist threats, new types of threats will emerge over the next 20 years. These may include, but will not be limited to: bio-hacking, the design of new germs and viruses; advanced robotics, allowing precise assassination attacks or mass casualty attacks to be remotely launched by individuals and small groups; 3D-printing weapons; and lone wolf attacks against soft civilian targets. Global Trends to 2035 13 SECTION 1: TRENDS SINCE 2015 In 2015, the European Strategy and Policy Analysis System (ESPAS) launched its report “Global Trends to 2030: Can the EU meet the challenges ahead?”1 This report aims to update and extend that report, including developments that have occurred in European and global politics since then, and will project out to 2035. By paying attention to longer-term trend development, this report attempts to avoid the cognitive trap of placing too much emphasis on the most high-profile events that emerged near the time of its writing. Nonetheless, there are some stories that, despite being relatively recent, could have major long-term implications for Europe, both domestically and in relation to its geopolitical power, which this report defines as its ability to influence events at the international level. Their interaction with the trends and impact on policy challenges is explored in further depth in the report, but it is useful to foreground the issues that this report considers of particular importance. \_ US President Donald Trump. At the time of writing this report, Trump is the president of the United States, but there are strong indications -- from the firing of the director of the FBI to historically low approval ratings -- that impeachment or resignation is possible. Further, there are institutional constraints on the presidency and Vice President Mike Pence, should he take office or become de facto president, would likely manage a more conventional foreign policy. Therefore, while immediate US foreign policy is highly uncertain, given Trump’s unorthodox policy agenda, in the long-term it can be expected that the usual pressures and incentives of the international system would come into effect. This is not a certainty, to be sure, given the long-term consequences of immediate decisions that could lead to a war, but is the most likely scenario for how his administration will affect US power to 2035. \_ Brexit. The process of the United Kingdom departing the EU is underway, with little indication from London or Brussels on the contours of the post-Brexit relationship. This creates a wide range of possible outcomes to 2035: from a weakened UK, which has suffered a major depression and seen Scotland and Northern Ireland leave the country, to a country that has proceeded largely along pre-Brexit economic projections, to a reversal of Brexit or re-application of the UK to the EU. In forecasting the trends for the EU, this report assumes that the population and economy of the UK will remain broadly the same as projected and that by 2035, at least, it will have an extensive relationship with the EU, either as a member or partner. Contingencies in which Brexit leads to a domino effect are addressed in Section 4: Alternate scenarios. \_ Refugee/migration crisis. In 2015, the EU received more than 1.2 million asylum application, more then double the amount in 2014 and more than four times the applications received in 2010. The surge in migration appeared to be driven by the conflicts in Syria, Afghanistan, and Iraq, which were the main three sources of origin for asylum 1 ”Global Trends to 230: Can the EU meet the challanges ahead?.” European Strategy and Policy Analysis System, [*http://ec.europa.eu/epsc/sites/epsc/files/espas-report-2015.pdf*](http://ec.europa.eu/epsc/sites/epsc/files/espas-report-2015.pdf) EPRS - Global Trends Unit 14 applications. Although the numbers of illegal border crossing dropped by more than three-quarters from 2015 to 2016, and a resolution to the conflicts in Syria and Iraq will presumably reduce the pressure for people there to migrate, it is likely that 2015 could be a precedent for the next time a conflict emerges in Europe’s neighbourhood. \_ Information and cyber warfare. In US and French presidential elections, hackers attempted to disrupt campaigns (and arguably succeeded). Damaging hacks and viruses have also been seen in settings as diverse as Hollywood -- with Sony Pictures in 2014 -- and the healthcare sector -- with WannaCry in 2017. Despite the near-certainty of more hacks as internet-enabled devices proliferate and zero-day vulnerabilities are found by criminal actors and hostile governments, this report assumes that the developed world will remain dependent on the internet and technology. In some areas, such as top-level political campaigns, there may be a reversion to pre-internet workflows, but the economic advantages of information and communications technology will continue to outweigh the risks of hacks. \_ Terrorism. Since 2015, there have been numerous terrorist attacks in Europe, some of which appear to have been planned by terrorist organisation, and many of which appear to be ‘lone wolf’ attacks. While terrorism is not a new phenomenon in Europe, the pace and methods of the new round of attacks are particularly hard to prevent. Six of the seven most recent terrorist incidents causing fatalities in Europe have involved attackers using cars or trucks to drive into crowds of pedestrians. It is likely that security services will be hard-pressed to track all those radicalised, especially as the collapse of ISIS in Syria and Iraq triggers a return for foreign fighters, and that the high-profile nature of these lone wolf attacks inspire others to copy their techniques. Global Trends to 2035 15 SECTION 2: TRENDS TO 2035 TREND 1: AN AGEING GLOBAL POPULATION The world is facing an ageing population due to a combination of increased life expectancy and declining fertility rates. As dependency ratios shift with growing elderly populations, governments will be faced with falling saving rates, falling consumption, and growing pressure on social services. The ability of states to adapt to changing demographics will largely depend on their capacity to install policies that are sustainable both politically and economically in the long term. There are stark differences in demographic changes between developed countries and developing countries. In general, high-income and predominately western countries are experiencing population stagnation or decline. Conversely, many developing countries, particularly in sub-Saharan Africa, are experiencing “youth bulges” and expansion of working-age population. Both demographic scenarios pose challenges for sustainable development that could have global political and macroeconomic impacts.2 I - Developing countries Many developing countries are seeing a growth in working-age citizens, helped by high fertility rates in recent decades combined with greater medical care. However, the youth bulge has passed through some developing countries already and these will experience the same ageing patterns as developed countries. As Figure 1 shows, the ratio of children to the working age population to 2015 (indicative of how many will enter the workforce by 2035), has steadily declined in many large emerging or developed countries, but remains extremely high in most of Sub-Saharan Africa. This will hinder the chances that the Sub-Saharan African economies grow strongly, as their dependency ratio will be high, but is also a reflection of an underlying economic problem, in that fertility rates are most often high when women have the least access to the workforce. High fertility rates will be both a cause and effect of pressures driving down broad-based economic growth. The fall in the youth dependency ratio, in those countries where it occurs, can be tracked with the demographic dividends that countries enjoy, with a higher youth dependency ratio indicating a demographic dividend that will extend further into the future. By 2040, the median citizen of Brazil and Mexico will be almost as old as the that of the United States, and China’s will be older. South Korea, Taiwan, and Singapore have median ages similar to Germany, Italy, and Japan.3 More than one-third of the global over-80 population will live in China and India by 2040 and 10% will be in Latin America. Social spending in these countries will require a much larger budget share than in advanced markets if similar levels of healthcare are to be provided, given the smaller per capita earnings of the working age population. 2 ”World Population Trends.” United Nations Population Fund,   [*http://www.unfpa.org/world-population-trends*](http://www.unfpa.org/world-population-trends). 3 Where data in this report projects beyond 2035, it is because those years provided the most accurate data available. EPRS - Global Trends Unit 16 Figure 1. Youth bulges worldwide. Size of youth (0-14) population to working age (15-64) population per 100. Source: World Bank Developing countries face the challenge of capitalising on the demographic dividend they are experiencing now, with rising workforce populations, while planning for the eventuality of an ageing population in the future. The World Economic Forum forecasts developing countries’ health spending will rise at 10% per year to 2022, compared to only 3.7% in developed countries.4 Higher spending increases are likely to persist through 2035, as the workers who constituted the leading edge of the demographic dividend in many countries begin to retire. As seen in Figure 2, many developing countries have been growing older more than they have been growing wealthier, as compared to developed countries, over the past two decades. 4 World Economic Forum, “Health Systems Leapfrogging in Emerging Economies,” Jan. 2014,   [*http://www3.weforum.org/docs/WEF\_HealthSystem\_LeapfroggingEmergingEconomies\_ProjectPaper\_2014.pdf*](http://www3.weforum.org/docs/WEF_HealthSystem_LeapfroggingEmergingEconomies_ProjectPaper_2014.pdf) 0 10 20 30 40 50 60 70 80 90 100 1990 1995 2000 2005 2010 2015 Nigeria China India Brazil Germany United States Global Trends to 2035 17 Figure 2: Ageing and economic development trends Source: IMF, Oxford Analytica 1. China and East Asia East Asia’s sharp decline in fertility, partially due to China's one child policy, will soon present as an age wave, with the elderly share of the population rising from 11% to 24% by 2030. By 2030, China's working-age population will be contracting by 0.7% per year, and internal migration from ***rural*** to urban areas will not be sufficient to supply new workers for the manufacturing labour force. Rates of saving and investment will likely fall as the Chinese population ages, leading to a downturn in foreign direct investment, as China's economic landscape presents lower rates of return on capital investments. The short-term boom in Chinese fertility due to the ending of the one-child policy in 2016 is unlikely to do more than create a mild alleviation of China's ageing issue. In fact, for at least the next 15 years, the dependency ratio will grow, as more children are born but do not yet reach working age. South Korea and Singapore have incentivised having children with tax breaks and government-sponsored dating services. It is possible that China will consider further boosting policies that support more children per family. Nonetheless, increased fertility in the region now will not add to the workforce until after 2035. EPRS - Global Trends Unit 18 2. India The elderly population in India is expected to rise from 5% to 8% by 2030, and to 12% by 2050. Unlike China, India's working age population will continue to expand in the coming decades. However, India will be challenged to find productive employment for all these workers. Less than half of Indians in their twenties have completed any form of secondary education and 37% of all Indian adults are illiterate. This has contributed to a large gap between the skills demanded by the growing Indian workforce, and the skills available in the Indian population. Large discrepancies in regional fertility rates will shape India’s ability to cope with demographic shifts. Birth rates have fallen in the Southern parts of the country, meaning the less developed Northern states will have to create many more jobs than projected to employ its young citizens. It is possible that India's long democratic tradition will aid its efforts in adapting to these demographic shifts, but the internal dynamics of ageing and richer states against younger and poorer states raises difficult questions of the political sustainability of any policy arrangement. 3. Latin America The demographic transition towards an older population is happening much faster in Latin America than in other parts of the developing world, with fertility rates as low as 1.9 births per woman in Brazil and Chile. The elderly population in Argentina is expected to reach 17% by 2050, 20% in Brazil and Mexico, and 22% in Chile, a ratio on par with the United States. The challenges of Latin America will be to sustain their social welfare systems, as with Europe, but with a lower per capita GDP. 4. Russia Russia's demographic transition began early, and its fertility rate is already down to 1.4 births per woman. Low birth rates have been accompanied by deteriorating health and lower life expectancy, which have severely trailed the consistent improvements in life expectancy among OECD members. Nonetheless, by 2050, Russia's median age will have risen to 48, making it slightly older than the developed world, assuming that there is not another repeat, in macroeconomic terms, of the collapse of the Soviet Union, which accompanied a precipitous drop in Russian life expectancy Russia's human capital will be eroded by the population's poor health and life expectancy, the combination of which will put a damper on economic growth. Sick workers are less productive, which discourages foreign direct investment in Russia. Russia’s total population, now around 140 million, is expected to drop to 125 million by 2030. This will put Russia in a precarious position, as it becomes increasingly dependent on natural resources as its labour force declines, but these resources are prone to sharp cyclical swings. Its reliance on hydrocarbons may prove to be a major weakness if renewable energy becomes the default energy source. The Russian economy is not, for the medium-term, likely to be able to generate much stronger growth through innovation. Global Trends to 2035 19 Figure 3: Life expectancy at birth, years Source: World Bank II – Developed world An ageing population poses a series of challenges to the global economy, due largely to a combination of lower saving rates, changes in investment patterns, impacts on asset prices and returns, and the effects of globalisation.5 Saving rates generally conform to a person’s lifecycle, meaning that they rise over the course of a career, and fall to negative during retirement. As workers head towards retirement, they transfer savings from volatile assets such as equities to low-risk assets such as bonds and money market funds. This will place downward pressure on the value of stocks, by reducing consumer demand.6 This economic shift will be felt unevenly throughout the world, as some countries see a savings boom as their growing working age population permits a demographic dividend. The United States will be less vulnerable to ageing pressures than most developed world countries. It has a younger population than most developed world countries (median age of 38 compared to a median age of 47 for Germany) and has a tradition of accepting younger immigrants. 5 Bosworth, Barry P., Gary Burtless, and Ralph C. Bryant. ”The impact of Aging on Financial Markets and the Economy: A Surevy | Brookings Institution.” Brookings, Brookings, 28 July 2016,   [*https://www.brookings.edu/research/the-impact-of-aging-on-financial-markets-and-the-economy-a-survey/*](https://www.brookings.edu/research/the-impact-of-aging-on-financial-markets-and-the-economy-a-survey/). 6 Institution of Medicine (US) Committee on the Long-Run Macroeconomic Effects of the Aging U.S Population. ”Saving and Retirement Security.” Aging and the Macroeconomy: Long-Term Implications of an Older Population., U.S National Library of Medicine, 10 Dec. 2012,   [*https://www.ncbi.nlm.nih.gov/books/NBK148839/*](https://www.ncbi.nlm.nih.gov/books/NBK148839/). 55 60 65 70 75 80 85 1960 1962 1964 1966 1968 1970 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 Russia - male Russia - female OECD - male OECD - female EPRS - Global Trends Unit 20 Japan will be on the leading edge of developed world ageing trends. It has the oldest median age of any large country, one of the lowest fertility rates, and has a foreign-born population of only 1.5% of the country, demonstrating a resistance to immigration. 1. Europe Europe will sit between the United States and Japan in its demographic shift. European states can be divided into two main categories: on one hand, countries such as France, the Netherlands, and much of Scandinavia are experiencing a fertility rate ranging from 1.8-2.0 per woman, close to replacement level. In the other group, Germany, Central and Eastern European countries, and Mediterranean countries are experiencing fertility rates between 1.3 and 1.6, leading to a sharply contracting workforce population. Overall, the demographic old age ratio (people over 65 per 100 people aged 15-64) in the EU is expected to increase from 27.8 to 50.1 by 2050, meaning that there will only be two working age people for every person over the age of 65.7 As Figure 4 shows, although the low fertility rates will reduce the number of young dependents in each society, the working age percentage of the population will decrease as a result of growing older generations. Figure 4: Working age population projections, per 100 people Source: Eurostat, Oxford Analytica 7 European Commission. ”The 2015 Ageing Report: Economic and Budgetary Projections for the 28 Member States (2013-2060).” European Economy Series, 2015,   [*http://ec.europa.eu/economy\_finance/publications/european\_economy/2015/pdf/ee3\_en.pdf*](http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee3_en.pdf) Global Trends to 2035 21 The cost associated with an ageing population will have fiscal impacts throughout Europe. The declining working-age population and costs associated with an ageing population are together expected to reduce growth rates by 0.2%, offset primarily by labour productivity growth due to technological innovation and automation. The projected change in age-related expenditures is expected to be two percentage points of GDP by 2050, primarily driven by the costs of providing healthcare to the elderly, who use more health services on a per-year-of-life basis than younger people. In countries such as Germany, where total GDP will fall because of low fertility rates, there will be efforts to extend work lives and to boost labour force participation. 1.1 Political stability Many European countries have recognised the implications of an ageing population and contracting workforce, and have initiated reforms to pension systems. For example, in France, pension contributions by employers and employees will slowly rise in an attempt to prevent an increase in retirement age.8 However, there is a tension between pension systems that are sustainable – with pension benefits that can be supported by the working population – and acceptable – not triggering an electoral backlash. As European governments seek to enact further reforms to social programmes to account for an ageing population, they will face the prospect of voting publics who will not accept the prospect of diminished living standards in their retired years. The shift of populations to being nearer to retirement age will constrain the ability of politicians to enact reforms that will take effect soon, creating an incentive to transfer wealth from the young to the old. The Social Security reform agreement by President Ronald Reagan and Congress in the United States in 1983 phased in changes so gradually that the largest tax increases and benefit cuts targeted people who were at the time 11 years old -- and therefore could not vote against the measure. Politics in the coming decades will see a constant balancing act by European governments between temptations to increase benefits for the growing ranks of elderly voters, and the need to make unpopular cuts if costs become unsustainable.9 One possible solution to Europe’s ageing population could be immigration. Four-fiths of asylum applicants in Europe in 2015 were under 35 years old; refugees and immigrants could partially offset the contraction of Europe's working age population. However, the process of integrating immigrants is a contentious political issue; politics may become divided between parties that would rather increase immigration to pay for higher social spending, and those that would rather restrict immigration and pension benefits.10 Immigrants themselves age and their birth rates quickly mirror those of the overall population and so immigration would delay but not solve the problem of ageing populations. Further, 8 Carnegy, Hugh, ”France avoids radical overhaul in pension reforms,” Financial Times, 27 Aug. 2013,   [*https://www.ft.com/content/a39fea58-0f35-11e3-ae66-00144feabdc0*](https://www.ft.com/content/a39fea58-0f35-11e3-ae66-00144feabdc0). 9 Hernan Winkler. ”How will aging populations affect politics?” World Economic Forum, 18 June 2015,   [*https://www.weforum.org/agenda/2015/06/how-will-ageing-populations-affect-politics/*](https://www.weforum.org/agenda/2015/06/how-will-ageing-populations-affect-politics/). 10 ”Attitudes abput Aging: A Global Perspective.” Pew Research Center’s Global Attitudes Project, 30 Jan. 2014,   [*http://www.pewglobal.org/2014/01/30/attitudes-about-aging-a-global-perspective/*](http://www.pewglobal.org/2014/01/30/attitudes-about-aging-a-global-perspective/). EPRS - Global Trends Unit 22 the volume of immigrants required – some estimates have suggested 800,000 per year in Germany – may well be beyond what is politically, socially, or economically sustainable. 1.2 Europe's position in the geopolitical order As Europe's working-age population contracts while the developing world sees increased growth, Europe's position in the global economy and international political order will be threatened, a pressure that will grow to 2035. While GDP per capita may be sustained, the region’s power in international institutions and its ability to fund its military depends on aggregate GDP, which is dependent on population. However, Europe will not see a rapid decline in global power before 2035. It will increase relative to Japan and Russia, and China may be more constrained in its spending, as the effects of the one child policy are felt in its worker-dependency ratio. Europe may therefore cede some ground to India and developing countries in Africa, but will remain one of the largest economies in the world, have considerable military expenditures, and have stable political and economic institutions. One possible wild card is automation and machine learning. If large numbers of jobs are eliminated worldwide by technological substitution, then countries such as Germany and Japan, with high innovation and declining populations, may be best positioned. They would enjoy the advantages of economic growth, while avoiding the unemployment issues that would affect other countries. However, given current trends, that is a small probability event. While rapid adoption of automation would permit greater productivity with fewer workers, it is currently impossible (and unlikely to be possible before 2035) to automate the high numbers of jobs in the healthcare sector needed to accommodate an elderly population, and employment losses in the working age population would further strain the tax base for a country with a high dependency ratio. Global Trends to 2035 23 Trend 2: Fragile globalisation in a multipolar world Fears about weakening enthusiasm for globalisation have, seemingly, been realised in the past few years. The United Kingdom voted to leave the EU. China has launched the Asian Infrastructure Investment Bank, which could be a signal that it will be shifting away from Western-led international institutions. Donald Trump campaigned against nearly all existing trade agreements, and pulled out of the Trans-Pacific Partnership (TPP) as one of his first acts of his presidency. However, not all of these events are definite ***indicators*** of a more fragile era of global trade. There are numerous variables that will shape whether the purported anti-trade environment of 2016 lasts to 2035. In the most likely scenario, globalisation patterns will be shaped less by politics and more by structural factors dependent on the contours of a services-oriented global economy, and Beijing, Brussels, and Washington will remain the key decision points for global economic affairs, and rhetoric on trade moving from an emphasis on “free” trade, to greater discussion of what constitutes “free and fair” trade. I - Economic leaders 1. United States Donald Trump appears personally opposed to the concept of multilateral negotiations and institutional frameworks for discussions, but Congress remains opposed to protectionism. Therefore, it is unlikely that the United States will completely withdraw from international trade agreements through 2021, when the next president will take office, but neither will it be at the forefront of advocating for them. From 2021 (or earlier) through 2035, there will likely be a return to a commitment to free trade principles. As China becomes more powerful and its military spending increases, there will be a greater geostrategic impetus for the United States to engage in global institutions. The desire to constrain China was one of the main drivers of the TPP, but was not powerful enough to override other concerns held by members of Congress, particularly that it would lead to job losses in the manufacturing sector. As China builds new aircraft carriers and seeks to expand its influence in East Asia, national security issues will rise and the United States, as it did after the Second World War, will likely turn away from protectionist impulses. One ***indicator*** of whether a more pro-globalisation attitude will take hold in Congress is if the United States adopts a much stronger suite of policies to help workers displaced by a changing economic landscape. Increased funding for trade adjustment assistance -- financial support to those workers who can show their job loss was as a result of a trade agreement -- would permit lawmakers to back new trade deals with less fear of electoral consequences, granting more relative weight to the pro-trade business and defence communities. 2. Europe Headlines on EU trade policy in the near term will be dominated by Brexit negotiations. Yet a more worrying ***indicator*** for the EU’s ability to conduct trade agreements may have been the Comprehensive Economic and Trade Agreement (CETA) with Canada, which was approved with difficulty after opposition in the Wallonia regional parliament. CETA may EPRS - Global Trends Unit 24 send the signal to other interested parties that agreements with the EU are uncertain, even after negotiations are complete. A May 2017 European Court of Justice decision has clarified some of the divisions of competencies between the EU and member states. This may help to protect future agreements. However, the ruling stated that non-direct foreign investment and dispute settlement regimes are not the exclusive competence of the EU, which raises the possibility of internal deadlocks on those parts of economic flows.11 Europe will likely still be one of the drivers of global trade rules, despite the course of specific major trade deals, simply because all European states have exports and imports as higher percentages of their economies than the United States, and the EU is itself the world’s largest exporter and importer. 3. China In January 2017, at the World Economic Forum Annual Meeting, Chinese President Xi Jinping pushed back against protectionist sentiments from the United States and Vice Premier Zhang Gaoli reiterated China's commitment to multilateral free trade agreements (FTAs) at the Boao Forum for Asia in March 2017.12 However, Zhang also stated that China intends to prioritise regional free trade relationships, rather than strengthening global institutions. One example of this strategy is the 16-nation Regional Comprehensive Economic Partnership (RCEP), composed of the ten member states of the Association of Southeast Asian Nations (ASEAN), together with Australia, China, India, Japan, South Korea, and New Zealand. RCEP membership represents about 46% of the world’s population, and about 30% of the global economy. While there are obstacles to completion, it is likely that sufficient compromises will be found for its passage. As Figure 5 shows, the RCEP includes all of the Asia-Pacific members of the TPP. This process, if repeated, may see a bifurcated system emerge by 2035: a series of trade deals and institutions promoted by the United States and Europe competing with a China-driven set of FTAs. 11 Court of Justice of the European Union, Press Release No 52/17, Luxembourg, 16 May 2017,   [*https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-05/cp170052en.pdf*](https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-05/cp170052en.pdf) 12”China Vice Premier Sees ’Unstoppable Momentum’ of Globalization.” Bloomberg.com, Bloomberg, 24 Mar. 2017,   [*https://www.bloomberg.com/politics/articles/2017-03-25/china-vice-premier-sees-unstoppable-momentum-of-globalization*](https://www.bloomberg.com/politics/articles/2017-03-25/china-vice-premier-sees-unstoppable-momentum-of-globalization). Global Trends to 2035 25 Figure 5. Membership in RCEP and TPP, before the United States withdrew from TPP II - Globalisation elsewhere Between now and 2035, countries that are not in the G3 of the United States, EU, and China, will have a major impact on how global trade develops. There will be a push from developed countries for higher environmental and labour standards in developing countries. This will be carried out both bilaterally and unilaterally; developed countries will seek to engage emerging markets through governmental and business ties, while raising standards on imported goods. For example, Myanmar, Cambodia, Vietnam, the Philippines, and Laos have implemented measures to ensure higher food and beverage standards to comply with Japanese, US and EU food and drug codes. Such policy developments may lead to gradual changes that will, while not replacing the lack of major US- or EU-led trade deals, mitigate the effects of their absence. Regional agreements that do not include the G3 will expand and deepen. As the middle class in Africa grows and has consumer power, the economic linkages created by the trade across borders in Africa will pressure leaders to regulate trade. It is unlikely that a major trade breakthrough will occur in these areas; the once-discussed monetary union and single market within the East African Community seems highly unlikely, as domestic agendas and concerns regarding economic sovereignty dominate member states. Nonetheless, gradual changes will occur here to create a situation in which there are more power centres in the global economy, most likely led by countries in the G20 or regional economic organisations. III - Structural changes in globalisation It is doubtful that world trade can sustain past trend annual growth rates of as much as 6-7% in volume and 10% in value terms. Such rates were around double typical GDP growth. The global average for the ratio of imports/exports to GDP rose from just over 10% in the mid-1960s to a peak of more than 30% in 2007, where it has broadly stayed since. Data shows that the difference between GDP growth and trade growth may be linked to the rapid increase in exports in China from 1990 to 2006, as it became a major manufacturing exporter. As China EPRS - Global Trends Unit 26 redirects growth more towards domestic consumption, disconnect between trade and GDP may be seen as a unique occurance, and that world trade will not experience a similar phenomenon through 2035. Figure 6. Annual growth rates in GDP and trade, five-year rolling average Source: World Bank Figure 7. Exports as a percentage of GDP Source: World Bank The IMF estimates that subdued trade in investment goods (volumes and prices) accounts for about 75% of the world trade slowdown. The maturing of global supply chains has also 0 1 2 3 4 5 6 7 8 1975 1980 1985 1990 1995 2000 2005 2010 GDP growth (annual %) Exports growth (annual % growth) 0 5 10 15 20 25 30 35 40 45 50 European Union China United States World Global Trends to 2035 27 contributed to slowed trade growth. China is transitioning towards more domestic-led growth and domestic firms are internalising more of their supply chains. The growth of the US shale oil and gas sector has also led to less offshore manufacturing by US companies, through reducing energy input prices in US factories, helping the United States become more self-sufficient. Furthermore, there are limits to any policy measures countries could adopt to reverse the fall in world trade growth. Particularly if the lack of demand for capital equipment is the most important contributing factor to the drop in trade, a boom in countries that manufacture capital goods, such as the United States or Germany, or in sectors that require few major pieces of equipment, will not reset trade growth. 1. Goods trade maturing The falling share of the advanced economies in world trade raises questions about the relevance of encouraging world trade. Over the medium to long run, increasing trade benefits the world economy, despite its costs to some industries, according to the consensus of economists. It spurs global efficiency, acting as a conduit for transmission of skills and technology and raising long-term productivity through technical progress. However, other drivers of growth could become more important to global GDP than trade, as on-demand business requires shorter supply chains, 3-D printing reduces the need for manufacturing hubs, and an emphasis on customisation benefits service providers located near the consumer. The trade/GDP ratio may not return to its previous peak and may not be a key ***indicator*** of economic strength of a region, in the way that it has been. 2. Shift to services The trade outlook for global trade may depend on the balance between emerging market developments that will boost trade and changes in developed countries that will decrease trade. Developing countries are witnessing growth in consumption and a rising middle class which demands imported goods. Further, their exports and imports are increasingly flowing between other developing countries, protecting trade flows from being tied wholly to the economic preferences of the developed world. Advanced economies are moving towards services as the main source of economic value, even in manufactured goods. This, alongside shifts within the trade in goods, are likely to curb the demand from advanced countries for imports and thus lessen their role in world merchandise trade. As shown in Figure 8, trade in goods rose much more rapidly than trade in services from 2000-2008 for the euroarea, China, and the United States. Since the initial recovery from the financial crisis, the share of trade has been even for these three blocs, and has recently begun trending towards services. EPRS - Global Trends Unit 28 Figure 8. Difference between value of goods trade (exports and imports) vs services trade (exports and imports), millions of US dollars Source: OECD IV- New drivers of growth to 2035 It looks likely that the EU, focused as it is on its goods-export industries, will continue to lag behind the United States in harnessing new services and digital drivers of growth. While EU collaboration has encouraged research and development (R&D) spending, it does not have the fundamental research drive or capacity of a large single state, like the United States or China, with investment in innovation needing to be shared among 27 countries. In 2015, the EU spent less than 2% of GDP on R&D. To compare, OECD members on average spent 2.4%, the United States spent 2.8% and Japan spent 3.5%. In addition, the EU venture capital market is underdeveloped relative to the United States and the EU also lags behind the United States in numbers of large high-tech companies and patents. 0 500000 1000000 1500000 2000000 2500000 3000000 3500000 4000000 2000 2002 2004 2006 2008 2010 2012 2014 United States China Euroarea Global Trends to 2035 29 Trend 3: Industrial and technological revolution By 2035, technological advances will have a major impact on the social and economic foundations of society, potentially a more far-reaching impact than the initial phase of computerisation from the 1980s onwards. Technologies involving automation and machine learning have the potential to disrupt job markets, making millions of jobs obsolete. As technologies like self-driving cars begins to proliferate, governments at all levels will be faced with questions of adaptation, governance, and human development. Countries will be forced to consider how much of their core information infrastructure they will permit to be run by companies domiciled in other countries. I - Technologies 1. Self-Driving Cars Self-driving cars have left the realm of science fiction, with companies such as Google, Uber, and Baidu investing in (R&D) for commercial self-driving car programmes. The success of self-driving vehicles could eventually lead to the banning of human driven vehicles, as the safety of driverless vehicles surpasses that of traditional cars. While this shift will not happen overnight, the possibility of a proliferation of self-driving car technology by 2035 is likely. The technology for fully autonomous cars will likely be in place by 2025, but human drivers will still be wary of giving up control. Until then, regulators will struggle to keep up with the commercial ambitions of the sector. There will likely be several million fully autonomous vehicles on public roads by 2022, albeit still with drivers present because of regulatory, insurance and safety issues, and with an expected shift to non-drivers not long thereafter. Autonomous vehicles are already deployed in dangerous locations, such as mines, and where long hours of operation or tedious, repetitive trips are needed, like airport terminal shuttles. Progress on developing self-driving cars is most advanced in China and the United States, the world’s two largest car markets as well as its two leading polluters. Unless major regulatory changes occur elsewhere, it can be expected that self-driving cars will advance most rapidly in those places. Some cities that see self-driving cars as a component of an urban transit model, like Helsinki and Singapore, will be the largest factors encouraging adoption elsewhere. A tipping point may come when the first generation of drivers to have grown up with self-driving cars takes the road. Young and new drivers are already the most dangerous; a generation who rarely need to steer the car may not be trusted to take over from the car if necessary, prompting more rapid regulatory change. However, it is still uncertain whether that would happen before 2035 or which countries would be most skittish about this age group. According to industry projections, self-driving cars would be about one-fifth of all vehicle sales by 2035, with nearly half of all sales in the United States and China. EPRS - Global Trends Unit 30 Figure 9. Forecast sales of cars and light trucks Source: IHS Automotive, Oxford Analytica Beyond changing the way that people use transportation, the proliferation of driverless vehicles will put a dent in the tax income generated from traffic violations and other costs associated with private transportation, or may not be privately owned at all, reducing registration fees. Local governments will have to create new tax schemes to make up for the lost revenue in order to maintain their funding streams to maintain roads and bridges.13 It will also require governments to reconsider public transit options. It may be that self-driving cars reduce traffic to the point that every commuter relies on an autonomous vehicle to get to work, and the cars spend the day providing ride-sharing services. In this case, public transit would be less and less relevant for commuting (unless the cars became owned and operated by public transit systems). Or, conversely, self-driving cars may be combined with public transit services in a hub-and-spoke model. Self-driving cars can bring workers to a train or subway station efficiently, where they travel long distances on a cheaper per-person basis. This scenario would extend the reach of each station and increase the reliance on public transit. Deciding which model a city will adopt should be a key component in transportation investment decisions. 2. Artificial intelligence and automation Automation, which involves programming a machine to perform a task previously done by a human, and artificial intelligence (AI), which involves programming a machine to learn about the task as it performs it, are realities in many industries. While automated processes have been present in many industries for decades, combining it with AI permits its use to spread to many new industries much more rapidly than before, when each task required programming by humans. 13 Desouza, Kevin C., et al. ”Local government 2035: ***Strategic*** trends and implications of new technologies.” Issues in Technology Innovation, no. 27, May 2015,   [*https://www.brookings.edu/wp-content/uploads/2016/06/desouza.pdf*](https://www.brookings.edu/wp-content/uploads/2016/06/desouza.pdf) Global Trends to 2035 31 2.1 Employment In the next 20 years, researchers at the Oxford Martin School estimates that 47% of jobs in the United States will become vulnerable to computerisation, and that 35% of UK jobs could be eliminated as a direct consequence of artificial intelligence.14 Particularly at risk are jobs that consist of a set of tasks following defined procedures, such as data entry. While automation and artificial intelligence are usually associated with lower skilled jobs, they have also begun to replace highly skilled workers. For example, oncologists at Memorial Sloan Kettering, a leading cancer hospital in New York, have begun using IBM's Watson artificial intelligence platform for diagnostics, and many law firms have begun replacing paralegals with software such as Symantec's Clearwell system. As education improves in many countries, there could be a growth of high-skilled workers that exceeds the growth of high-skilled positions available.15 This could contribute to the shift in the makeup of the workforce, as many highly skilled workers will be forced to take jobs below their pay-grade or be supported with continual job retraining opportunities. 2.2 Governance AI has the potential to generate significant wealth, but not everyone will benefit equally. A small number of large companies will attract a significant amount of the relatively small pool of people with AI expertise because they have the resources to develop sophisticated AI systems. AI must be trained on vast amounts of data, and only a few companies in the world have this supply. As their AI systems improve, and they can offer better products, they will attract more customers, creating a feedback loop that builds their market position while locking out others. One of the concerns with this trend is that it gives a few companies a powerful yet hidden influence. AI is used to present advertisements, search results and newsfeeds to users, which gives power to the designers and owners of such systems to control what users see and how they see it. Governments will need to decide whether anti-trust actions should be levied against AI companies, especially if rounds of industry consolidation create a single entity with monopolistic power, in addition to the economies of scale in big data and AI. To address these issues, some organisations have started trying to become more transparent with their work on AI by making their algorithms and data publicly available for others to use and analyse. Companies including Google, Microsoft, Facebook, Amazon and IBM have formed a partnership for this purpose, while others, such as OpenAI -- a non-profit founded by Elon Musk – were built on the idea of AI benefiting everyone in society. Calls for transparency in AI will increase, as AI adoption grows and its failures, when they occur, affect more people. By 2035, the social impacts of AI will be a major point of political concern. If AI algorithms begin to evolve faster than engineers can understand them, such as 14 Frey and Osbourne, “The Future of Employment: How susceptible are jobs to computerisation?”, 17 Sept. 2013,   [*http://www.oxfordmartin.ox.ac.uk/downloads/academic/The\_Future\_of\_Employment.pdf*](http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf) 15 ”Technology, globalisation and the future of work in Europe: Essays on employment in a digitised economy.” Dolphin, Tony. (eds.), Institue for Public Policy Research, Mar. 2015,   [*http://www.oxfordmartin.ox.ac.uk/downloads/academic/technology-globalisation-future-of-work\_Mar2015.pdf*](http://www.oxfordmartin.ox.ac.uk/downloads/academic/technology-globalisation-future-of-work_Mar2015.pdf) EPRS - Global Trends Unit 32 the Facebook chatbots that invented their own non-human language, there will likely be incidents that cause questions of legal liability for the creators of destructive or invasive algorithms.16 Questions about how AI runs advertising or news aggregation in the run-up to elections may be one of the first debates to be held about this issue, and will likely arise in the next few years. 3. Sharing economy It is estimated that a sharing economy, one in which non-full time employees use assets they already own (such as a car or a spare bedroom) to generate additional income, could have an annual global value of 335 billion dollars by 2025. Governments have had mixed success regulating sharing economies. Firms that coordinate such activities are growing in popularity among providers and users of the service, and their legal, lobbying and marketing resources have often helped them prevail as force in highly regulated markets -- although in other cases they have adapted to comply with at least some existing rules. By 2035, most governments will have adopted some regulatory framework for these companies, given the unsustainability of the current system of firms operating in legal grey areas and then adopting post-hoc lobbying campaigns. However, the time of adoption will likely depend on whether incumbent actors decide to co-opt the new market entrants, or fight to exclude them. One question will be whether any sharing economy achieves monopolistic status. This has not yet happened. In the New York City taxi market, one of the most currently lucrative of all sharing markets, Uber and Lyft combine for more weekly trips than taxis in 2017. However, Uber faces a number of reputational challenges and licenced taxis are adopting ride-hailing software.17 Nonetheless, platform economics -- in which companies act as the intermediary between vendor and customer -- lead naturally to monopolies, because having a larger number of customers attracts a larger number of suppliers (such as drivers for Uber, homeowners for AirBnB, or sellers on eBay), which increases the options for customers, creating a mutually reinforcing cycle of growth. As the sharing economy matures and monopolies emerge in various markets, goverments will likely find themselves pressured to break up firms that are preventing new entrants into that market.18 4. Data privatisation The amount of private data ownership is rapidly rising, creating a unique problem for governance. Questions of data ownership, consent, passive and purposeful data exchanges, and individual liberties will enter public discourse as government ability to secure data is tested. 16 LaFrance, Adrienne, “An Artificial Intelligence Developed Its Own Non-Human Language,” The Atlantic, 15 Jun. 2017. 17 Schneider, Todd W., ”Taxi, Uber, and Lyft Usage in New York City,”   [*http://toddwschneider.com/posts/taxi-uber-lyft-usage-new-york-city/*](http://toddwschneider.com/posts/taxi-uber-lyft-usage-new-york-city/). 18 Choudary, Sangeet Paul, “The Dangers of Platform Monopolies,” INSEAD Blog, 8 May, 2017,   [*https://knowledge.insead.edu/blog/insead-blog/the-dangers-of-platform-monopolies-6031*](https://knowledge.insead.edu/blog/insead-blog/the-dangers-of-platform-monopolies-6031). Global Trends to 2035 33 Local governments will increasingly need access to data in order to deliver human services and enforce laws. Location data from personal devices could be used to help support search and rescue operations and disaster response teams. Sociometrics could help innovate communication systems. Governments will have to collaborate with companies developing new technologies, which could be difficult given limited budgets. Yet privacy concerns will only grow as the amount of data expands.19 Governments will be asked to pass regulations to ensure citizens’ privacy, while also being tempted to pass legislation allowing governmental access to data for law enforcement purposes. If glasses that include cameras like Google Glass, or home listening devices like the Amazon Echo, proliferate, then citizens will be unwittingly creating recordings of nearly every moment of their lives, creating a political debate that will touch some of the most sensitive issues in society. II - Implications for Europe The European Commission estimates that new technology will boost Europe's GDP by 110 billion euros annually over the next five years, benefiting sectors that account for 60% of the regions GDP.20 However, the poorer EU Member States are likely to face severe drastic job losses because they have higher concentrations of low-skill jobs. The disruption of the job market will be particularly challenging for countries that have less developed pension systems and even the richer states will lose out if Europe as a whole does not compete in the field of AI. One of the largest problems Europe will face in the next two decades is that most of the largest tech providers in the world are based in the United States and China, and their dominance in the sector will be consolidated by the shift to AI. The knowledge economy is particularly suitable to economic clusters, in which a concentration of workers, companies, and capital create a competitive advantage that is difficult to break. The United States has the world’s largest cluster for information technology in Silicon Valley, with clusters for other industries in New York (finance), Boston (biotech), and Detroit (automobiles). Europe does not have similarly dominant clusters in these some of these sectors. Rather, many industries are spread out across countries.21 Widespread networks can function well in some sectors, especially complex manufactured products which can have separate hubs for types of parts or assembly factories. However, industries in which there is a high level of turnover within companies, or rapid start-up formation, tend to favour clusters, for the simple reason that changing jobs does not necessitate a person move houses, thereby reducing friction in the labour market. Of further concern to Europe, a ‘hard Brexit’ could damage UK-based clusters, such as the finance cluster in the City of London. Therefore, the EU will face the challenge of either supporting the development of single clusters, which will require picking which regions will benefit from investment and job 19 Totty, Michael. ”The Rise of the Smart City.” The Wall Street Journal, Dow Jones & Company, 16 Apr. 2017,   [*https://www.wsj.com/articles/the-rise-of-the-smart-city-1492395120*](https://www.wsj.com/articles/the-rise-of-the-smart-city-1492395120). 20 Karnitsching, Matthew. ”Why Europe’s Largest Economy Resists New Industrial Revolution.” Politico, 4 Apr. 2017,   [*http://www.politico.eu/article/why-europes-largest-economy-resists-new-industrial-revolution-factories-of-the-future-special-report/*](http://www.politico.eu/article/why-europes-largest-economy-resists-new-industrial-revolution-factories-of-the-future-special-report/). 21 For details on clusters by industry, see   [*http://clustermapping.us*](http://clustermapping.us) and   [*http://www.clusterobservatory.eu*](http://www.clusterobservatory.eu) EPRS - Global Trends Unit 34 growth, or rely on US or Chinese technology, with the concern that Brexit negotiations will lead to the disruption of some existing clusters. Both are politically difficult approaches, and there has already been considerable US-EU friction over EU rulings against US technology companies. The mismatch between the relative profiles of US and EU firms in the web economy means that EU ***interventions*** in applying EU rules and designing new legislation will have differential impacts and major US firms will lobby European governments and regulatory agencies -- perhaps with US government support -- to minimise any adverse effects. Trend 4: Climate change and resource competition Changes in the global climate due to rising greenhouse gases (GHGs) will not be reversed by 2035, even if great strides are made with the implementation of political agreements to greatly reduce carbon usage in the future. As the consequences of climate change become increasingly apparent -- and natural events such as famines and water strain become linked to climate change in popular discourse -- the world is likely to see climate-related political disputes proliferate at the national and international level. I - Growing GHG emissions According to the European Environment Agency, Europe is on track to hit its 2020 GHG emissions target, and to miss its 2030 target.22 By 2023, all countries will be expected (at a UN Framework Convention on Climate Change ‘stocktake’) to indicate trajectories and possible targets for GHG reduction efforts beyond 2030. By 2035, a new round of GHG emission reduction targets will be underway, more demanding than the current round. Despite the efforts of countries to fulfil their targets set out in the 2015 Paris Agreement, climate change will have drastic effects by 2035. Globally, emissions will continue to rise, by about 13% for carbon dioxide emission by 2035, according to the base case in the 2017 BP Energy Outlook.23 Even if there were a major breakthrough in renewable technology soon, the amount of GHG already in the atmosphere and the time needed to shift the global economy away from carbon means that some of the most damaging effects of climate change will begin to be experienced in 2030-35. The result will be disruption in weather and climactic patterns that will lead to competition and possible conflict over resources, with spillover into the political realm. 22 ”Total Greenhouse Gas Emissions Trends and Projections.” Total Greenhouse Gas Emissions Trends and Projections – European Environemnt Agency, 21 June 2016,   [*http://www.eea.europa.eu/data-and-maps/****indicators****/greenhouse-gas-emission-trends-6/assessment*](http://www.eea.europa.eu/data-and-maps/indicators/greenhouse-gas-emission-trends-6/assessment). 23 ”BP Energy Outlook 2035,” Feb. 2015,   [*http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2015/bp-energy-outlook-2035-booklet.pdf*](http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2015/bp-energy-outlook-2035-booklet.pdf) Global Trends to 2035 35 Figure 10. Global warming above pre-industrial levels by 2100, degrees centigrade Source: Climate Action Tracker II - Resource competition 1. Food Food sits at the nexus of many trends in resource competition and is one of the most important topics for its effects on political and humanitarian matters. The Arab Spring of 2011 has been attributed, in part, to a spike in worldwide grain prices in 2010, caused by weather effects lowering the size of harvests in Russia, Ukraine, China, Argentina, Canada, Australia, and Brazil.24 Political change triggered by rising food prices is not new; the French Revolution followed two years of poor harvests. However, in the next decades, that climate volatility is expected to increase the frequency and severity of these events. Food scarcity on a global scale is not inevitable. In its latest working paper, the UN Food and ***Agriculture*** Organisation (FAO) is sanguine about the ability of ***agriculture*** to provide for population growth.25 It projects that population growth will be lower than in the past century, especially in richer countries with more land-intensive diets, and the bulk of population growth will come in poorer countries, which will have diets based on grains and vegetables that are more efficient to farm. However, there are three major wild cards. Climate change could make existing ***agricultural*** areas less suited for cultivation. A global middle class may shift more rapidly to demanding 24 Kelley, Colin P., et al. ”Climate change in the Fertile Crescent and implications of the recent Syrian drought.” Proceedings of the National Academy of Science of the United States of America, vol. 112, no. 11, 2015,   [*http://www.pnas.org/content/112/11/3241*](http://www.pnas.org/content/112/11/3241). 25 Alexandratos, Nikes., Bruinsma, Jelle., ”World ***agriculture*** towards 2030/2050: the 2012 revision.” ESA Working Paper No. 12-03, FAO, 2012,   [*http://www.fao.org/docrep/016/ap106e/ap106e.pdf*](http://www.fao.org/docrep/016/ap106e/ap106e.pdf) EPRS - Global Trends Unit 36 meat -- itself a driver of climate change. And yields may cease to rise quickly enough to keep up with demand. The most likely course for food competition in 2035 is that there are sufficient resources for the world population, but with periodic protest movements as importers face price rises. Developed countries will be investing in innovative farming techniques, such as indoor farms or meat grown in laboratories, but the vast majority of the world’s calories will come from traditional farms. Food supply measures will come increasingly to focus on minimising wastage -- the EU wasted about 88 million tons of food in 2012 -- and maximising yield through better monitoring of farmland.26 However, food production may increasingly be in competition with other environmental objectives. The need to limit deforestation, and thereby constrain development of palm oil and the area available for grazing cattle expansion, or the demand for renewable biofuels, could cut into the supply of affordable food. 2. Water The availability of water is becoming one of the most important inputs for a country’s economy. In many parts of the world, such as the Middle East, water basins are becoming “closed,” meaning that all water has been allocated for use, and climate change is adding additional pressure. Figure 11. Freshwater withdrawal as percentage of total renewable water resources in countries near Europe. Source: FAO AQUASTAT 26 Stenmarch, Åsa. et al. ”Estimates of European food waste levels.” FUSIONS, 31 Mar. 2016,   [*http://www.eu-fusions.org/phocadownload/Publications/Estimates%20of%20European%20food%20waste%20levels.pdf*](http://www.eu-fusions.org/phocadownload/Publications/Estimates%20of%20European%20food%20waste%20levels.pdf) 0 20 40 60 80 100 120 140 Global Trends to 2035 37 Figure 12. Projected water withdrawal in 2025 Source: FAO AQUASTAT To tackle this issue, governments are experimenting with a variety of regulatory and legislative reforms. These include:  restricting the amount of water rights available;  creating tradeable water permits; and  increasing effluence controls and introducing tradeable effluent permits; Water prices rarely reflect the true cost of provision, as governments have often created indirect or direct subsidies. Reform of water practices will therefore increase the cost of water for industry and ***agriculture***. This will lead to business adaptation to minimise the use of water, or to minimise the effect of using water, such as building factories that can recycle their wastewater. Emerging policy developments and technological innovations will significantly shape water management practices and opportunities in the coming decade. These innovations will occur in three main areas:  Water Data. Advances in satellite and drone-based remote sensing allow systematic data collection of water uses while sensors allow water utilities to monitor water use, leaks, and contaminants in real time.  Water supply. Emerging desalination technologies will make desalination increasingly viable for many uses. New generation membranes incorporating nanoparticles, carbon tubes, and graphene-based materials are showing superior permeability and salt-rejection. Combined with renewable energy, which will allow easy power supply to desalination plants, coastal cities around the world may be able to supply their own water by 2035 through ocean water. However, it will still be EPRS - Global Trends Unit 38 inefficient to move water inland, given the power challenges inherent in moving the weight of water against gravity.  Water Use. ***Agriculture*** claims 70% of world water withdrawals, so precision irrigation techniques, such as drip systems delivering water directly to crop roots, can be some of the most effective water control measures possible. Advanced genomics could help farmers optimise growing conditions, watering amounts, and schedules based on better understanding of plant genomes. 2.1 Water in Europe Europe is, as a region, relatively resilient in terms of water availability, but will be affected negatively by migration pressures from areas of collapsing water supply, notably the Middle East, and positively from the demand for European technology to monitor and minimise water usage. 3. Energy The energy sector may see little to no competition for resources by 2035. This is, in large part, due to the rapid advances made by renewable energy in the last decade. Energy companies are attempting to position themselves for this new business model. They are shedding high carbon assets such as coal-fired generation power plants. The fall in solar and onshore wind costs puts renewable energy on a new footing. Previously, renewables helped countries to meet climate change targets and secure supply, but were relatively expensive. By 2035 they will likely meet affordability criteria, and do so without subsidy in developing countries, leading to increased generating capacity worldwide, tracking the shape of the power market in the United States, as shown in Figures 13 and 14. Global Trends to 2035 39 Figure 13. Estimated levilised cost of electricity (LCOE) for new plants in the United States in 2040, dollars Source: Energy Information Administration Annual Energy Outlook 2017 Figure 14. Estimated electricity generating capacity in the United States, gigawatts Source: Energy Information Administration Annual Energy Outlook 2017 0 20 40 60 80 100 120 140 160 180 200 0 50 100 150 200 250 300 350 2018 2020 2022 2024 2026 2028 2030 2032 2034 Coal Oil and Natural Gas Steam 4 Combined Cycle Combustion Turbine/Diesel Nuclear Power Renewable Sources EPRS - Global Trends Unit 40 3.1 Fracturing the global market By 2035, the proliferation of renewable energy technologies, especially wind, solar, and tidal, combined with more energy efficient buildings and electric vehicles, could put an end to the concept of countries as energy exporters. Because renewable energy can be produced in any country that has wind and sun, the local energy market may be largely supplied by a country’s own resources. For many developing countries, this will require the development of grid infrastructure across countries. This would allow the peaks and troughs in the solar and wind to be balanced out across large distances. There may still be a need in many electric grids for a fossil fuel-generated baseload, which can take over when renewable sources are lagging, or to produce on-demand increased load. However, this market may soon be serviced by natural gas, which can be globally traded when more LNG terminals are built in both exporting and importing countries. The baseload could become more climate friendly if technology develops surrounding bio-energy with carbon capture and storage (CCS). This involves using biomass in energy plants, then storing the carbon. The technology is at an even earlier level of maturity than regular CCS, but it features heavily in many future energy models, and is probably the main requirement in terms of meeting climate targets by 2100. However, there are land-use implications of bio-energy with CCS because it would require turning ***agricultural*** land away from food production. Nonetheless, the development of alternate sources of energy will likely fail to create climate-friendly fuels for aviation and shipping, which will form a rising proportion of GHGs. For Europe, the downside of this will be the geopolitical instability that a shift to renewable energy could unleash. Many countries in its neighbourhood are dependent on oil and natural gas; fuels comprise more than 50% of merchandise exports for the Republic of Congo, Oman, Russia, and Kazakhstan, more than 75% of exports for Saudi Arabia, Qatar, Azerbaijan, and Kuwait, and more than 90% of exports for Nigeria, Algeria, Angola, and Iraq. A drop in those exports could trigger unrest, as governments find that they are unable to fund services or maintain the social contract that, in some countries, was dependent on the revenues oil and gas provided. III - Political solutions Many of the developments in this era will impact the outlook for climate change and spur new divisions within international politics. 1. US-China rivalry After the 2009 Copenhagen summit, which led to no concrete plans, much of the developed world’s efforts on climate change focused on encouraging China to reduce emissions. At the 2015 Paris summit, these efforts succeeded, only to see the United States turn away from a climate-friendly trajectory when President Donald Trump announced plans to pull out of the Paris Agreement. However, by 2035, Trump’s Administration will most likely be seen as a blip in the historical trajectory. US cities and states have promised to keep their own emissions targets, mitigating the damage to climate efforts from US withdrawal. Nonetheless, Trump may delay concerted US action by four years, which will make global targets difficult to achieve. Global Trends to 2035 41 More importantly, the US business community will look to keep pace with China on renewable energy technology. Beijing has announced a 2.5-trillion-renminbi investment programme in renewable energy as part of its 13th Five-Year Plan (2016-20). This continues the twin strategies of boosting the share of non-fossil fuel in the energy mix and supporting the growth and internationalisation of China's renewable energy manufacturing industry. As long as the Chinese economy does not suffer a major collapse during the next two decades, investment and state support for the sector is likely to continue in the 14th and 15th Five-Year Plans. 2. Developed world vs developing world One of the major accomplishments of the Paris summit was to commit all signatories, both the developing world and developed world, to GHG reduction targets. However, this will continue to be one of the key dividing lines, as developing countries such as India will push for greater flexibility and financial assistance, while Europe, the United States post-Trump, and China will push for stricter controls. Climate change could become a source of international power dynamics, much in the way that terrorism has shaped diplomatic efforts since 2001. If a major ecological disaster hits the United States, China, or the EU (see Trend 8), there may be political will to use both hard and soft power to enforce climate governance on recalcitrant countries. Tariffs on exports or sanctions on companies known to use fossil fuels could be used to mandate compliance; more likely, foreign aid will be targeted to renewable and energy efficient programmes, while bilateral assistance in carbon-intensive industries will receive international scrutiny. Trend 5: Changing power in the international system In many ways, the power balance in the international system in 2017 looks broadly similar to the world in 2000. The United States is still the world’s only superpower, able to launch and sustain major military operations around the world. The international system can be most accurately described as unipolar. NATO and the EU provide for security in Europe. Second-tier powers, notably China and Russia, do not yet have the capability to challenge for global leadership. Yet in many fundamental ways, the world has changed considerably. The wars in Iraq and Afghanistan have left the United States and its coalition partners wary of foreign ***intervention***. China has expanded its global presence with foreign investment, aid and military bases. Russia has demonstrated a willingness to intervene in neighbouring countries and attack democracies with information ‘wars’. The impact of the financial crisis and economic downturns have hit many nations’ capabilities to fund military increases. Projecting the future power balance of the world in 2035 is highly susceptible to wild cards and black swan events. Nonetheless, there are some broad trends that are likely to continue through 2035. EPRS - Global Trends Unit 42 I - Country power projections 1. United States In 2035, the United States will most likely still be the world’s preeminent military power. It will have the world’s largest defence budget and have the most technologically advanced military. The US armed forces have spent the last two decades learning how to better operate in the “Long Wars” in Iraq and Afghanistan, with an emphasis on small unit action and defences against irregular forces. The United States will likely continue to have the capabilities for a wide range of operations, from carrier group actions to Special Forces raids. Its plans for these actions will include greater budget space for drones, special operations, and cyberwarfare. 2. Russia Russia’s military will be highly constrained by its economy. This in turn will be affected by the income from the country’s mineral wealth, which is currently suffering from the fall in oil prices from the peak of 2014 and the impact of a declining workforce. If current trends hold, the working force population would drop from about 85 million to less than 75 million by 2035. However, this does not necessarily mean that the geopolitical power of Russia will drop precipitously. Military capabilities are slow to develop; an economic boom cannot be immediately translated into the hardware and tactical proficiency needed for adequate operations. Just as China’s military rise has lagged its economic rise by at least a decade, and maybe more, Russian military power will remain significant even if its economy crumbles. Russian power will be focused on areas of high impact and relatively low cost. One of the most important will be anti-access/area denial (A2/AD) systems, which would prevent operations by other countries in or near its territories. In the Russian case, the A2/AD 'bubbles' that Moscow has created along its western frontier include the S-400 air defence system, the Iskander ballistic missile, and the K-300 Bastion anti-ship missile. These long-range anti-access systems are complemented by platforms, including new generations of submarines and fighter jets, which further contribute to Russia's ability to keep NATO at a distance during a crisis. However, a major issue will be the extent to which the Russian defence industry can remain competitive. It has been heavily dependent on export orders, which will dry up if Chinese or Indian manufacturing reaches Russian levels of quality and price. Russia will therefore likely be playing a “spoiler” role through 2035, concentrating its forces in preventing freedom of action for NATO, or in state-based asymmetric warfare, such as informational attacks and cyberwarfare. Geopolitically, it will likely focus its attention on its neighbours, especially former members of the Soviet Union with internal disputes, as described in Figure 15. Global Trends to 2035 43 Figure 15. Russian-backed regions that claim sovereign or autonomous status Source: Oxford Analytica 3. China China’s military capabilities will continue to grow, a product of increased expenditures as its GDP grows and time spent incorporating modern equipment into tactical and ***strategic*** plans. By 2035, it will have multiple aircraft carriers and will likely have more basing rights for its forces in other countries. Most likely, it will attempt to do so in the ports it is building or funding around the Indian Ocean rim. China’s military will not equal that of the United States by 2035, but it will be sufficient to play a major role in its near abroad. The South China Sea may be the first flashpoint, as island building and territorial disputes could be the ingredients of miscommunication leading to conflict. It may also play a role in peacekeeping operations outside of Asia. EPRS - Global Trends Unit 44 Figure 16. South China Sea provides a ***strategic*** advantage to China’s growing nuclear-armed submarine force as a more secure outlet to the open ocean Source: Oxford Analytica China’s greatest ***strategic*** liability is the threat that it poses to others. Although it will have less military power than the United States, balance of threat theory suggests that it will be seen as the larger concern to countries nearby. The United States has been able to play the role of the offshore balancer and a supporter of an Asia-Pacific order that is largely supported by the other states in the region. China may become severely constrained in its freedom of action if its greater strength leads to the creation of coalitions against it. This seems to have already happened in the Indian Ocean. The United States and Japan are helping India to develop advanced naval platforms and weapons systems, giving it privileged access to their military technology. India may eventually become a security contributor not only in the Indian Ocean but throughout the Indo-Pacific as the trilateral relationship deepens. 4. European Union The largest variable in projecting global military power in 2035 is that of the EU. At the moment, one of the largest tensions within NATO is European members spending less than the 2%-of-GDP guidelines. In part, this is because, within member states, the largest perceived threats for Western Europeans are not geostrategic, but relate to climate change, economic stability, and domestic terrorism. Defence spending may increase over the next decade in response to US calls, but large increases are unlikely as public support appears to be weak, especially in Italy and Spain which face large debt burdens. Global Trends to 2035 45 Figure 17. European defence spending and attitudes Source: Pew Research Center, NATO Yet the EU collectively trails only the United States in military spending. The difficulty for European states is translating funds into power projection. The Commission estimates that a lack of cooperation costs the EU Member States between 25 and 100 billion euros annually, and duplication in administration and personnel means that far fewer of its service members can be deployed on operations at a given point in time than is the case for the United States.27 If the European Union continues on post-2008 trends, it and its Member States will be minor powers by 2035, with military spending falling to only two-thirds as much in real terms as in 2005. The EU is also vulnerable to more EU member states leaving or choosing to prefer defence cooperation through NATO in order to partner with a post-Brexit United Kingdom and its defence industry. If the EU consolidates its defence procurement procedures, ensures interoperability, and creates a more streamlined decision-making process, it will be one of the most significant actors in international security. While a unified command structure may not be in place by 2035 -- thereby limiting the EU’s scope of operations in conflicts -- it will play a large role in areas of immediate interest the Middle East or Africa. 5. G20 It is to be expected that economic growth will translate into military power and so by 2035, regional powers will be playing a much larger role in military operations. Even if no other 27 European Commission, “European Defence Action Plan: Towards a European Defence Fund,” 30 Nov. 2016,   [*http://europa.eu/rapid/press-release\_IP-16-4088\_en.htm*](http://europa.eu/rapid/press-release_IP-16-4088_en.htm) EPRS - Global Trends Unit 46 country approaches the military capabilities of the United States, China, or Russia, there will be countries or coalitions powerful enough to launch and sustain operations of their own. The Saudi-led campaign in Yemen may be an example of these types of operations. Likely places for these campaigns to emerge would be in Sub-Saharan Africa, the Middle East, and Southeast Asia, where there are a number of countries with some expeditionary military capabilities, although militaries in those countries may be mostly preoccupied with internal conflicts. As seen in Figure 18, the share of worldwide military expenditures has declined for North America and Western and Central Europe, while the Asia-Pacific region has nearly doubled is share since the end of the Cold War. One variable is the role of Turkey over the next twenty years. While it is not likely to be expelled from NATO in the near future, if it continues towards an authoritarian style of government, it is more likely that it will pursue a foreign policy increasingly divergent from Europe or the United States. Turkey may seek to become the most pivotal power in the Middle East, North Africa, the Caucasus, and Central Asia, taking positions at odds with the rest of NATO. This could elevate Turkey’s influence in the region at the same time undermining the US and Europe, which may be reluctant to press Turkey for fear of causing greater disruptions within NATO. However, this could spur greater defence cooperation within the EU, as member states seek to work together in an institution not affected as much by policy towards Turkey. Figure 18. Share of world military expenditures by region, %.28 Source: SIPRI 28 Data does not include: Cuba, Eritrea, Iraq, North Korea, Somalia, Syria, Turkmenistan, Uzbekistan, former Yugoslavia 0 5 10 15 20 25 30 35 40 45 50 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 North America Central and South America Western and Central Europe Eastern Europe Asia-Pacific Central & South Asia North Africa and Middle East Sub-Saharan Africa Global Trends to 2035 47 Trend 6: New arenas of state competition When projecting long-term trends in international affairs, it is important to consider the possibility that the major conflicts of 2035 will be centred on issues that barely register in the international arena today, or are secondary matters at best. While this section focuses on state action, it is important to note that corporations and international institutions will play a key role in each of these areas. I - Space Space is marked by the amount of civilian international cooperation that exists alongside military competition. US-Russian cooperation on the International Space Station is the most obvious example, but the joint European-Russian ExoMars mission, the China-Brazilian joint effort to develop remote sensing satellites, and other examples of scientific collaboration all continue the long tradition of linkages between national space activities and diplomacy. Cooperation will become even more important as developing countries grow their consumer sectors but have no satellite production capabilities. However, space plays a key role in conflicts. The use of satellites as a linchpin of command, control, and communications networks seems unlikely to change in the next two decades. They will also continue to play a key role in military monitoring, although they will increasingly be supplemented by airship-based surveillance networks and drones. Militaries will seek ways to reduce satellite vulnerability to protect their systems from attacks. Space will continue to be an important component of international prestige. The United States has signalled an intent to reinvigorate its space programme with Moon, Mars and asteroid recovery missions. Europe, China, India and Russia all have plans to continue their space exploration efforts and, although the next major bout of exploration will lack the frenzied timeline of the 1960s, comparisons in achievements will be inevitable. The domestic impact of space achievements will also be an important consideration for governments at a time of continuing pressures on funding allocation. ESA’s Rosetta mission to comet P67 captured the public’s imagination across Europe, in part through the social media skills of the Rosetta mission control team. Space achievements will remain a source of domestic pride and international admiration. 1. Trends in space market The next two decades will see three distinct trends in the space industry, which has the potential to reshape how it is viewed and operated by policymakers. 1.1 Market differentiation The satellite manufacturing market will split into two distinct types of products. The first will be a continuation of the current trend of developing larger chasses for direct broadcast satellites, as improvements in design and materials allow the number of transponders per satellite to increase without a commensurate increase in cost. This will mean a market for launch vehicles capable of carrying heavier payloads to geosynchronous orbit, such as the Ariane 6. EPRS - Global Trends Unit 48 At the same time, there will be a growth in microsatellite constellations operating in low earth orbit that offer a robust network for constant communications or remote sensing. This will open up the market for launch vehicles that carry relatively small payloads at low cost and short notice, able to replenish these constellations when necessary. US companies, notably SpaceX and Blue Origin, are developing the ability to recover and re-use the expensive engines housed in the first-stage of launch vehicles. 1.2 Broadband The second trend is the full-scale commercial development of global space-based broadband internet. The use of small low-cost satellites will be a key development here, and would generate a sizeable share of the commercial activity in the space sector. 1.3 Data collection The third trend is a greater incorporation of space-based remote sensing data into systems operations. This has already been deployed in sectors such as oil and gas, but the combination of images collected from earth orbit with evolving interpretative software will both lower the cost of this data and increase its utility across commercial sectors. Advances in software to extract and incorporate the data means that the space-based component can be less sophisticated, more disposable and therefore cheaper. In a sense, the satellite market is moving closer to a mass market -- or at least high-volume -- product. Given the utility of satellites for military uses, the country that can capture this market will receive a boost in its ***strategic*** reach. II - Maturing weapons systems in development Given the long lifespans of many weapons systems, many of the foundational elements of the militaries of 2035 are already in development or deployed. However, their use and the mix of technologies could drastically change how technology is used. 1. Air The F-35 Joint Strike Fighter was first declared combat-ready in 2015; it is projected to be in production until 2038 and operational until 2070. The F-35 has procurement orders from the United Kingdom, Italy, the Netherlands, Denmark, Norway, and Turkey, among others, which will make it a central element in NATO’s flight arsenal for the next few decades. While the F-35 is the most technologically advanced aircraft in production, it is likely that Russia, and perhaps China, will develop aircraft or air defence systems by 2035 that can negate some of its technical attributes, such as its stealth capabilities. Despite considerable setbacks in the research and development of this aircraft, the F-35’s proponents argue that it will transform aerial combat as a fully networked plane whose software can be updated. The Pentagon is exploring plans to allow the F-35 to be a manned command vehicle controlling a fleet of unmanned drones, or even retrofitted unmanned F-16 “wingmen” to fly alongside it. While the F-35 may not filfill its supporters’ highest expectations, it does seem apparent that air warfare by 2035 will be marked among NATO militaries by a mix of manned and unmanned aircraft, which can operate in areas too dangerous for solely manned fighter jets and too delicate for solely unmanned drones. Global Trends to 2035 49 Europe will face severe internal tensions in air procurement. The Typhoon and Rafale fighter aircrafts will still be operational by 2035 and there will be trade-offs between fostering intra-European cooperation versus purchasing aircraft developed outside the EU. Europe will also face challenges to expanding its ***strategic*** transport capabilities -- if it is to become a greater expeditionary power -- and to engage in the drone market, currently led by US and Israeli designs. 2. Land In the last fifteen years, US and European military forces have seen considerable technological advances, such as drone-based reconnaissance working in conjunction with ground troops. In the same time frame, however, low-tech adversaries in Iraq and Afghanistan proved highly effective at using improvised explosive devices and suicide attackers. Land-based combat appears likely to evolve along the same lines. In many combat areas, small units of Special Forces will use superior technical and tactical capabilities to achieve national security aims. However, armies seeking to hold territory will develop systems to guard against asymmetric attacks, including using unmanned ground vehicles, such as the existing bomb disposal robots to monitor areas deemed too threatening for soldiers. 3. Sea Aircraft carriers will remain central to the US Navy, which will retain its position as the most powerful ocean-going force by a large measure. By 2035, there will be at least three, and likely five, Ford-class supercarriers in the US Navy. These ships, and the Marine “Lightning carriers” that will deploy F-35s, will have a significant mobility advantage over land bases while maintaining extensive power projection capabilties.29 Yet carriers could have a moment of extreme vulnerability. Defensive missile technology or stealth submarines carrying anti-ship guided missiles could make combat zones too dangerous for the expensive carriers, leading to a push to increase naval defensive measures. Dominance by a US-led alliance in sea power is more likely to lead to other nations developing area denial capabilities, rather than competing in power projection capabilities. China is the exception. Although it is unlikely to compete in a conspicuous way with the United States by 2035, China’s goal is to develop a blue-water navy within the next 25 years -- not least to assert its maritime claims in the East and South China Seas and protect its so-called ‘first island’ chain. Also, the view that carriers are linked to being a great global power will be hard to dislodge. The fact that China has begun investing in overseas naval bases suggests that the country is already moving in the direction of competing with the US Navy. One exception to this trend may be submarines. Germany already has developed a submarine-launched unmanned aerial vehicle and advances in drone technology could make this a more effective weapons delivery platform. Additionally, underwater unmanned vehicles (UUVs) have been receiving increasing attention from the United States as a means of tracking enemy submarines. 29 ”Document: 2017 U.S Marine Corps Aviation Plan.” USNI News, 2017,   [*https://news.usni.org/2017/03/28/document-2017-u-s-marine-corps-aviation-plan*](https://news.usni.org/2017/03/28/document-2017-u-s-marine-corps-aviation-plan). EPRS - Global Trends Unit 50 III - Policing rogue and failing states Since the end of the Cold War, a dominant trend in international security has been military ***interventions*** in states that threaten the international order -- either through their actions or their inability to control their territory. In Iraq, the former Yugoslavia, Somalia, Afghanistan, Libya, Syria, and Yemen, international coalitions have been formed to replace regimes and try to build new ones more amenable to the global order. While it is uncertain whether such ***interventions*** will be triggered for reasons of responsibility to protect, democracy promotion, or other ideological drivers, the security risk that such countries can pose to surrounding regions will be sufficient to ensure that such ***interventions*** will, at least occasionally, continue through 2035. However, the initial post-Cold War ***interventions*** benefited from the willingness of the United States to bear a considerable portion of the costs, such as in the Gulf War of 1991, or for NATO to act as the umbrella organisation, as in Bosnia or Afghanistan. In recent years, this trend has waned; the Libya ***intervention*** in 2011 received crucial support from the Arab League before it was approved and the Syria conflict was driven mainly by regional powers prior to the Russian ***intervention***. A multiplicity of actors with different agendas will complicate ***strategic*** and tactical decisions. Actions against rogue or failing states in 2035 are more likely to resemble the mixed alliances of the Syrian conflict than the cohesive coalition of the Gulf War. Further, unlike the Gulf War, for which Soviet and Chinese abstentions at UN Security Council votes were critical to winning international legitimacy for the eventual Operation Desert Storm, there will likely be competition from China, Russia, and leading regional powers for policing operations, as this will give them greater political sway in the conflict zone. IV - Cyber Advanced persistent threats (APT), a term cyber specialists use to describe government-sponsored offensive actions in cyberspace, have been growing in recent years. Success in several arenas, from destroying nuclear centrifuges in Iran, to cutting information systems in Crimea in 2014 to hacks during the 2016 US presidential election, means that they will multiply in the near- and medium-term. Businesses will collaborate with governments closely in public-private defence partnerships, but they will be unlikely to find ways to stop APTs. As government-sponsored cyber units experiment with operational concepts and doctrine, new forms of threats will emerge and mission objectives are likely to shift from espionage to more integrated cyber operations including sabotage and subversion. By 2035, advanced intrusion capabilities will be available to many countries willing to use these techniques. The threat of altering medical records, accessing government personnel files, and targeting low-level bureaucrats for blackmail may become common and a routine part of conflict negotiation. Global Trends to 2035 51 1. Government collaboration over norm-setting As the spectrum of operations is explored, governments’ incentives to agree on acceptable norms of behaviour will rise. The United States and China will be leading actors in gradually developing these norms over the next decade. Although cyber espionage had been and is a major source of tension between the United States and China, there is evidence that China has begun to recalculate its use of cyber attacks.30 An initial downward trend was visible before China concluded an agreement with the United States in 2015 to cease commercial cyber espionage and therefore, implicitly, to limit cyber attacks to governmental objectives such as national security or diplomatic advantage. By 2035, the scope and scale of societal damage from a major civilian-focused cyber attack -- combined with the widespread access to cyber weapons -- will see states attempting to institutionalise control over such tools. Cyber may follow the same path as nuclear weapons, where, after an initial period of intense competition, a series of summits and international bodies attempted to regularise and control nuclear weapons, while deterrence theory pushed states away from their use. 2. Balkanised internet However, cyber weapons are far harder to monitor than nuclear weapons. Debates over cyber defence may blend together with international disagreements on the idea of internet sovereignty. Chinese President Xi Jinping expressed a desire to establish sovereignty as the foundational norm of internet governance at the December 2015 Wuzhen World Internet Conference (WIC). By 2035, China will have the largest or second-largest online population. With the purchasing power of its market, it, along with like-minded countries, such as Russia, Pakistan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, will push to set rules for global internet governance. There is a significant risk that technical standards diverge over the next decade, making it difficult for Chinese and foreign systems to talk to each other. The impact of this could be serious on, for instance, the banking transaction platforms supporting Chinese import and export transactions. Europe would then face squeezed economic opportunities, with China and similar countries locking out foreign companies and US firms seeking to capture what markets are left elsewhere. V - Arctic The 2014 synthesised International Panel on Climate Change report stated with very high confidence that the Arctic will continue to warm more rapidly than the global averages.31 Some models predict that the Arctic Ocean will be nearly ice-free before 2050, which means 30 ”Redline Drawn: China Recalculates its use of cyber espionage.” Fireeye iSight Intelligence, June 2016,   [*https://www.fireeye.com/content/dam/fireeye-www/current-threats/pdfs/rpt-china-espionage.pdf*](https://www.fireeye.com/content/dam/fireeye-www/current-threats/pdfs/rpt-china-espionage.pdf) 31 Interngovenmental Panel on Climate Change. ”Climate Change 2014: Synthesis Report.” IPCC Fifth Assessment Report, t   [*http://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5\_SYR\_FINAL\_All\_Topics.pdf*](http://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_All_Topics.pdf) EPRS - Global Trends Unit 52 that both the Northwest Passage and the Northern Sea Route will be open to shipping well before then. Figure 19. Arctic sea routes Source: Oxford Analytica 1. Territorial claims President Vladimir Putin describes the Arctic as an area where the military, political, economic, technological, environmental and resources aspects of national security converge. Moscow achieved an important win in 2013 with a positive decision from the UN Commission on the Limits of the Continental Shelf (CLCS) regarding the Okhotsk Sea enclave. This increased Russia's territory by 50,000 square kilometres. In February 2016, Russia submitted evidence to the CLCS that the southern part of the Gakkel Ridge and Podvodnikov Basin, as well as the Lomonosov Ridge, the Mendeleyev Ridge and Chukotka Plateau, represent a continuation of the Russian continental shelf. The total area claimed is 1.2 million square kilometres, but this will be contested. Denmark has submitted its own claim to the CLCS and in September 2016 refused to negotiate with Russia bilaterally. Canada is expected to file its own claim with the CLCS in 2018; this is expected to lay claim to some of the same territory as Russia and Denmark. Global Trends to 2035 53 By 2035, these claims will have been adjudicated in some way. The region contains 13% of the world's undiscovered conventional oil and 30% of its undiscovered conventional natural gas, according to estimates by the US Geological Survey, as well as mineral deposits.32 Figure 20. Arctic territorial claims beyond existing boundaries (dashed line) Source: Oxford Analytica 2. Institutional jurisdiction Arctic concerns are currently managed by rules under the UN Convention of the Law of the Sea (UNCLOS) and the Arctic Council. China calls itself an “Arctic stakeholder” and a “near-Arctic state” and will push to have governing influence in the Arctic. Outside interest in resources will act as a driver of cooperation among members of the Arctic Council. Arctic states will promote strict adherence to the UNCLOS regime and work within the Arctic Council to ensure that the decision-making powers of outsider states are held in check and that they can join only those governance structures and regimes that have been agreed by Arctic states. There are three futures for the Arctic.  The next South China Sea: competing territorial claims constantly threaten to devolve into armed conflict. 32 ”Circum-Artic Resource Appraisal: Estimates of Undiscovered Oil and Gas North of the Artic Circle.” USGS, 2008,   [*https://pubs.usgs.gov/fs/2008/3049/fs2008-3049.pdf*](https://pubs.usgs.gov/fs/2008/3049/fs2008-3049.pdf) EPRS - Global Trends Unit 54  New OPEC: an oligopoly of resource-rich nations work to ensure that they alone determine policy for the region.  Marginal value: If renewable energy and electric automobiles drive down the price of oil and natural gas, or if unconventional oil and gas extraction becomes significantly cheaper, Arctic resources may be too expensive to drill, providing significantly less incentive to turn the region into an arena for state conflict by 2035. Trend 7: Politics of the Information Age Politics often evolves as a reaction to changing societal and economic trends. The economic changes in the developed world from the 19th century to the middle of the 20th century, broadly speaking, led politics to be focused on the question of the role of the state in economic life, with left-wing or centre-left parties advocating more social democratic policies and right-wing or centre-right parties advocating more free market policies. There is evidence -- from measures on inequality to the percentage of the economy comprised of manufacturing versus services -- that in much of the developed world, the industrial era has transitioned to an information economy. While there is no ‘official’ start to this era, the mid-1970s are a potentially useful dividing point. Around this time, advances in information technology and the entry of China into global markets created a situation in which the developed world’s middle class -- its most powerful political bloc -- saw stagnating income prospects as an individual’s productivity became decoupled from earnings. Political reactions to these economic changes are already underway and can be observed across the United States and Europe. While they are highly unlikely to completely overturn the existing political landscape by 2035, they will add new layers and issues that will shift partisan coalitions and incentive structures. Furthermore, although the next two decades will not be shaped directly by the global recession of 2008, they will be marked by the many trends the recession accelerated. I - Inequality Economic inequality has grown in the United States and Europe for most of the last thirty years in real terms and in political salience. The gap between the rich and poor was described as a “very big problem” by a majority of respondents in France, Italy, Spain, and Greece in a 2014 Pew survey.33 Economically, the trend shows no sign of abating across the developed world, although, as Figure 21 shows, there is considerable variation between countries, with the United States seeing the most rapid change since the mid-1970s and France and the Netherlands seeing gradual changes. 33 ”Emerging and Developing Economies Much More Optimistic than Rich Countries about the Future.” Pew Research Center’s Global Attitudes Project, 2015,   [*http://www.pewglobal.org/2014/10/09/emerging-and-developing-economies-much-more-optimistic-than-rich-countries-about-the-future/*](http://www.pewglobal.org/2014/10/09/emerging-and-developing-economies-much-more-optimistic-than-rich-countries-about-the-future/). Global Trends to 2035 55 Figure 21. Percentage of national income earned by the top 1%, five-year rolling average Source: World Wealth and Income Database Researchers at the IMF have found evidence that the drivers of inequality include:34 \_ Technological change, which increases the value of high-skilled work and replaces low-skilled work; \_ Globalisation, which in the developed world, at least, contributes to the value placed on high-skilled work that can be sold to global markets, while offering cheaper labour input for low- and medium-skilled work; \_ A decline in labour market protections, such as minimum wages and union memberships, which gives greater economic power to those at the higher end of the income spectrum; \_ Tax policies, which have shifted since the immediate post-war era to lower marginal tax rates on the highest earners. None of these trends appear close to disappearing and technological change will only accelerate them to 2035. Therefore, inequality in Europe is likely to rise. 34 Dable-Norris, Era. et al. ”Causes and Consequences of income inequality: A Global Perspective.” International Monetary Fund, June 2015,   [*https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf*](https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf) 0 0,05 0,1 0,15 0,2 0,25 France United States United Kingdom Netherlands Sweden Australia EPRS - Global Trends Unit 56 While it is impossible to predict which issue will gain the most prominence in every country, there is evidence that people universally respond more towards situations of unfairness rather than strict inequality.35 Therefore, it is most likely that the topic perceived as involving the most unfair practices, such as tax evasion, will attract the most popular attention. II - Industry disruption Despite popular press coverage of claims that AI and automation will lead to a sudden elimination of various industries, research performed on occupational data from 24 OECD countries since the 1950s demonstrates that changes in broad job categories often occur along smooth trends.36 The share of the workforce in middle- or high-skilled jobs increased throughout the 20th century and displacement has happened over decades. As seen in Figure 22, the share of jobs in the UK economy that labelled “Production” (including manufacturing and repetitive clerical work), has consistently dropped since 1960, with its biggest losses coming in the 1980s. As Figure 23 demonstrates, the decline in production jobs has occurred across the developed world, where the only decade in this sample where it increased by a large degree was in 1960s Japan, when its was in the middle of its post-war economic boom. Therefore, the evolution of the workforce until 2035 must be considered in view of two factors: gradual changes that will accumulate to become major changes in industry employment; and industries vulnerable to drastic disruption. 35 Starmans, Christina., Sheskin, Mark., and Bloom, Paul. ”Why people prefer unequal societies.” Nature News, Nature Publishing Group, 7 Apr. 2017,   [*https://www.nature.com/articles/s41562-017-0082*](https://www.nature.com/articles/s41562-017-0082). 36 Handel, Michael J. “Trends in Job Skill Demands in OECD Countries”, OECD Social, Employment and Migration Working Papers (2012),   [*http://dx.doi.org/10.1787/5k8zk8pcq6td-en*](http://dx.doi.org/10.1787/5k8zk8pcq6td-en). Global Trends to 2035 57 Figure 22. Per decade change in share of occupations in the United Kingdom, % Source: Michael Handel, OECD Figure 23. Per decade change in share of production jobs in selected countries, % Source: Michael Handel, OECD 1. Gradual change The largest change in occupation across Europe over the past century has been the steep decline in ***agricultural*** jobs that resulted from the advent of mechanised farming. This -12 -10 -8 -6 -4 -2 0 2 4 6 8 1960-1970 1970-1980 1980-1990 1990-2000 2000-2010 Professional Clerical Service Production -12 -10 -8 -6 -4 -2 0 2 4 6 8 1960-1970 1970-1980 1980-1990 1990-2000 2000-2010 UK France Germany United States Canada Australia Japan EPRS - Global Trends Unit 58 occurred at different times in various countries; in Ireland the fall was from 36.8% of jobs in ***agriculture*** in 1960 to 1.9% in 2009, while the more industrial United Kingdom started with only 4.4% of jobs in ***agriculture*** in 1960, but only 2.0% in 2009. We can expect that the same process of convergence will happen in those European countries with still-sizeable ***agricultural*** sectors, such as Greece, with 12.2% of its jobs in ***agriculture*** in 2009.37 The other major trend in employment has been the consistent decline in manufacturing and low-skilled work, what can be defined as “production” jobs. In France, production jobs fell from 42.0% of all workers in 1960 to 21.6% in 2009. Declines were consistent in every decade since 1960, a pattern repeated in Austria, Belgium, Denmark, Finland, Germany, Italy, the Netherlands, Norway, Sweden, and the United Kingdom, among European OECD members. Therefore, even without a major disruptive force, and a continuation of existing trends, we can expect to see the share of the workforce in manufacturing decline, perhaps by around 25% by 2035, while high-skilled workers are in greater demand. Employment growth over the next decade will primarily be driven by positions requiring greater preparation (in-employment training, work experience and formal education) and social skills (interpersonal, communication and management), most notably in the healthcare sector. Jobs requiring above-average preparation are expected to grow 2.8 percentage points faster than their below-average counterparts by 2024, and positions requiring greater social skills will grow by 8.8% over the period, compared to 4.4% with lower requirements. It is likely that such a trend will continue through 2035.38 2. Rapid disruption It is nearly impossible to predict which specific businesses or subsectors will face precipitous declines. For example, online book sales have surpassed sales from traditional book stores. However, groceries, for which there was speculation of huge online sales during the Dot Com bubble of the late 1990s, saw relatively little disruption to their industries during that time. The employment effects of this are considerable, eg, Amazon employs 70% fewer workers per unit of revenue than brick-and-mortar retailers. Some industries are particularly vulnerable to “tipping point” economics, whereby crossing a threshold leads to a quick downward spiral, as shown in Figure 24. 37 Handel, Michael J. “Trends in Job Skill Demands in OECD Countries”, OECD Social, Employment and Migration Working Papers (2012),   [*http://dx.doi.org/10.1787/5k8zk8pcq6td-en*](http://dx.doi.org/10.1787/5k8zk8pcq6td-en). 38 DeSilver, Drew. ”Jobs requiring preparation, social skills or both expected to grow most.” Pew Research Center, 13 Oct. 2016,   [*http://www.pewresearch.org/fact-tank/2016/10/13/jobs-requiring-preparation-social-skills-or-both-expected-to-grow-most/*](http://www.pewresearch.org/fact-tank/2016/10/13/jobs-requiring-preparation-social-skills-or-both-expected-to-grow-most/). Global Trends to 2035 59 Figure 24. Potential industry disruption and tipping points Industry Tipping point Taxi/truck drivers Self-driving cars become safe for use on roads and 3-D printing reduces the need for long supply chains Fast-food and retail workers Self-service checkouts and RFID checkouts become ubiquitous Low-cost hotels Services like AirBnB achieve regulatory acceptance Oil workers Electric cars make up a majority of the automotive fleet in the United States and Europe Translators Machine learning allows for natural language processing sufficient for most business needs Source: Oxford Analytica 3. Political effect for Europe While media attention will focus on high-profile companies and subsectors that have shuttered due to digital disruption, most of the electoral weight will be behind the gradual changes that have a far larger total impact on the distribution of the workforce. This will be especially true if the jobs lost are low-skilled, and equivalent jobs are not being created elsewhere in the economy. III - Populism Several academics, such as New York University social psychologist Jonathan Haidt, have argued that the next global partisan divide will not be left/right, but between “nationalists and globalists.”39 This divide may already be seen in the rise of populist/nationalist political parties in the 2010s. Populists can come from a variety of ideological backgrounds and are present in some form in many countries. They are marked not by a set of policies but, according to most academic definitions, an attitude and a worldview of a cohesive “people” who have been betrayed or attacked by an “other,” usually some form of elite establishment, who must be combatted by electing the populist. As Figure 25 shows, populist movements in the developed world tend to be right-wing in origin, compared to left-wing or nationalist/sectarian in the developing world, but those are only approximate groupings. 39 Haidt, Jonathan, “When and Why Nationalism Beats Globalism,” The American Interest, 12:1, 10 Jul. 2016 EPRS - Global Trends Unit 60 Figure 25. Populist movements/leaders worldwide and their closest ideological source Left-wing Right-wing Anti-establishment Nationalist/sectarian National Democratic Convention (Ghana) Fujimorismo (Peru) Youth protest movements (Ethiopia) Orange Democratic Movement (Kenya) Patriotic Front (Zambia) Pauline Hanson’s One Nation (Australia) M5S (Italy) Economic Freedom Fighters (South Africa) President John Magufuli (Tanzania) New Zealand First Party (New Zealand) Bersih (Malaysia) Hindu Nationalists (India) Lulismo (Brazil) President Donald Trump (United States) VMRO-DPMNE (Macedonia) Chavismo (Venezuela) Peronism (Argentina) Vetevendosje (Kosovo) Law and Justice (Poland) FDC (Uganda) PVV (Netherlands) AKP (Turkey) UKIP (UK) Fidesz (Hungary) FPO (Austria) President Rodrigo Duterte (Philippines) Front National (France) PAP (Singapore) Alternative fur Deutschland (Germany) Swedish Democrats (Sweden) Danish People’s Party (Denmark) Source: Survey of academic experts conducted by Oxford Analytica 1. Populist prospects While populist politicians have been active throughout the history of democratic societies, there are indications that they will have greater sway over the next two decades. 1.1 Causes In the information age, unseen forces like automation or global market changes can quickly translate into job losses. Because the source of social displacement is difficult to identify, human psychology is susceptible to a charismatic politician offering a group to blame. Second, media disintermediation allows politicians to connect more directly to voters, bypassing the institutions that have often worked to block aspiring populists. Fundraising can also be crowdsourced, allowing populist leaders the funding to compete with traditional politicians with party backing. Microtargeted advertising can hinder the ability of traditional politicians to build large coalitions. Global Trends to 2035 61 Finally, populism thrives on attacking an “elite” that does not seem to follow the rules of society. If global tax evasion and tax avoidance proliferates over the coming decades, whittling away at a country’s revenues and causing cuts to social services, populist politicians would have evidence to support their rhetoric.40 Failure to tackle these issues would permit populist leaders to paint governing parties as siding with those who do not share the same burdens as the rest of the people, a typical populist attack. 1.2 Lifecycle Populists have usually failed to sustain their momentum when in office, as often-vague campaign promises meet the reality of governing trade-offs. Therefore, over the next two decades, there are three possibilities for how populists might fare if they should win: 1. Failure and rejection from office, as opponents are joined by now-disillusioned supporters. This appears to be the eventual end of Chavismo in Venezuela. 2. Turn to traditional party policies, as has happened in the United States with Trump’s adoption of Speaker of the House Paul Ryan’s agenda. 3. Creation of a new political alignment, against which future political battles are fought, as happened with Peron in Argentina. In Europe, the success of populists in creating new domestic alignments would create greater stress on the integration process. Unlike ideological parties, which are likely to favour similar policies to those of resembling parties in other countries, Members of the European Parliament (MEPs) and Commissioners representing a populist party may not have allies with whom to work on policies in Brussels. Therefore, they will find it difficult to advocate policies at the European level and would likely try to repatriate competencies to the national level, where they have more control over governance. IV - New voting blocs One of the hallmarks of the political reaction to the Industrial Revolution was the political power of unions and the labour movement and a counter-reaction from conservative movements. An information economy is likely to lead to the creation of new voting blocs, either through increasing job sharing in the economy or voters who have had similar experiences. These blocs may become crucial elements of winning electoral coalitions. Coalitional realignment is a regular feature of politics, and can see parties slowly change their geographic and popular base. The shift to an information economy could trigger a series of realignments across Europe. Some likely voting blocs include: \_ Newly upper-middle class professionals. Tony Blair’s New Labour strategy was centred on targeting this group, which was outside Labour’s traditional working-class support and many of whom were the result of expanded access to education since the 1950s. They might 40 Yikona, Stuart, “How corruption and tax evasion distort development,” Governance for Development, World Bank, 12 Jun. 2011. EPRS - Global Trends Unit 62 be considered one of the first ‘new’ voting blocs of the information age emerging in the 1980s and 1990s, unconnected to previous political identities. \_ Former industry workers. As high-employment industries succumb to the forces of automation, there will be large numbers of voters who are bound together by similar interests, attitudes, and life experiences. Truckers and taxi drivers may be the largest single bloc of this type if self-driving cars become ubiquitous over the next decade. \_ Gig economy workers. Part-time and flexible workers are already common in the on-demand ‘gig economy’, which includes companies such as Uber and Amazon TaskRabbit. These workers exist in a contested legal area between being self-employed contractors and employees of multi-billion dollar corporations. As their status becomes regularised, they may comprise a highly interested voting bloc, given how much of their work environment may depend on government regulations. \_ Cities vs. ***rural*** voters. Eurostat projects that the ***rural*** population in Europe will fall by 8 million people by 2050, while the urban population will rise by 24 million. As population and economic growth is increasingly concentrated in cities, a key divide in national governments will be between those officials representing ***rural*** areas and those representing urban areas. One key challenge for elected officials will be to ensure that the interests of voters in areas of declining population are not overlooked, without sacrificing necessary investments in areas of growth. \_ Elderly. While this voting bloc is not a product of the information age, it will be growing rapidly through 2035 due to demographic shifts. This group is likely to push for consideration of higher taxes on corporations and high-profit/low-employment industries to fund maintenance of living standards for retirees. However, catering to elderly voters could polarise the rest of the population away from those policies, especially as maintaining pension schemes would require tax increases on the working-age population. Trend 8: Ecological threats While climate change is a gradual process that will be felt over the course of decades, it also increases the likelihood of relatively sudden natural disasters. By 2035, the world will most likely be confronted with more of these natural disasters, and the political system will be required to adjust to them. I - Natural disasters Natural disasters can be broken down into rapid onset (eg, storms and floods) and slow onset events (eg, drought). The disaster risk management community, of which the EU is one of the primary supporters and funders, tends to use the following conceptual framework: Risk = Hazard x Exposure x Vulnerability Exposure is the people or things that lie in harm’s way. Hazard is the size and destructive power of the weather event. Vulnerability is the susceptibility of a person or asset to harm. Global Trends to 2035 63 1. Hazard The link between climate change and extreme weather is clear. Energy from higher temperature levels can be translated into kinetic energy that disrupts usual weather patterns. The subsequent strength of hydro-meteorological events (ie, weather-related, rather than earthquakes and volcanoes) increases the hazards facing communities. Assessing the extent of a causal connection between climate change and specific events has until recently been difficult. In the past, scientists have supported general statements about climate change increasing the chances of extreme weather events as a long-term trend. Now, a growing body of climate scientists argue it is possible to model accurately how much more or less likely a single event has become as a result of climate change. This will help us understand the climactic origins of extreme weather events, but also indicates that extreme weather will become more freqnt by 2035. 2. Exposure Economic growth, population trends, and often unplanned urbanisation contribute to a trend of growing disaster losses. People and economic assets are increasingly concentrated in cities in hazard-prone locations such as low-lying coastal areas. The increased exposure to disaster risk pushes potential losses upwards. The OECD estimates that about 40 million people were exposed to a 1-in-100-year coastal flood event in 2005, and that the number will grow to about 150 million by 2070, as well as an almost doubling in the share of assets exposed. Population exposure will be concentrated in developing countries, while assets will see high levels of exposure in the United States, China, the Netherlands, and Japan.41 By 2035, this trend will already be evident. 41 Nicholls, R.J , et al. “Ranking of the world’s cities most exposed to coastal flooding today and in the future,” OECD, 2007. EPRS - Global Trends Unit 64 Figure 26. Top 20 cities exposed to coastal flooding in 2070 by population and assets Cities with highest population exposed Cities with the most assets exposed 1. Kolkata 11. Alexandria 1. Miami 11. Ningbo 2. Mumbai 12. Tianjin 2. Guangzhou 12. New Orleans 3. Dhaka 13. Khulna 3. New York 13. Osaka-Kobe 4. Guangzhou 14. Ningbo 4. Kolkata 14. Amsterdam 5. Ho Chi Minh City 15. Lagos 5. Shanghai 15. Rotterdam 6. Shanghai 16. Abidjan 6. Mumbai 16. Ho Chi Minh City 7. Bangkok 17. New York 7. Tianjin 17. Nagoya 8. Rangoon 18. Chittagong 8. Tokyo 18. Qingdao 9. Miami 19. Tokyo 9. Hong Kong 19. Virginia Beach 10. Hai Phong 20. Jakarta 10. Bangkok 20. Alexandria Source: OECD 3. Vulnerability Rapid urbanisation in developing countries leads to the creation of informal settlements where building standards are not enforced. The confluence of urbanisation and climate change will drive increased losses from hydro-meteorological hazards such as flash floods and coastal flooding, tropical storms and landslides. It is estimated that losses from hydro-meteorological disasters in coastal cities could reach 1 trillion dollars or more per year by 2050.42 4. Seismic events While climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected to seismic risk, this area remains one of the largest climate change is not connected 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II - Risks from natural disasters 1. Risks to Europe Throughout Europe, extreme weather events are likely to increase in frequency and impact by 2035. In extreme scenarios, regions of Europe that currently see flooding and other extreme 42 Hallegatte, Stephane. et al. ”Future flood losses in major coastal cities.” Nature Climate Change, 18 Aug. 2013,   [*http://www.nature.com/nclimate/journal/v3/n9/full/nclimate1979.html*](http://www.nature.com/nclimate/journal/v3/n9/full/nclimate1979.html) Global Trends to 2035 65 sea level events roughly every 100 years would need to prepare for annual or semi-annual events of the same magnitude.43 Southern Europe will be severely hit with prolonged heat waves, causing increased water scarcity, decreased ***agricultural*** productivity, coastal flooding, and loss of biodiversity. Northern Europe will struggle mostly with coastal and river flooding.44 Overall, Europe is predisposed to experience more instances of flooding and greater precipitant events, rather than prolonged drought.45 Soil erosion, caused by flooding and high winds in storms, will create environments less hospitable to farming.46 2. Global risks However, the areas at greatest risk of natural disasters are located elsewhere in the world. In South America, the western flank of the Andes is normally an area of near-zero rainfall. Sudden heavy rainfall can produce widespread landslides and flooding. Houses are often built of materials that cannot withstand adverse weather conditions, some urban areas lack proper drainage, and transport infrastructure (primarily roads and bridges) is easily washed away under torrents of water. This area is exposed to climate change and the cyclical effects of El Niño. The Caribbean is one of the world's most disaster-prone regions, as measured by disasters per capita and per square kilometre. The effects on growth and debt are significant. According to research by the IMF, output typically falls by about 1% in response to an average hurricane or severe storm. In South Asia, the delta areas of Eastern India and Bangladesh are highly vulnerable to flooding. By 2050, as many as 25 million Bangladeshis will be affected by climate change, and Asia as a whole has seen a rising number of natural disasters in the past 65 years. As the most populous region of the world, cyclones, typhoons, and floods can have a devastating effect, with ripples throughout the global economy. III - Climate refugees and migrants Climate disasters drive people away from their homes. For example, a decline in rainfall in the Sahel would force larger numbers of people to migrate from ***rural*** areas into cities, further south into West Africa, or north towards Europe. In this situation, migrants would place new 43 ”Increase in extreme sea levels could endanger European coastal communities.” AGU Newsroom, 14 Mar. 2017,   [*http://news.agu.org/press-release/increase-extreme-sea-levels-endanger-european-coastal-communities/?utm\_source=CPRE&utm\_medium=email&utm\_content=17-21+extreme+sea+levels*](http://news.agu.org/press-release/increase-extreme-sea-levels-endanger-european-coastal-communities/?utm_source=CPRE&utm_medium=email&utm_content=17-21+extreme+sea+levels) 44 Behrens, Arno., Georgiev, Anton and Carraro, Melis., ”Future Impacts of Climate Change across Europe: CEPS Working Document No. 324.” Centre for European Policy Studies, Feb. 2010,   [*http://aei.pitt.edu/14586/1/WD\_324\_Behrens,\_Georgiev\_&\_Carraro\_final\_updated\_(1).pdf*](http://aei.pitt.edu/14586/1/WD_324_Behrens,_Georgiev_&_Carraro_final_updated_(1).pdf) 45 Hulme, Philip E. ”Adapting to Climate Change: Is There Scope for Ecological Management in the Face of a Global Threat?” Journal of Applied Ecology, Blackwell Science Ltd., 28 Sept. 2005,   [*http://onlinelibrary.wiley.com/doi/10.1111/j.1365-2664.2005.01082.x/full*](http://onlinelibrary.wiley.com/doi/10.1111/j.1365-2664.2005.01082.x/full). 46 ”Agri-Environmental ***Indicator***-Soil Erosion.” Agri-Environmental ***Indicator***-Soil Erosion – Statistics Explained, 2015,   [*http://ec.europa.eu/eurostat/statistics-explained/index.php/Agri-environmental\_****indicator****\_-\_soil\_erosion#Key\_messages*](http://ec.europa.eu/eurostat/statistics-explained/index.php/Agri-environmental_indicator_-_soil_erosion#Key_messages). EPRS - Global Trends Unit 66 pressure on social services in destination cities, or strain the productive capacity of the land in surviving fertile areas, particularly along the Niger and Senegal rivers and around Lake Chad, if they move to ***rural*** areas. These migrants would also likely prompt political debates about migration and humanitarian burden-sharing in recipient countries. The UNHCR estimates that an average of 21.5 million people are displaced by climate-related disasters every year. The highest total numbers of displaced persons have come after disasters in India and Myanmar; the highest number of displaced as a percentage of a country’s population have been in Pacific Island nations. Because climate change places strains on resources, it can lead to, or trigger social upheavals, and can indirectly lead to wars and subsequent migratory flows. Indeed, the war in Syria has caused 13.5 million people to become displaced, 4.8 million of whom have left Syria. One of the drivers of the Syrian war was a drought, and so this massive displacement can be considered, in part, climate-related. Europe will continue to be one of the main recipients of climate-related migration. It is close to the climate-insecure areas of North Africa, the Sahel, East Africa, and the Middle East, from which there are existing migration patterns, as shown in Figure 27. In an extreme scenario, climate change could cause one of the largest single humanitarian disasters in history. The failure or re-routing of the three Himalayan rivers -- the Ganges, Brahmaputra, and Indus would affect hundreds of millions of people, many of whom would seek to move across borders, with Europe being a likely desitination. A disaster in South Asia would prompt individuals to leave their home countries and, combined with other push factors, would exacerbate current migration flows to Europe. Citizens of Bangladesh, a country significantly exposed to climate change, represented the third most common nationality arriving in Italy during the first quarter of 2017. Figure 27. Areas of greatest climate vulnerability Source: University of Notre Dame Global Adaptation Initiative Global Trends to 2035 67 IV - International response One of the major variables determining the impact of this trend will be the degree of political resolve to mitigate and prepare for climate disasters. Bilateral support to the most affected countries is unlikely to be sufficient, given the wide areas across which these disasters can hit and the many systems that can be impacted by them. Therefore, there are three major sources of action after disasters, and one crucial pre-disaster warning system. 1. Aid and assistance There is currently a reorientation of multilateral development aid to support climate adaptation. Indeed, almost all aid could be categorised as climate aid, and the World Bank made its recent pitch to donors for an International Development Association (IDA) top-up by saying ‘IDA is a resilience fund.’ Adaptation to climate change requires action on many fronts: social safety nets or insurance systems that can help households who lose ***agricultural*** income due to storms or drought; slum upgrading projects; water projects; building flood-resilient road systems; and rehabilitating ecosystems. Therefore, the prospects of foreign and multilateral aid to 2035 will play a large role in shaping climate adaptation and resilience. 2. International bodies The Paris Agreement included a reference to migrants in its preamble and directed the Executive Committee of the Warsaw International Mechanism to create a task force on “displacement related to the adverse impacts of climate change.”47 Through 2035, new cooperation frameworks on climate disasters will flourish, such as the Global Disaster Alert and Coordination System, a partnership between the European Commission and the United Nations. There could be gradual improvements in the coordination and capabilities of relevant bodies, such as the UN Refugee Agency (UNHCR), whose remit includes those displaced by natural disasters. However, much will depend on countries willing to fund these bodies, whose budgets will come under strain from the demands of climate disasters. Without an increase in commitment to funding and accepting the leadership of these bodies, future climate disasters are likely to be handled in the same way as the 2015-2016 migration flows into Europe. 3. Risk pooling Countries are increasingly developing rules-based frameworks, informed by actuarial analysis on financing statistically probable disaster events. For example, Mexico’s Fonden 47 United Nations High Comissioner for Refugees. ”Cop 22 Technical Inputs: Climate & Disaster Displacement.” UNHCR,   [*http://www.unhcr.org/en-us/protection/environment/583455267/cop-22-technical-inputs-climate-disaster-displacement.html*](http://www.unhcr.org/en-us/protection/environment/583455267/cop-22-technical-inputs-climate-disaster-displacement.html) EPRS - Global Trends Unit 68 scheme sets aside annual tax revenue and disburses to Mexican states based on strict rules to help them rebuild after disasters.48 The Caribbean and Pacific regions have both created risk pools, with assistance from international donors such as the EU, the United States and Japan. These allow access to catastrophe risk insurance policies at the sovereign level. Such policies would not otherwise be available on the market but, by cooperating, the countries can now receive rapid payouts when a disaster hits, providing instant liquidity for crisis response and rebuilding. The approach is also being used in Africa, in the form of the African Risk Capacity, supported by the EU. 4. Early warning and hydromet Weather forecasting (hydro-meteorological services) will receive increased attention due to climate change. Weather agencies of poor countries are often underfunded, but weather alerts are crucial to encourage people to act to protect themselves and their property. With greater satellite coverage, there may be a push for a global weather forecasting service funded or operated by wealthy countries. 48 ”FONDEN: Mexico’s National Disaster Fund.” Diaster Risk Financing abd Insurance Program, Jan. 2013,   [*http://siteresources.worldbank.org/EXTDISASTER/Resources/8308420-1357776325692/FONDEN\_final\_FCMNB.pdf*](http://siteresources.worldbank.org/EXTDISASTER/Resources/8308420-1357776325692/FONDEN_final_FCMNB.pdf) Global Trends to 2035 69 SECTION 3: INTERNATIONAL POWER TO 2035 The eight global trends discussed in the previous section will have significant consequences for some of the more fundamental assumptions on the nature of the international system. They will likely add up to a continued evolution away from what might be known as the post-Cold War order, dominated by a unipolar United States, into a multipolar order, in which corporations and international institutions will provide major constraints on state action.49 I - Balance of power One of the most important shifts to 2035 will be driven by the extent to which the basic power levels of countries -- whether measured by military or economic size -- change. There is a high deal of uncertainty about how countries will choose to exercise their power in 2035, but some of the fundamental elements of power, such as GDP, can be modelled with a greater degree of certainty. Figure 28. Projection of total GDP, Europe, China, India, Russia, United States, millions of US dollars50 Source: OECD 1. US hegemony The extent to which President Donald Trump will shift the basic tenets of long-term US foreign policy is currently unclear. However, some tendencies are evident regardless of the length of his administration and his successor’s policy positions. 49 Krauthammer, Charles. “The Unipolar Moment,” Foreign Affairs, 1991. 50 Europe includes all European countries for which the OECD has forecasts: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, the United Kingdom, Estonia, and Slovenia. 0 5000000 10000000 15000000 20000000 25000000 30000000 35000000 2000 2005 2010 2015 2020 2025 2030 2035 Europe United States Russia China India EPRS - Global Trends Unit 70 The United States will be the world’s largest military power in 2035. Even if China were to dramatically increase its military spending, the lag time between increased spending and the deployment of new technology, equipment, and tactics means that it will be nearly impossible for China to catch up with the United States in terms of military effectiveness. The United States will be extremely wary of any ***intervention*** that would require a major occupation force of another country. The US military in 2035 will be run by generals and admirals who began their careers as junior officers during the wars in Afghanistan and Iraq. It is likely that they will carry the experiences of those wars into ***strategic*** discussions of policy options. As such, the United States may follow the path of the post-Vietnam generation, which avoided occupation of Iraq at the end of the Gulf War partly as a result of concerns over repeating the mistakes of the 1960s and 1970s. President George H.W Bush said at the start of military action in Iraq: “I've told the American people before that this will not be another Vietnam, and I repeat this here tonight.”51 It is likely that future US presidents will make similar statements using Iraq as a reference for the next twenty years. The United States will be the most powerful actor in the international system, but with a smaller advantage over other powers than it enjoys today, and one that will be reluctant to use its power in major kinetic operations. The United States would thus be expected to have much less power in the global security environment than it has had since 1990. 2. Balance of power or balance of threat Kenneth Waltz, a professor at Columbia University, developed the theoretical framework of neorealism in 1979.52 This framework places as the central explanatory variable of international relations the balance of power between states. The theory accounted for the nature of the Cold War -- two superpowers created a bipolar system -- and the pre-World War I era -- multiple great powers created a multipolar system. Under this framework, the relative decline of the United States would lead to the emergence of a multipolar system in which there is greater competition between the United States and its closest rivals. A balance of power framework would suggest that this would likely lead to a higher chance of great power war in 2035 than in 2017. A corollary theory was developed by Harvard professor Stephen Walt, which he termed balance of threat.53 In this framework, states respond not to the overall balance of power in the global system, but to the levels of threat they face from every other country. Threat in this formulation is a function of power, geography, and aggressiveness. For example, Vietnam fears the United States equipped with eleven aircraft carriers less than it fears China with two carriers, because China borders Vietnam. Additionally, North Korea, while weaker than its neighbours, is a greater threat because of the unpredictability of its leaders. 51 ”Transcript of the Comments by Bush on the Air Strikes Against the Iraqis.” The New York Times, The New York Times, 16 Jan. 1991,   [*http://www.nytimes.com/1991/01/17/us/war-gulf-president-transcript-comments-bush-air-strikes-against-iraqis.html?pagewanted=all*](http://www.nytimes.com/1991/01/17/us/war-gulf-president-transcript-comments-bush-air-strikes-against-iraqis.html?pagewanted=all). 52 Waltz, Kenneth. Theory of International Politics. Long Grove, IL: Waveland Press, 2010. 53 Walt, Stephen. The Origins of Alliances, Ithaca: Cornell University Press, 1990. Global Trends to 2035 71 Balance of threat suggests that the rise of rivals to the United States, US preference for non-***intervention***, and its location between two oceans, could enhance Washington’s power around the world. In any region that will have a major power by 2035, such as China in Asia-Pacific, the United States will be seen as a less threatening state. Smaller countries in the region would turn to the United States for support and, because that support may be in greater demand worldwide, the United States would gain leverage on its allies. This style of “offshore balancing” already exists, and in some regions has existed since the end of the Second World War. The shift from a unipolar to a multipolar system would heighten and expand it. 3. European pole The balance of power is highly contingent on the nature of Europe within the global system. If the EU, or the European member states collectively, were to change their defence policies to permit more effective expeditionary forces, a European pole in the multipolar system could emerge. This could be the result of two methods: either an increase in military spending towards the NATO suggested level of 2% of GDP (or higher), or a rationalisation of military expenditures away from administration and personnel and towards equipment and research and development. Both methods would likely require pooling of resources and the rationalisation of procurement mechanisms to create a European defence industry that could rival the US defence industry in size. They would also rely on greater political will to launch military operations. A European pole would shape the international system by simultaneously expanding and minimising the influence of the United States. US power would be increased by the active support of European allies in military operations, as in the ***intervention*** in Libya in 2011, encouraging the United States to act in crises. Even if European states only wished to take part in operations in the Eurasian, Middle East, and African theatres, this would aid the United States by allowing Washington to shift more resources towards other regions. A European pole would also temper US influence by guiding it to act in accordance with European wishes so as to ensure European participation. This scenario would be a security extension of the diplomatic balance in the 2015 agreement over Iran’s nuclear programme. Support for sanctions from European states was crucial in building the leverage that the P5+1/E3+3 were able to exert on Iran to reach an agreement. Similarly, European unwillingness to reinstate sanctions despite the results of the US presidential election in 2016 has constrained Washington’s ability to abrogate the agreement. II - Freedom of action Nearly every theory of international relations posits that states will act in their own interest, even to the point of declaring war.54 These theories therefore assume that states can act if they wish to do so. This assumption will be tested in the coming decades, in the multipolar system, 54 Constructivism, which is not based on the logic of rational action, but on the logic of appropriateness (following norms), accepts war as a possibility if it is considered part of normal state behavior. EPRS - Global Trends Unit 72 as countries that had limited capacity to act in the last 70 years due to alliance pressures or lack of military power will find themselves tempted to resort to force. This will lead to reconsideration of some foundational elements of the international system. 1. Nuclear weapons Since the invention of nuclear weapons, there have been no full-scale wars between great powers. Even at the height of the Cold War, when the United States and the Soviet Union believed themselves to be in an irresolvable struggle, the presence of nuclear weapons prevented the two sides from sparking direct conflict. During the Cuban Missile Crisis, President John F. Kennedy sought ways to avoid a nuclear exchange, which he called “obviously the final failure” and President Harry Truman repeatedly denied authorisation of atomic bombs in the Korean War, despite extreme pressure from one of the most famous military commanders of the time.55 If the restraints imposed by nuclear weapons during the Cold War still apply, it would be expected that there is little chance of war between or on any of the declared nuclear powers. This would mean that many of the hot spots around the world are much cooler than currently considered. India and Pakistan, for example, will have reached ***strategic*** stability, as have China and any state in Asia covered by the US nuclear umbrella. If nuclear weapons have fundamentally changed the calculations of leaders, then the lack of great power war is not simply a historical quirk of the Cold War and US unipolarity, but a new, permanent state of affairs. Major states would have less freedom of action against each other, because attempts to coerce others by full-scale war will be impossible. However, the deterrent effect of nuclear weapons may be eroding or eroded. Evidence suggests that the use of nuclear weapons is one of the strongest taboos in the international system.56 Even if a nuclear-equipped state were embroiled in a crippling war, the convention against detonating nuclear weapons is so great that they would not be used. If this is true, the lack of a great power war is not indicative of any new state of international relations. Countries such as India and Pakistan might still go to war, confident that neither side would use its nuclear arsenal, and therefore ***strategic*** stability is not present. There is no guarantee of which role nuclear weapons will play in grand strategy. Indeed, most nuclear powers have an incentive to say that they would use nuclear weapons in a defensive situation so as to act as a deterrent, especially if that is untrue. However, some ***indicators*** about the potential for nuclear powers to go to war are:  funding of nuclear systems compared to funding for conventional offensive weapons systems, with less spending on conventional weapons leaving leaders with fewer means to begin conflict; 55 Evans, Michael. ”The Cuban Missile Crisis, 1962: Audio Cips.” The Cuban Missile Crisis, 1962: Audio Clips,   [*http://nsarchive.gwu.edu/nsa/cuba\_mis\_cri/audio.htm*](http://nsarchive.gwu.edu/nsa/cuba_mis_cri/audio.htm) 56 Tannenwald, Nina. ”Nuclear Taboo Unites States and Non Use Nuclear Weapons 1945|International Relations and International Organisations.” Cambridge University Press, 20 Dec. 2007. Global Trends to 2035 73  aggressiveness of states towards nuclear powers, with belligerent acts towards nuclear states implying that the aggressor does not believe nuclear war is a possibility; and  level of control over nuclear launch authorisation, with highly centralised systems less likely to use them in a wartime situation. 2. Sovereignty Although the UN Charter entitles all states to sovereignty and protection from the “threat or use of force” against their “territorial integrity or political independence,” this is often violated whenever a state deems it to be in its interest.57 The global trends offer two divergent ways in which this can evolve by 2035. 2.1 Stronger sovereignty Since states refrain from ***intervention*** in others’ affairs when it is deemed counterproductive, the sovereign status of many states could rise if technological and military shifts reduce the differences between them and their neighbours. The proliferation of precision weaponry and cheap A2/AD systems would contribute to greater ***strategic*** parity. For example, if Pakistan had possessed advanced air defence and warnings systems, the United States would have been less likely to authorise the 2011 raid that killed Osama bin Laden without seeking Pakistan’s consent (although, in the particular case of bin Laden, the United States may still have acted). There are two technological systems that appear likely to advantage weaker states over the stronger. The first is surveillance. Many violations of sovereignty appear likely to come in the form of counterterrorism raids or small-unit action. Protesting states can use video footage of these raids, especially if civilian casualties occur, to win propaganda victories -- thereby lessening the utility of such raids. If states know that every cross-border action is likely to be filmed and posted online within a few days, the calculus of such raids changes. The second is cyberattacks. Due to the relatively low cost of writing a destructive computer virus and the vulnerable nature of most companies and systems to dedicated hacking, cyberattacks can be used by adversaries of vastly different power differentials. More importantly, the uncertain nature of one country’s infiltration of another’s critical infrastructure may give the more powerful nation pause. For example, the United States may decide that a threat to its security requires an operation against Iran, but it knows that Iran may have infiltrated critical US infrastructure and would retaliate. Not knowing the extent of the infiltration, and not wishing to risk a market crash or widespread power outages, the US president may choose to halt the operation. This would give smaller countries a deterrent effect, even if they do not possess the capabilities. In these ways, an increased ability to broadcast violations of sovereignty and an increased ability to hit back would create an international system in which cross-border military actions are considerably rarer. 57 Charter of the United Nations, Chapter I, Article 2 EPRS - Global Trends Unit 74 2.2 Weaker sovereignty Two major factors would drive the international system towards an environment where cross-border action was common. First, if civil conflicts, natural disasters, or poor governance lead to increased refugee flows, as has been the case with Syria, countries may claim that ***interventions*** in other countries fall under national security provisions. An ***intervention*** may also be justified under the principle of Responsibility to Protect, in cases in which there is evidence of crimes against humanity. Based on the Syrian conflict, it will become easier for evidence of such crimes to reach the international community through social media and independent journalists. A moral and a security justification for ***intervention*** is more likely to win support for ***intervention***, either internationally or domestically. Second, if non-state actors become greater threats to security and appear to have connections with elements in their host nation’s government, there may be a greater acceptance of the need for policing actions that do not respect national sovereignty. The raid against Osama bin Laden in Pakistan is again an example of such an action; the United States considered bin Laden worth the costs of any diplomatic fallout with Pakistan, and that Islamabad could not protest too vehemently because of their own intelligence agencies’ apparent failure to notice bin Laden.58 Divisions between countries on ***interventions*** may be replaced by a coalition of countries that can control their territory countenancing incursions into any country that cannot. The joint naval operations against piracy off the coast of Somalia is the template for such an operation. This type of coalition will lead to burden-sharing disputes: European states, for example, may argue for contributions based on a country’s GDP, while China and India would argue that global contributions should reflect a country’s level of development. If these trends continue, sovereignty in the international system would become dependent on a country’s ability to prevent any action in its own territory spilling over into others’. Weaker and less developed states would be affected most by this, and would find a less sympathetic audience at the UN and elsewhere. III - Global governance A multipolar world will create strains on the existing system of global governance, as rising states wish for a greater share of control, while others will seek to maintain their existing position. This can lead to disputes, even on relatively anodyne topics. In 2016, after nearly two years of discussions, the Internet Corporation for the Assignment of Names and Numbers (ICANN) finalised proposals to shift US government oversight of the corporation to a broader online community -- in effect ending the central role of the US government in internet governance. This is a technical aspect of internet regulation, but still attracted opposition in the US Senate and in partisan media. More consequential shifts in control, such as changes in 58 Hashim, Asad. ”Leaked Report Shows Bin Laden’s ’Hidden Life’.” Leaked Report Shows Bin Laden’s ’Hidden Life’ – Al Jazeera English, 8 July 2013,   [*http://www.aljazeera.com/news/asia/2013/07/20137813412615531.html*](http://www.aljazeera.com/news/asia/2013/07/20137813412615531.html) Global Trends to 2035 75 IMF voting shares, delayed by five years by the US Congress, would trigger more protracted disputes by whichever state is to lose influence. 1. Institutional reform It is probable that many institutions will seek to reform themselves to accommodate shifts in power. Path dependency suggests that once an institution has been created and states have shaped their behavior around it, abolishing it is highly unlikely.59 Further, employees within the institutions have a personal and professional incentive to maintain the prestige of the institution, which encourages bureaucratic entrepreneurialism. Reform is likely to emerge by institutions shifting their activities to suit the needs of their membership. This will reflect the shift that NATO underwent in the post-Cold War era, from territorial defence of its members to providing an umbrella for expeditionary warfare. Institutions with limited memberships facing similar problems are likely to become the arenas for collaborative efforts, rather than institutions with global membership which would see challenges in achieving consensus. 2. Non-global institutions In 2013, China launched an initiative to create what would become the Asian Infrastructure Investment Bank, in part due to its frustrations at its low voting shares at the IMF, World Bank, and Asian Development Bank. This could become a pattern, in which countries that believe they are being stymied by slow-moving institutional reforms create their own. Given that any push against the existing institutional bodies would likely not be made by, or include, the United States or other leading European stakeholders, the resulting institutions would probably be regional in focus. As Figure 29 demonstrates, China will be heavily underrepresented at the IMF in 2035 if current voting patterns stand, while most Western members would be overrepresented, which will lead to constant pressure to reform the IMF or create new institutions. 59 Pierson, Paul. Politics in Time: History, Institutions and Social Analysis, Princeton: Princeton University Press, 2011 EPRS - Global Trends Unit 76 Figure 29. Difference between share of country’s GDP in the world in 2035 and its current vote share at the IMF. Positive numbers indicate the country will be overrepresented at IMF based on its economy. 60 Country GDP share (%) Voting share (%) Difference (%) Australia 1.35 1.34 -0.92 Brazil 2.87 2.22 -22.66 Canada 1.62 2.22 36.99 China 24.31 6.09 -74.95 France 2.50 4.04 61.29 Germany 2.85 5.32 86.89 India 11.33 2.64 -76.70 Indonesia 2.69 0.95 -64.69 Italy 1.85 3.02 63.12 Japan 4.06 6.16 51.84 Mexico 2.43 1.80 -26.00 Russia 3.48 2.59 -25.54 South Africa 1.06 0.64 -39.71 South Korea 2.22 1.74 -21.63 Turkey 2.01 0.96 -52.31 United Kingdom 2.94 4.04 37.62 United States 19.52 16.53 -15.32 Source: IMF, OECD The world in 2035 will contain new regional economic organisations, such as the Eurasian Economic Union, or regional political groupings, like ASEAN. Most regional institutions will be created for specific purposes, as the AIIB was for infrastructure investment. These will face less diplomatic pushback, as they can claim to be only supporting, rather than replacing the broader institutional order. 60 Difference is the voting share minus GDP share, divided by voting share. Global Trends to 2035 77 It could be that transnational cooperation in the coming decades will also reflect shared ideology, and that sub-national units will be members in international institutions, conducting, to some extent, their own foreign policy.61 The C40 group of cities collaborating on climate change would be the model for this type of institution. Given the expected variance in economic development within countries, sub-national institutions will be particularly powerful if they include the richest parts of countries, such as California, Toronto, or provinces in Northern Italy. 3. Ungoverned areas One area where global governance may come under particular stress through 2035 is in ungoverned areas. Spaces where armed groups are equally, or more present than the state often tend to go unnoticed by the international community unless they garner media attention with high-profile violence. The ability of non-state groups to exercise authority and provide government functions allows them to gain support, attract recruits and raise revenue. Providing effective state governance to mitigate the appeal of non-state armed groups will require difficult questions of financial and/or military aid to the countries nominally in control of these areas, or of unpalatable political compromises with local forces. The rejection of a peace process with the FARC in Colombia by popular referendum (although subsequently approved by parliament) is one example of this difficulty, and one that may grow worldwide as populations move towards urban centres, and may become less vulnerable to these often ***rural*** insurgencies. While each ungoverned space will have its own causes and attract its own set of particular solutions, the common threats created by them may make ungoverned spaces one of the themes of global governance to 2035 in the same way that terrorism was in the period of 2001-2017. IV - Norms Francis Fukuyama wrote in a 1989 essay, “The End of History?”, that grand ideological disputes may have ended after the Cold War, and Western liberal democracy will become the only system of government that will enjoy widespread normative support.62 That prediction, clearly, has not become true. Over the coming decades, global norms will evolve in two directions: domestic and international. On the domestic front, it appears likely that there will be three types of government: liberal democracies; authoritarian regimes; and illiberal democracies, in which protections of minority interests or checks and balances are limited or eliminated. Illiberal democracies may be only a transition state, before a country returns to democracy or moves further towards autocracy. But the length of the transition may be years, requiring that they be treated as a 61 Jarra, Yasar. ”By 2030, What will Regional Governance Look like?”. World Economic Fourm, 9 Dec. 2016,   [*https://www.weforum.org/agenda/2016/12/by-2030-what-will-regional-governance-look-like/*](https://www.weforum.org/agenda/2016/12/by-2030-what-will-regional-governance-look-like/). 62 Fukuyama, Francis. “The End of History,” The National Interest, 1989. EPRS - Global Trends Unit 78 unique category. Illiberal democracies will be a particular challenge to Europe, as the EU is predicated on a community with broadly similar political values. Populism, which can often lead to illiberal democracies, is correlated with societal factors that may be aggravated by the global trends. For example, Figure 30 shows the results of a model that correlates social and economic variables with support for populist parties in a country. Being dissatisfied with one’s national government -- which may rise if economic disruptions are not managed -- is correlated with an increased share of the vote for populist parties. Boycotting a certain product, which indicates a more politically active and, perhaps, angry population is most strongly correlated with populist parties. It is possible for governments to co-opt populist movements. Negative views of immigrants’ effect on the economy is correlated with a decrease in support for populist parties, most likely because mainstream parties adopt restrictionist policies or rhetoric to appeal to an anti-immigrant electorate. However, moving the centre of the political spectrum to appease voters who might back populist parties is one of the quickest ways to change the norms of a society, which indicates that the pull of populism may not be seen in top-line data. In the international arena, there may not be much difference between illiberal democracies and liberal democracies in security matters. Democratic peace theory has mixed predictions about whether they would be more likely to go to war with each other; while there is evidence that democracies do not fight each other, the historical co-variance of democracy and liberalism means it is difficult to draw conclusions about when they diverge. The two types of governments may diverge when they come to questions of human rights and the need for humanitarian actions. Because populist societies or illiberal governments often base their legitimacy on the supremacy of some conception of the “people” over universal principles, it is easy for them to discount the need to sacrifice their own resources for other countries. Global Trends to 2035 79 Figure 30. Correlation between socio-economic factors and vote share of populist parties in Europe63 Source: European Social Survey, IMF, Oxford Analytica. Therefore, a rise in illiberal democracies or authoritarian regimes may lead to a decline in global humanitarian funds or willingness to contribute to military ***interventions*** to prevent crimes against humanity. The extent of the change may be offset by the rising interest in humanitarian operations for other reasons, such as image promotion by authoritarian regimes, building alliances, or security reasons. But it would nonetheless contribute to an international arena where liberal norms are given less credence. 63 1: Very/extremely dissatisfied (%). 2: Bad/very bad (%). 3: Yes (%). 4. “Allow many” (%). 5: No/almost no trust (%). 6. Logarithmic. EPRS - Global Trends Unit 80 SECTION 4: SCENARIOS TO 2035 It is common, when making long-term forecasts, to simply extend existing trends indefinitely, or to be concerned most by what is important at the time of writing. Even when it is possible to identify a likely disruptive force, one can mistake the way in which it will happen. For example, the United States National Intelligence Council’s Global Trends to 2015 report, published in 2000, wrote that: “Regions, countries, and groups feeling left behind [by globalization] will face deepening economic stagnation, political instability, and cultural alienation.”64 While this prediction matches many of the popular media accounts of the wave of populism in 2016, the authors did not appear to be referring to the United States and Europe, but to the developing world. The scenario of a backlash to globalisation was foreseen, but the assumptions of an NIC analyst in 2000, at the heights of the Dot Com bubble, prevented thoughts of economic malaise in parts of the United States. In consideration of the potential for forecasters to miss plausible alternatives, the oil company Royal Dutch Shell introduced a practice of creating scenarios in 1971. Under the guidance of former magazine editor Pierre Wack, scenarios were built not to be predictive, but to be interesting concepts that would test decision-makers’ preconceived notions of the future.65 In the time since then, scenario planning derived from Wack’s basic frameworks and purposes has spread throughout governments and corporations which need to make long-term investments.66 Scenarios are not intended to replace the consideration of major driving trends or the likely contours of the international system as discussed in Sections 2 and 3. They are instead designed to consider how those trends and system might combine to produce dramatically different outcomes. The process of deriving scenarios forces decision makers to think about what could happen, rather than what they expect to happen -- and whether long-term plans are sufficiently resilient to be successful if an alternative scenario emerges. 64 National Intelligence Council. ”Global Trends 2015: A Dialogue About the Future with Nongovernment Experts.” Central Intelligence Agency, Dec. 2000,   [*https://www.dni.gov/files/documents/Global%20Trends\_2015%20Report.pdf*](https://www.dni.gov/files/documents/Global%20Trends_2015%20Report.pdf) 65 Wack’s work was itself based on the work of Herman Kahn, who studied nuclear weapons theory at the RAND Institute and the Hudson Institute. Wack, Pierre. 'Scenarios: Uncharted Waters Ahead', Harvard Business Review. September-October, 1985; Wack, Pierre. 'Scenarios: Shooting the Rapids', Harvard Business Review. November-December, 1985.   [*https://www.rand.org/pubs/research\_memoranda/RM1829-1.html*](https://www.rand.org/pubs/research_memoranda/RM1829-1.html) 66 Kupers, Angela and Wilkinson, Roland. ”Living in the Futures.” Harvard Buisness Review, 31 July 2014,   [*https://hbr.org/2013/05/living-in-the-futures;*](https://hbr.org/2013/05/living-in-the-futures;) Schoemaker, Paul J. ”Scenario Planning: A Tool for ***Strategic*** Thinking .” MIT Sloan Management Review, 15 Jan. 1995,   [*http://sloanreview.mit.edu/article/scenario-planning-a-tool-for-****strategic****-thinking/;*](http://sloanreview.mit.edu/article/scenario-planning-a-tool-for-strategic-thinking/;) Roxburgh, Charles. ”The use and abuse of scenarios.” McKinsey & Compnay,   [*http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-use-and-abuse-of-scenarios*](http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-use-and-abuse-of-scenarios). Global Trends to 2035 81 I - Constructing scenarios of Europe’s future To build alternative scenarios of Europe’s future, a workshop was convened to apply the following process to Europe by 2035: \_ Step 1: Define the focal question. \_ Step 2: Identify the predetermined factors, trends, and critical uncertainties. \_ Step 3: From the list of critical uncertainties, determine two that are the most impactful and the most uncertain. These will be the two macro drivers. \_ Step 4: These macro drivers are then brought into the same plane to provide a basic matrix framework for the scenarios. \_ Step 5: Consider what kind of future the different combinations of outcomes might produce, especially how the critical uncertainties interact with trends and predetermined factors. \_ Step 6: Create a narrative for each scenario, incorporating wild cards. Figure 31. Elements of scenario planning To construct scenarios for this report, a series of workshop groups were asked to examine this focal question: “What will be the environment in which European decision-makers are operating in 2035?” EPRS - Global Trends Unit 82 Discussion led to the creation of the following lists of the ten most important predetermined factors, trends, and critical uncertainties. Figure 32. Building blocks of the scenario planning workshop Predetermined factors Trends Critical uncertainties Europe will undergo working age population stagnation in some countries, and decline in others European countries’ fiscal space will be constrained, buffeted by ageing populations and low economic growth. Political stability within Europe could fluctuate rapidly, as party systems coalesce or fragment Climate change will grow in its effects on natural weather systems Low-skill jobs are increasingly being lost to automation, with middle-skill jobs also at risk State response to disasters could sow distrust in institutions Economic growth will, assuming no major redistributive policies, produce a high variance in “winners” and “losers” within countries The United States is retrenching its military, and seeking to move away from the early-2000s trend of ***interventions*** Efforts to lessen inequality could flounder Demographics will cause working age population difficulties for China, Russia, and Japan Regional powers, like Japan, India, and Brazil, are seeking a permanent seat at the UN Security Council Voting blocs may disrupt assumptions of left and right as post-Cold War and post-recession generations age Natural resources will come under strain, especially in the Middle East Inequality is rising across the developed world EU membership and European states could be at risk, as with Brexit and Scottish independence The United States will most likely have the world’s most powerful military China is seeking to set norms and international governance rules in Asia The United States may have a “Suez moment,” declaring regions of the world no longer in its interest Nuclear weapons will exist and have destructive power that will concern the international community There will be strains on currency quotas in the IMF The Middle East could see progress for democracy, a move towards authoritarianism, or sudden state collapse Trade will still lead to greater wealth, despite what advances in 3-D printing and renewable energy may happen by 2035 Centre-left and centre-right parties across Europe have lost ground to more extreme or populist parties The future of Russia’s political system is at stake as President Putin will be 83 in 2035 Sub-Saharan Africa will see a boom in its working age population Urban/***rural*** divides are becoming the dominant political and economic dichotomies in many countries China may choose to project power militarily on a global scale The US tech industry begins this era with a lead on global rivals that will continue to pay dividends to 2035, barring a major disruption larger than what might occur in most plausible scenarios Natural disasters will create more economic damage and dislocation worldwide Entrepreneurial leaders may take EU member states in illiberal or populist directions Global Trends to 2035 83 The workshop group chose two macro drivers that would provide scenarios broad enough to include discussion of all global trends, but focused enough to allow for coherent narratives: 1. Adaptation (or non-adaptation) of European economies to the challenges of the information age, leading to (in)stability in Europe. 2. Managed (or disorderly) evolution of the global system towards multipolarity, leading (in)stability outside Europe. The two macro drivers were combined in their extreme versions to create four mutually exclusive scenarios. These scenarios are described with an eye to two features: 1. What would be the steps that would occur on the path to this scenario by 2035? 2. What would be some of the consequences of this scenario in 2035? Both questions were answered by consultation to the predetermined factors, trends, and critical uncertainties listed above, in addition to the findings of the earlier sections of this report. The narratives are written as if describing historical events, although it must be stressed that these scenarios are not designed to be considered forecasts of what would necessarily happen under these circumstances, but only plausible stories with internal logical consistency based on the building blocks highlighted in the workshop. EPRS - Global Trends Unit 84 Scenario 1: Sick men of Europe: unstable Europe in a stable world In this scenario, Europe fails to adjust to the economic dislocations driven by the information economy, and the United States and other countries bring the growing power of China and India into a workable global governance structures. 1. Economic decline From 2018 to 2035, Europe sees relatively low average economic growth. What growth there is has been highly uneven and highly volatile. A breakdown in Brexit talks leads to the first big economic story of the era. The United Kingdom’s insistence that it be permitted access to the single market without accepting the primacy of the European Court of Justice leads to the UK leaving the EU without a transition deal. Recession quickly ensues, worse for the United Kingdom than that which had affected it in 2008. Recession also hits Ireland, the Netherlands and Belgium.67 As the UK stabilises, it sees that it has become permanently poorer, with much of its financial sector -- and the taxes and employment it generates -- moving to Paris, Dublin, and Frankfurt. Although the Brexit recession has limited effects on most of the EU-27, the European economy nonetheless becomes a constant headache for policy-makers. After nearly 15 years of depression or near-zero growth, Greece leaves the Eurozone, following the basic playbook first created by Finance Minister Yanis Varoufakis for a parallel payment system. The fallout in the bond markets from Greece leaving is contained, but the political implications are much more far-reaching, especially as Greece recovers, with the new drachma making its tourist sector one of the most competitive in Europe. Politicians in Italy, Spain, and Portugal argue that they should adopt their own currencies and leave a currency more suited for Germany. While no country in fact breaks with the euro, there is constant speculation that a new recession will be the last straw, and that unravelling will quickly ensue. However, the daily headlines about the advance of anti-euro parties obscure what is perhaps the larger story of the European economy: a severe innovation gap. Efforts to build clusters of sectoral excellence fail as politicians insist on spreading research and development funds among as many Member States as possible, diluting their effect. Some national clusters do emerge naturally, but the medium-sized companies that grow there find as easier path via acquisition by a foreign company, just as the Swedish-founded Skype was acquired by the US-based eBay and then by Microsoft. European companies are increasingly dependent on automation and machine learning technology designed in the United States and China. Although Europe is still one of the richest parts of the world on a per capita basis in 2035, its firms are increasingly uncompetitive with those from elsewhere which can take advantage of large internal markets and a relatively peaceful global environment. 67 Brinded, Lianna., ”ING: Bad Brexit Deal for Britain Could Cick Europe into a Recession.” Business Insider, Business Insider, 4 Apr. 2017,   [*http://www.businessinsider.com/bad-brexit-deal-impact-on-european-and-uk-economy-trade-single-market-2017-4*](http://www.businessinsider.com/bad-brexit-deal-impact-on-european-and-uk-economy-trade-single-market-2017-4). Global Trends to 2035 85 2. US expansion The promise of an “America First” foreign policy agenda, like President George W. Bush’s pledges of non-interventionism in his 2000 campaign, turns out to be mostly rhetorical. The United States remains the pre-eminent military force in the world and mostly completes, though it does not advertise the fact, its pivot to Asia. It is helped in this re-orientation by a diplomatic solution to the South China Sea dispute. Other nations in the region, emboldened by China’s concerns with its own economic problems, a rickety banking system and asset bubbles, begin asserting their claims more forcefully. When a naval vessel lands on one of China’s artificial islands, a series of summits on the future of the area are held. Resolution of the issue encourages China to recommit itself to President Hu Jintao’s policy of China’s peaceful development. China will participate in international security missions and will act as a major military power in East Asia, but takes efforts to demonstrate that it will not act as a revisionist power. In Europe, the United States continues to provide a security guarantee for the continent under the auspices of NATO, but the alliance is under severe strain after years of lower European military spending. However, European nations have developed extensive defences against hacking and informational warfare, which become commonplace in nearly every election. 3. Global institutions Rapprochement between the United States and China has helped to ease the tensions over many of the institutional disputes that helped to create the Asian Infrastructure Investment Bank. China continues to advocate for regional institutions and forums, but these are in addition to, rather than in competition with, established global institutions like the IMF, World Bank, and UN. Unfortunately for Europe, China’s acquiescence comes at Europe’s expense. Reform of the UN Security Council removes one of Europe’s permanent seats and economic institutions see Europe’s voting share diluted. Europe’s soft power can be effective in some circumstances in cajoling developing countries to adopt human rights legislation, and its economic weight can be used to add conditions to trade agreements, but it has largely ceased to be an example to other regions of integration to be emulated. 4. European political upheaval A relatively benign external environment means that there are no major crises that force greater European cooperation or -- more importantly for domestic audiences -- that can act as a unifying issue for major parties. Dislocation from the growing role of automation in the economy has created a large pool of voters unhappy with the status quo, but the repeated failure of mainstream parties to create broad-based economic growth means that they have no natural political home. European countries accept as the new political normal a fragmentation of the political system. Parties that enter into government or a government coalition will frequently see their support crater at the next election, as happened to the UK’s Liberal Democrats in 2015 and France’s EPRS - Global Trends Unit 86 Socialist Party in 2017. Extremist, nationalist, or populist parties will consume a greater percentage of the vote share, as will parties that are vehicles for charismatic politicians or activists. Yet the underlying problems of economic growth based around a few sectors and major cities, leaving behind much of the population, means that these parties will also fail to deliver on their promises if they enter government. The result is not any particular overall governing strategy. Instead, there is an acceptance of a greater diversity of political systems, including illiberal democracy, and greater volatility in the make-up of governments. Europe-wide investments decrease and there is debate about whether European nations are similar enough to be in the same Union. Global Trends to 2035 87 Scenario 2: Cold Wars: stable Europe in a stable world In this scenario, Europe quickly adapts to the challenges of the information age, while the United States, China, and Europe collaborate on ensuring that an evolving power structure does not descend into miscalculation and conflict. 1. European New Deal The turning point for Europe happens in the late-2010s and early-2020s. The effects of what is known as the “Brexit recession” are devastating for the United Kingdom and for many nations around Europe. The banking system of Europe is disrupted, which, combined with existing problems in the Italian financial system and the Greek economy, leads to a near-disaster. However, that eventuality is averted and a series of summits lead to a dramatic shift from existing economic and institutional structures. Led by a German political culture that has come to a consensus that persistent surpluses and high exports are a problem for the European political economy, European leaders propose the creation of a European fiscal union and policies that would provide a continent-wide social safety net. This minimises the extent to which the monetary union over- or undervalued the currency in each country and encourages citizens to move to areas of economic growth. The result is not an immediate panacea, just as the New Deal under President Franklin D. Roosevelt in the United States did not immediately end the Great Depression. Instead, the European New Deal lays the groundwork for future integration efforts, which proceede along functionalist logic. The gradual accumulation of new rights and benefits for citizens transform the political culture of Europe over the next 15 years. Political disputes continue over this agenda, especially in countries that see themselves as subsidising other Member States. The Europeanist agenda is a crucial issue in elections throughout the era and will still be debated. Nonetheless, by 2035, it has become common for citizens to accept that the usual style of politics is federalist. National governments retain primacy in overall power, but cities (where much of the economic growth is located), regions (especially the largest in a country) and the European Parliament (where European policies are debated) attract considerable interest from news media, parties, and lobbying groups. The threat of automation and machine learning, which has already devastated industries in many small towns, and the necessities of adapting to an ageing population, make the economic advantages of a unified bloc as potent as they were when the European Economic Community was first launched. 2. Cyber START Relative global stability permitted the construction of a global agreement on cyberwarfare, deliberately modelled on the ***Strategic*** Arms Reduction Treaty, and based on the groundwork laid by the UN Group of Governmental Experts. The United States, European states, China, Japan and South Korea are leaders in making the treaty a reality. The democratic nations have all experienced a damaging hack; indeed, it has become expected for elections to be preceded by a document dump designed to embarrass one candidate or for voting systems to be targeted. China holds concerns that cyber weapons developed for military purposes would allow its citizens to attack its system of internet controls. EPRS - Global Trends Unit 88 The summit does not produce an immediate global acceptance. Russia, in particular, is adamant that the agreement is simply a Western plot to mobilise a global audience against it. Nonetheless, the summit leads to norms on cyberwar broadly agreed to by its participants. Hacking of military and high-level government systems are considered similar to traditional espionage and are permitted. Accessing records of non-military government personnel, as China did to the United States in 2014, is strongly discouraged, although left vague about where the boundary should be. Attacks on voting systems, interference in electoral campaigns to favour one candidate or party, and any attacks on a civilian infrastructure would be considered hostile acts. Moreover, nations agree, not always explicitly, to a ladder of escalation in response to such acts, which would involve sanctions or targeted response strikes. This escalation pattern does not eliminate cyber warfare by non-treaty nations, but it does structure state behaviour in this area, which leads to retaliatory attacks being somewhat accepted by the international community. 3. Barriers and borders Europe’s economic growth will attract migrants from its neighbourhood, with periodic crises -- such as natural disasters or wars -- spurring surges in the number of migrants seeking a home in Europe. The ageing population of some countries will encourage the acceptance of some refugees and migrants, and growing levels of wealth will lessen some of the popular antipathy to migrants.68 Nonetheless, European leaders will be pressured to ensure that borders are controlled and can prevent waves. European support for Frontex will increase, as may support for Justice and Home Affairs integration to ensure that migrants who make it into Europe are handled appropriately by every country’s authorities. Elsewhere, barriers will emerge in a number of areas, pulling back on the globalising trend of the post-Cold War era. Financial crises will be handled by the introduction of capital controls, following the lead of Iceland, and worries about the use of data by US or Chinese tech firms will lead to greater government regulation of the sector. The internet will not become as balkanised as some fear, but it will see obstacles in the path to maximum tech profits. In various countries, these will be requirements to house data in servers located in that country, mandatory privacy regimes that reduce the profitability of free software, or greater taxation on digital products. 4. Problems growing This scenario may seem like the most positive of all the choices. But while Europe has headed off domestic instability through addressing issues of economic dislocation and China has acceded to global norms, this global stability may also contain the seeds of future problems, or be the product of delaying necessary changes. To ensure that a multipolar world is managed peacefully, the United States and Europe may acquiesce to authoritarian regimes worldwide. This has occurred many times before in world politics (and can even be said to be the norm), but in this scenario, it is heightened, as it may become one of the cornerstones of stability. Deals with authoritarians in the Middle East, 68 Friedman, Benjamin, The Moral Consequences of Economic Growth, New York, Vintage, 2006 Global Trends to 2035 89 Africa, and Central Asia are crucial to ensuring that migrants do not have a free passage to Europe’s borders. Chinese influence in global institutions means that political rights are downgraded as priorities. Nationalist politicians seeking to shield their countries from the economic effects of US and European-led technology, while using that technology for surveillance, also creates a difficult environment for human rights to flourish. Further, stability does not solve global governance issues like nuclear proliferation or climate change. In fact, nuclear proliferation may become a larger worry; a ‘black swan’ event like a collapse of Pakistani control over its nuclear arsenal is possible in this scenario and even the most well-coordinated efforts by all countries may not be enough to prevent terrorists from detonating a bomb in a major city. And climate change may be neglected if governments believe that reducing carbon emissions is at odds with ensuring broad-based employment. Moreover, economic happiness in Europe could be achieved at unseen costs. While political anger can be allayed through a diffusion of benefits, there is always an incentive for politicians to delay the costs of those benefits. Increasing the generosity of pensions would please an ageing population, as would robust welfare payments, but it would leave Europe vulnerable to a rapid economic shift that reduces revenues. This scenario should not be viewed as the ideal path for Europe, only one in which some of the major issues have been addressed, with many more that may grow to take its place in the minds of policy-makers and citizens. Those include: social immobility; antibiotic resistant disease; resource depletion; Russian economic and demographic decline; and the challenges from asymmetric warfare. EPRS - Global Trends Unit 90 Scenario 3: Hollow foundations: unstable Europe in an unstable world In this scenario, European countries fail to adjust to the information economy, leading to jobs and industries lost to automation, while few European firms are able to compete with tech companies from the United States and Asia. Additionally, China and the United States are clashing over the nature of the international system and the proper role for each to play in it. 1. Ad hoc Europe As employment and wealth creation stagnate across Europe, nationalist and anti-system politicians turn their ire towards Brussels, seeking a scapegoat for the problems of globalisation and automation. In this context, there is little appetite for expanding the competencies of the EU, but the problems affecting European countries remain, in many cases, transnational. This situation leads to the development of various groupings of countries working on issues -- a multiplicity of multi-speed Europes. Migration issues are dealt with by a coalition of Mediterranean countries and recipient countries, with others preferring to avoid any involvement. Economic integration is left to those whose economies are relatively similar in makeup and business cycle. Climate policy and support for innovative industries is led mostly by informal groupings of cities, who resemble each other much more than they do the rest of their own countries. While no other members leave the EU, having seen the economic downturn in the United Kingdom following Brexit, there is a constant push among member states to repatriate powers from Brussels. Integration is effectively reversed by states promoting their own policies on issues that had previously been under the aegis of the EU. Foreign policy is one of the main areas of independent action, as European states seek foreign investment from China, India, and others, who are happy to pay European Member States against each other for international support. 2. Obsolete NATO The United States adopts a foreign policy that is more isolationist than at any time since before the Second World War. The United States remains engaged in diplomatic talks over international incidents, and participates in military ***interventions*** from time to time, especially against non-state actions. But its diplomatic efforts are most frequently as part of multilateral panels, in which the lead is taken by the largest power in the region and its military ***interventions*** are focused on special forces conducting precision raids. Yet the United States remains the world’s largest military force, with a fleet of aircraft carriers and squadrons of F-35s that cannot be matched by any single country. US military posture is, therefore, to act as an offshore balancing force in most regions of the world against territorial encroachments. This combination leads to continued disputes between the United States and other nations. While the United States wishes to preserve the existing norms of the international system, its disinterest in engagement abroad leaves openings for other countries to assert their own preferences. Regional institutions, like the Asian Infrastructure Investment Bank, proliferate and norms become major debates. The remaining global institutions see their funding stagnate. Disputes over shipping and mineral rights in the Arctic become particularly tense, as it is one of the few areas where the United States sees vital national interests at stake. Global Trends to 2035 91 In this environment, the United States views NATO as less and less relevant for its agenda. Weak European economies mean that the United States is providing a larger share of total NATO defence spending. Unstable European political systems, focused on allaying domestic anger, mean that European countries are less reliable at international settings. NATO remains in force and the United States guarantees the territorial integrity of all members, but Article V is seen not to apply to information warfare or terrorism, and the capabilities of NATO are rarely used. 3. Cyber retreat One of the consequences of a fragmented international system is that there is no agreement on the proper use of cyber warfare. Hacking and denial of service attacks become standard parts of life in Europe, much as traffic accidents became accepted as the cost of automobiles. Internet-enabled devices are repeatedly the vector through which attacks are delivered and government efforts to mandate security features often fail to match the pace of hacking developments. Infrastructure and financial systems are frequently hit by hackers, many of which are suspected to be supported by states. Elections are commonly disrupted and sometimes must be re-run, as voting systems are found to becompromised. The result is that societies move away from a reliance on technology for many purposes, or must create multiple fail safes for each critical element of infrastructures. While technology remains potent in its ability to replace the human workforce, it is less effective at delivering the societal benefits from its use in common goods. Economic growth and the quality of living is thereby less than what would be expected by extending baseline projections. 4. Tax evasion One of the smaller consequences of this scenario is that tax evasion becomes a major source of lost revenue by 2035. Because Europe has weak economic growth, firms are increasingly investing in emerging markets. This permits an even greater percentage of corporate revenue to be routed through tax havens, and the practice becomes adopted by wealthy individuals to an extent far beyond its present levels. Attempts to coordinate against tax evasion fail at the G20 and OECD as rivals to the United States and Europe begin to see tax evasion in terms of relative gains. If widespread tax evasion and avoidance reduce total government revenues, it also reduces the capacity for military expenditures. Thus, agreement even on small island tax havens become contentious issues for international forums, and serve as another source of distrust between citizens and their governments in Europe. EPRS - Global Trends Unit 92 Scenario 4: The EU as the global power: stable Europe in an unstable world In this scenario, Europe uses new technologies to increase economic growth at all wage levels and introduces policies to encourage stability in its financial system. China is aggressive in its rise, in part to distract from its own economic troubles and mouting evidence of corruption among government officials. Beijing frequently clashes with Washington in international arenas and with its neighbours over territorial disputes. India, Brazil, Nigeria, and Russia all have advocated an end to the Western-led order and greater control over their respective regions. 1. Australia in the Mediterranean One of the immediate consequences of an economically dynamic Europe is a drastic need for labour, especially to perform low-skill service, ***agricultural*** and manufacturing jobs. However, the European political establishment is still scarred from the divisions caused by the migrant crisis of 2015, which threatens to be repeated as natural disasters and political unrest make repeated appearances in its neighbourhood. The EU therefore adopts a continent-wide immigration system modelled on Australia’s. There is no acceptance of migrants who enter by sea or are caught on its land borders, and agreements are made with bordering countries to hold detained migrants in exchange for economic support. A points system and method of allocating migrants to countries with the fastest ageing population is introduced. The system is broadly accepted by centrist parties, but is a constant source of attack from left-wing parties (for neglecting humanitarian commitments) and from right-wing parties (for being too generous). 2. Faster integration A series of external crises threatens to imperil Europe’s economy and security: China declares an embargo on the sale of rare earth minerals; Saudi Arabia experiences a great depression as oil prices are persistently below the break-even price for the country’s social contract; and the transition from President Vladimir Putin to his successor sparks severe bureaucratic infighting in Russia, with some factions using foreign affairs to position themselves as the heirs to his legacy. The repeated threats produce a series of European common responses. While each response is unrelated -- for example, a common fund dedicated to the advancement of renewable energy or a counter-terrorism policy that can adapt to the large numbers of unemployed and possibly radicalised young Saudi men -- they combine to form a greater competence for European institutions. A treaty to codify and regularise these changes -- informally known as a Constitution (though it is not officially labelled as such) -- is passed. 3. Unbrexit The need for euro-denominated clearances to be in the eurozone lead to much of the UK financial system either moving to Dublin or Paris, or setting up offices there. Although the Brexit talks end with a mutually agreeable transition deal and trading arrangement with the customs union, a recession nonetheless ensue for the United Kingdom. Even though the UK government claims that a recession was possible anyway, the government’s popularity plummets and there are greater calls for independence in Scotland. Global Trends to 2035 93 Gradually, the United Kingdom signs up for more and more elements of the EU’s economic arrangements, including paying into the EU budget. Eventually, a party runs on a platform that argues against being subject to EU rules while having no say on how they are created, and pledges to re-enter the EU. A victory, largely on the backs of an electorate that is mostly made up of the previous decade’s pro-Remain generations, ensues. The re-entry talks spark dispute within Europe, as many pro-integrationists fear that UK membership would imperil the policies that have been introduced since it left and new financial centres worry that UK entry will rob them of the industry they have come to rely on. Nonetheless, with considerable US lobbying, the EU agrees to accept the United Kingdom, although without many of the opt-outs it had once held. 4. Eurasian wars Instability in Russia, which is facing severe economic pressures from a declining working age population, a drop in the value of oil and natural gas, and a transition from the presidency of Vladimir Putin, creates the space for conflicts between neighbouring states and irredentist movements. Countries seek to reincorporate Russian-backed enclaves. While some of these movements are accomplished diplomatically, miscalculation does occur, leading to armed conflict near enough to Europe to trigger the EU’s involvement. A military occupation and peacekeeping force is not deployed, for fear of antagonising Russia, but the EU High Representative is the most powerful presence in the summits that surround the disputes. 5. EU further abroad The United States remains the pre-eminent military power, but frequently meets opposition to by regional powers who wish for a free hand in events in their area. US allies increasingly demand military support for their actions, without receiving any, and US adversaries are increasingly willing to defy threats, or to seek support from antagonistic medium powers. The EU becomes the force that is considered credible by US and non-US powers, and becomes used as a diplomatic leader in disputes and as the umbrella organisation to coordinate multinational peacekeeping operations. The result is that foreign policy throughout Europe is directed through the office of the High Representative. However, that becomes one of the sources of tension within Europe, as member states see the stakes of the European consensus raised. While the move promotes greater institutional unity, it also creates greater political disagreements, with fears that the EU’s democratic deficit will be a major threat to the stability of the Union as soon as a controversial mission results in the death of a soldier from a country that vociferously opposed deployment. First missions attempt to avoid this by ensuring combat places are only given to supportive countries, but this creates further disagreements over burden-sharing. EPRS - Global Trends Unit 94 Conclusions and common themes This section was not designed to create a series of predictions or policy prescriptions, but to tell stories of what might unfold from what a workshop group considered two of the most important critical uncertainties facing Europe through 2035. Nonetheless, the exercise did produce some commonal conclusions that are relevant to any consideration of various scenarios: \_ Brexit is almost certain to hurt the UK economy -- significantly if there is no ensuing deal or if UK financial firms relocate into the eurozone. Whether or not Brexit inspires other member states to leave the EU, or whether the UK applies for membership again, is dependent not only on the immediate consequences of Brexit, but also the global environment. If globalisation is reversed or stagnant among major economies, the attractiveness of being in the single market will increase. \_ Cyberwar and hacking attacks are some of the most critical threats to European security. How this issue is addressed is also dependent on external events. A benign international environment and the support of most major powers is crucial for the construction of a set of norms. \_ Integration can be driven forward by the need for common responses to crises, especially in foreign policy. However, as with the construction of the euro, this can sow the seeds for greater political division if unified outputs are generated without democratically sound inputs. Global Trends to 2035 95 SECTION 5: POLICY OPTIONS AND CHALLENGES The trends and scenarios present a number of challenges to the EU in the next two decades. The following is not a proscriptive list of policy recommendations, but an overview of ten areas that the findings of the previous sections show are of particular importance to Europe, and some of the ways in which the challenges arising from them might be mitigated. 1. Manage tensions related to NATO NATO is likely to remain the leader in major areas of security and defence for European countries to 2035. However, European governments will need to manage or resolve a series of dilemmas surrounding the organisation in the coming years. These include:  The ***strategic*** ‘pivot’ by the United States away from Europe and towards Asia is very likely to be a multi-decade trend. It was articulated by former President Barack Obama and is arguably being reinforced by President Donald Trump. This means that US pressure for increased European expenditure on NATO is likely to remain high and even to rise further in future, not just under the Trump administration. It is almost inevitable that the United States will divert more resources to other regions of the world, notably Asia.  As Africa experiences the fastest population growth worldwide over the next two decades, the flow of migrants to Europe is likely to continue rising. Many of these may be economic migrants, as well as those fleeing political or security risks. This is generally not an issue on which NATO leads (rather, leadership is taken by EU institutions and member state governments on issues such as border security). However, more is likely to be expected from NATO in areas such as surveillance, capacity building and collaboration with local (non-NATO) security forces.  China’s growing economic and business interests in and around Europe will pose security questions for Europe. For example, China’s growing investment interests in Europe, Africa and the Middle East are likely to make China a stakeholder as the EU, its member states and NATO seek to manage migrant flows in the Mediterranean region. China’s investments in Greek ports make it a frontline stakeholder in that region of the Mediterranean.  Over the next 20 years, heightened vigilance will be required by NATO with respect to Russia. In the long-term, Russia appears to be on a path to demographic and economic decline. Yet history suggests that declining powers can seek to deflect attention from domestic problems by engaging in military action abroad. At the very least, Russia is likely to continue cyber and informational warfare targeting European institutions and individuals. In response to these cyber threats, Europe needs to move from being solely reactive, by strengthening its own institutions to make these less vulnerable. This could be accomplished by building cyber defences, but also through governance improvements, such as fighting corruption, thereby reducing the range of targets available to Russia.  Turkey’s slide towards authoritarianism poses a problem for NATO. Strategically, Turkey is too important to force out of NATO. However, NATO’s existence is based in part on the notion that it is an alliance of democracies. Keeping an authoritarian member inside the EPRS - Global Trends Unit 96 alliance will weaken NATO politically and in the view of its members’ general publics, making a Turkey-specific policy stance likely necessary. The above tensions will lead longstanding divergence within NATO to widen: Southern European countries would like to see NATO play a stronger role on issues involving Africa and the Middle East, while Eastern European countries wish to continue prioritising the security threat posed by Russia. Any policy must be considered along the lines of whether it would bridge or exacerbate that divide. 2. Enhance EU defence and security institutions The year 2035 may be too soon for a unified command structure that might rival that of a nation-state. Nonetheless, progress on defence and security integration is likely, in part due to new threats and the possibility US inattention to European issues. Specific policy challenges that the EU will need to focus on in the next 20 years include:  Reducing inefficiencies in defence procurement would create huge financial savings, which would help to free up space in defence budgets. It will be especially important for European militaries to coordinate their procurement efforts given the pace of technological change in the defence sector, and the high cost of new technological solutions. This will be especially important if unmanned vehicles become the most common weapons on the battlefield. The current proposals around the European Defence Fund (EDF) could allocate somewhat more funding to such solutions.  Using military force requires a common ***strategic*** outlook. Several steps have been taken in this regard in 2016-17, but member states often remain far apart on the question of deepening collaboration on defence and security. Many Northern and Eastern European countries are particularly sceptical, trusting the United States to be their key partner on security issues more than other European states. This may mean that it makes sense for a select group of member states to move ahead on their own.  A piecemeal approach to defence and security collaboration in the coming years is likely to be helpful, in parallel to more ***strategic*** efforts. The former would involve deeper information sharing around specific missions or deployments, for peacekeeping and stability operations, which could set precedents for later action. 3. Strengthen cybersecurity Cyber attacks will present major challenges for EU countries over the next 20 years, in large part due to their unpredictable nature. For example, most cybersecurity experts failed to foresee the apparent Russian attempts to influence the outcomes of the US election by manipulating online information and hacking key participants’ email accounts. Nonetheless, certain specific challenges appear very likely over the next 20 years:  Attempts by foreign intelligence services or related groups to influence European election outcomes are likely to become a permanent feature of elections in the EU. Such activities could extend beyond support for certain candidates. They are quite likely to involve attacks on state institutions, eg, government departments, in attempts to undermine these and generate chaos. This is an area where NATO is likely to play the leading role within Europe over the next 20 years. Global Trends to 2035 97  The Internet of Things will rapidly become a feature of European homes and workplaces, with an increasing variety of household and professional appliances connected to the Internet and controlled online. This will present a heightened risk of surveillance by governments or cybercriminals, with intruders seeing internet-enabled devices as back doors to valuable intelligence networks. Public services may increasingly become vulnerable to attack. This is likely to become a critical area of regulatory focus for the EU, with an important geopolitical dimension.  Quantum computing will progress over the next 20 years, though it is difficult to estimate exactly how far. At some point quantum computing will pose a challenge to currently-used encryption regimes -- especially public ones.  New efforts may be required in data localisation, as EU citizens’ pressure may mount to stop non-EU intelligence agencies or criminal groups from accessing their online data. This would involve physically relocating key internet functions and services within the EU.  The West needs to accelerate the establishment of principles of use, doctrines, and strategies in cyber warfare, as it has fallen behind Russia in this regard. This is primarily a task for NATO. However, a broad international effort is likely to be needed to update the principles in the United Nations Charter to make these relevant for cyber warfare, and the EU’s diplomatic capabilities would help with this effort.  National and regional governments within the EU should appoint Chief Technology Officers/Chief Information Officers or similar cabinet-level positions responsible for liaising with intelligence services on cybersecurity, as well as overseeing networked government solutions, measuring delivery and implementing best practices. Brexit will pose a challenge to the EU’s remaining members in cybersecurity (and security more generally), as the UK is a leading player in many of these areas. However, the UK’s longstanding resistance to the EU developing as a security actor will also dissipate if Brexit materialises. This could give a boost to collaboration in areas of cybersecurity among Member States. 4. Employ sustainability as a source of soft power Over the next 20 years, the EU will be challenged in areas of soft power in which it currently enjoys leadership. An important one of these is sustainable trade and investment:  The EU and its member states have developed some of the most comprehensive sustainability legislation worldwide in air quality, climate change mitigation, noise pollution, chemicals, green labelling, and water quality. About 80% of environmental law implemented by member states now comes from the EU. Stringent EU regulation on sustainability affects not only all companies operating within the EU, but also EU companies operating abroad or exporting. In the long term, this provides strong support for the reputation of both the EU and EU corporations.  This body of legislation gives the EU a platform from which to drive similar change towards sustainable trade and investment in other parts of the world. There is an EPRS - Global Trends Unit 98 important role for EU policymakers in continuing to persuade policymakers elsewhere to adopt legislation on sustainability and implement it to the standards set by the EU.  The EU faces the risk that some of its key trading partners will permit their companies to gain competitive advantage by failing to enforce best-practice sustainability regulation. Whether the EU can face down such challenges will be a key test of its soft power, and in turn will have a tremendous impact, over a 20-year period and beyond, on a world that increasingly is witnessing the impacts of climate change. As sustainability and environmental awareness becomes a greater concern to countries around the world, the EU could use its leading position to increase its power in this area, countering some of the loss in diplomatic influence that its relative economic decline would otherwise entail. 5. Regain fiscal space in an environment of ageing workforces Over the long term, the EU will need new policies to combat the impact of ageing populations. As European governments seek to enact further reforms to social programmes, they will face the prospect of voting publics who will not accept the prospect of diminished living standards in their retired years. The shift of populations to being nearer, on average, retirement age, will constrain the ability of politicians to enact reforms that will take effect soon, creating an incentive to transfer wealth from the young to the old -- with the result of a potential youth backlash or migration to less redistributionist states. Over the next 20 years, policies in the EU may need to include the following:  Increases in the pension age would reduce expenditures, but are difficult to implement politically. Therefore, such adjustments need to be made far in advance, ie, with a start date several years in the future, and a gradual raising of the retirement age. An alternative measure with similar effect would be a higher age limit for compulsory employer contributions. For example, in Australia this has been raised to age 75. Or, retirement ages could be matched to life expectancy. This exists in Sweden, and in Denmark is scheduled to be introduced as of 2025.  Schemes to permit older workers to claim part of their pensions while continuing to work, as has been implemented in Sweden and Australia, may be more feasible than changing payout plans and would extend the average working life. This could also be accomplished through tax credits that incentivise later retirement, as implemented in Denmark’s 2006 Welfare Reform.  Policies could be introduced to maximise the productivity of older workers. This may include, for example, funding grants for networking organisations or training grants for specific skills most appropriate to older workers. Measures to dissuade workers from using unemployment benefit schemes as a pathway to early retirement would have a similar effect. For example, the maximum duration of unemployment benefit for older workers can be decreased, and stricter job search requirements for older workers can be introduced. In 2007, this was implemented in Germany for workers aged 58 years and older. Global Trends to 2035 99  Labour market policies can also be directed to delaying the ageing of the population, by encouraging families to have more children, through tax credits or childcare support, or by admitting more immigrants and refugees. These policies are often controversial -- as with immigration policies -- or can be economically inefficient -- as with financial incentives. Nonetheless, ageing countries will likely experiment at national and sub-national levels of government with policies to increase the working-age population, and some innovations may prove to be effective, with the challenge being to identify and communicate successful policies. 6. Harness the power of artificial intelligence Automation and artificial intelligence will accentuate several economic and public policy trends over the next 20 years. While there is a tendency to emphasise employment displacement, there is also a positive impact, as new jobs are established in R&D, programming and technology-related services. Policymakers must avoid being directed by the hyperbole (positive or negative) that surround the growth of automation, as the pace of AI adoption is still unclear. Nonetheless, some major policy challenges and potential solutions are already becoming clearer:  EU institutions can play a leading role in helping to build a social consensus around the future of automation. This should involve consultation with all the stakeholders involved, and include sector-specific dialogues. In turn, such dialogue should lead to appropriate regulatory measures. In many cases the regulatory issues may have an ethical angle (eg, when robots can be used for medical surgery), which means that experts outside of government and technology should also be consulted on the nature of regulation required.  Automation is likely to fuel further income inequality. Higher levels of automation have been accompanied by a widening disparity between productivity ***performance*** and industrial wage growth. The impact that automation will have on income levels will continue to come via the displacement of older or inappropriately skilled workers. According to the World Economic Forum, we are facing a near future of mass unemployment for some categories of low- or unskilled workers combined with a lack of skilled workers in other categories.  Industrial policy needs to be continually updated and adapted to the changing technology landscape. EU institutions and member state governments have important roles to play in encouraging the rapid adoption of relevant new technologies, particularly by small- and medium-sized companies, which are at a disadvantage in any field that requires access to large amounts of data. This is often critical to these companies remaining internationally competitive.  Automation will force poorer economies to re-assess their development models. It may become more difficult for low-wage economies to attract industrial investment, while the direct employment benefits of foreign investment in more automated manufacturing, distribution, or information technology sectors will be limited. The EU’s development policies will, instead, need to focus on upgrading workforce skills in developing countries to compete for investment and maximise local spin-off benefits. Developing countries will also need to be ***strategic*** in targeting more labour-intensive services or more specialised manufacturing industries with lower rates of automation but high value added content. EPRS - Global Trends Unit 100  The EU will in the coming years need to further consider implementing income assistance programmes for individuals displaced by technology, such as universal basic incomes. Guaranteed annual incomes, accompanied by incentives for education and entrepreneurship, could act as a buffer against job losses and help displaced workers more quickly retrain. However, it is still unclear how costly universal basic income programmes may be to governments in the long term.  Educational reforms will be critical, as automation will put a premium on the integrated technical, business, and services skills that will be required to drive new business growth in technology and services sectors.  Artificial intelligence and platform economics will lead to the rise of monopolies in many areas of technology, which will necessitate government action to ensure that fair competition is possible in resource- and data-intensive industries. 7. Combat food and water scarcity in Africa and the Middle East Between now and 2035, climate change and resource competition could increasingly make food and water scarcity in Africa and the Middle East into a geopolitical and security issue for the EU, rather than primarily a development issue. There is a chance that there will be a sharp rise in the number of climate refugees seeking to migrate to the EU. Some responses to this include:  Development aid budgets will be pressured to expand on issues such as governance, corruption, social safety nets and quality of institutions. In many cases, droughts or food shortages can be adequately addressed if a country’s institutions are functioning well and so aid organisations will push for a focus on basic governance.  Even if the most immediate challenge for EU policy regarding food and water scarcity appears to lie in Africa and the Middle East, a global perspective will be needed. Countries dependent on food imports are vulnerable to fluctuations in global grains prices. Therefore, adverse weather patterns or other disruptions in producing countries can significantly affect prices and scarcity in parts of Africa and the Middle East. The EU can play an important role in this regard, by helping to better manage global grains stocks, which can act as a hedge, preventing price spikes.  As part of an effort to create greater trust in the global food market, the EU can play a leading role in pushing for a UN resolution against using food as a weapon in geopolitical disputes or preventing governments from embargoing food. With such a resolution in place, countries that suffer water and food scarcity would have less need to keep high levels of food stocks (as currently happens in some Gulf countries).  Over the next 20 years, the EU will face heavy pressure to loosen its controls on genetically modified organism (GMO) crops. GMO crop production has the potential to reduce food scarcity, particularly in Sub-Saharan Africa, but some of these countries are reluctant to grow GMO crops for fear of losing valuable access to the EU market for their exports.  More generally, the EU should aim to position itself at the forefront of new developments in biotechnology, in areas such as drought-resistant crop technology. Breakthroughs in several areas of biotechnology relevant to ***agriculture*** are likely over the next 20 years. Global Trends to 2035 101 These have the potential to lead to a secular lowering of global food prices. They also have the potential to lower the ***agriculture*** sector’s water needs, which would have a substantial impact on water scarcity in these regions. 8. Gain from the opportunities of space exploration From its genesis at the end of the 1950s, the development of Europe’s space activities has been unique in its purely scientific origins. In the European Space Agency (ESA), it has also produced an organisation that has flourished in parallel with the EU, but with a remit that can offer membership to a wider range of countries. From the flights of ESA’s Spacelab aboard US shuttle missions from 1983, to the current ExoMars rover project that involves partnership with Russia, international collaboration beyond Europe has been a feature of ESA. ESA has two types of programmes, each funded differently. Mandatory programmes, which include space sciences, are funded by a contribution from all members that is assessed in relation to each country’s GDP. Other programmes, including many of the most well-known ones, such as space transportation, earth observation, space-based telecommunications and navigation systems, and work associated with the International Space Station, are funded by optional contributions from members. This includes the EU as a distinct entity, which now supplies around 20% of the total ESA budget. Fiscal pressures on member countries over the next two decades may force a reassessment of contributions to ESA, leaving the EU to decide how much more it wants to invest in the space sector. Over the next twenty years, several factors are likely to feed into the development of European space policy, related not only to financing but to relevance:  Much of Europe’s success in space, both political and commercial, has come from the Ariane series of launch vehicles. The latest is version is the heavy-lift Ariane 6, which received final approval in 2016 and is scheduled to make its first flight in 2020. However, competition in the satellite launch sector is expected to intensify over the next decade as new families of launch vehicles are developed by Space X and Blue Origin in the United States, India extends its interest in the commercial sector through its Antrix marketing arm, and the market to launch small and micro satellites develops. There is likely to be some debate over whether it makes sense for Europe to remain at the forefront of this area and if there is a more profitable sector to prioritise.  Another factor, related in part to the growth in launch competition, is the extent to which space-based commercial systems are becoming commoditised. Galileo, Europe’s own satellite navigation system that was intended to avoid reliance on the US GPS system, may be of the last such large-scale projects, as the balance between costs and revenue makes them questionable in purely commercial terms. Much may depend on the development of ideological and pragmatic attitudes about the role of government support.  The development of European defence policy will feed into the space sector. If there is a need for a sophisticated independent capacity in this area, the cost of securing it may be high. Prioritising the development of reconnaissance via enhancements to ground-based analytical software would reduce some of the costs to Europe in this area.  As commercial investment in the space sector rises, governments may feel a need to concentrate non-commercial areas such as planetary exploration, a field with the benefit EPRS - Global Trends Unit 102 of creating and sustaining networks across academic institutions that help to design missions and then work on their results. However, these can be difficult to defend if budgets are under pressure. An additional factor for European policymakers is how to deploy the collaborative aspects of space to best effect. Space activities can play an important role in international relations by offering multi-year partnerships built around specific, non-military projects. The teams of scientists and engineers involved can build ties capable of surviving the short-term shifts in bilateral relations. Positioning Europe as the partner of choice over a range of space-related endeavours, because of its experience with collaborative ventures as well as its scientific expertise, may contribute not only to European cohesion, but to its soft power. 9. Create business clusters to build Europe’s leading edge Clusters of interconnected businesses and institutions can drive productivity and innovation in various fields, and often rely on government support, either directly (through the location of a government facility) or indirectly (through grants to universities). In order to compete with firms in the United States, China, and Japan, European businesses would benefit from the development and deepening of clusters. However, this may go against the political requirements of the EU, to ensure that prosperity is spread evenly across the Union, rather than concentrated in a few areas that may already be wealthy. Some ways to balance these two needs may be to:  Developing cluster-based policies to replace industry-level and firm-level policies. Harvard economist Michael Porter has argued that clusters are more efficient, minimise distortions to competition and are better aligned with the nature of competition in the modern economy. Policies based around the concept are more likely to help create them.  Encouraging more government funding of basic research at universities. This will not only provide benefits from the research conducted, but these universities will also spin out companies that translate the research into commercial activity. Because universities are spread throughout the EU, grants can help clusters form in poorer areas.  Facilitate European-level social services and pension policies, to encourage migration from across the Union to clusters.  Since clusters can originate organically -- Detroit became the automobile capital of the United States in part because it was where Henry Ford lived -- ensuring access to capital and infrastructure connections to international markets can help an innovative business find the success that leads to a cluster. 10. Adapt to new types of terrorist threat The threat from terrorism will remain a major challenge for European policymakers to 2035. In addition to seeking ways to respond to the currently known types of terrorist threat, which will remain relevant and pressing to policymakers, new types of threat will emerge over the next 20 years. These may include, but will not be limited to:  Bio-hacking, the design of new germs and viruses by hobbyists, has opened up the possibility of the low-cost, low-visibility design of biological weapons, possibly leveraging Global Trends to 2035 103 the mapping of the human genome to create designer plagues able to target certain segments of the population.  Advanced robotics, allowing precise assassination attacks or mass casualty attacks to be remotely launched by individuals and small groups.  3D printing will allow weapons systems to be downloaded and fabricated within secured areas. With the advance of encryption methods, it may be impossible for governments to prevent complicated weaponry from being present in their countries. While it is impossible to predict the causes of terrorism in 2035, the techniques used to great effect by the Islamic State -- online radicalisation and the encouragement of lone wolf attacks -- will likely persist over the coming decades, as they do not require extensive and vulnerable networks that can be disrupted by governments. EPRS - Global Trends Unit 104 BIBLIOGRAPHY Akbar, Ali. “Khyber Pakhtunkhwan inks deal worth $20bn with Chinese companies.” DAWN.COM, 2017,   [*https://www.dawn.com/news/1318237*](https://www.dawn.com/news/1318237). 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This study considers eight economic, societal, and political global trends that will shape the world to 2035, namely an ageing population, fragile globalisation, a technological revolution, climate change, shifting power relations, new areas of state competition, politics of the information age and ecological threats. It first examines how they may affect some of the fundamental assumptions of the international system. Then it considers four scenarios based on two factors: an unstable or stable Europe and world. Finally, it presents policy options for the EU to address the challenges created by these trends. This is a publication of the Global Trends Unit EPRS | European Parliamentary Research Service European Parliament This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament. PE 603.263 Print: QA-04-17-693-EN-C, ISBN 978-92-846-1493-6, DOI:10.2861/22464 PDF: QA-04-17-693-EN-N, ISBN 978-92-846-1494-3, DOI:10.2861/800293 [*www.europarl.europa.eu/thinktank*](http://www.europarl.europa.eu/thinktank) (Internet)    [*www.epthinktank.eu*](http://www.epthinktank.eu) (blog)    [*www.eprs.sso.ep.parl.union.eu*](http://www.eprs.sso.ep.parl.union.eu) (Intranet)

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[***Localising the impact of techno-entrepreneurship in Eastern Iran: Birjand's Science and Technology Park as a local innovation community***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BNK-C111-DY41-73W0-00000-00&context=1516831)

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**Body**

**ABSTRACT**

In peripheral cities, economies are dependent upon local enterprises, entrepreneurship and innovation to support growth locally. This paper focuses on the case of Birjand, Iran and the community of techno-entrepreneurs who are based in the city's Science and Technology Park (which opened in 1992). Relating to the Triple Helix model, this paper aims to better understand connections and limitations that interconnect industry, government and education through interviews with techno-entrepreneurs, government policymakers and academics. The analysis of this paper is organised into three sections: the first section considers government policies and support based on insight from entrepreneurs and policymakers to understand differing expectations. The next section addresses local economic impacts and the role of techno-entrepreneurs to understand the contribution they make in peripheral areas despite Iran being impacted by sanctions. The final section considers local entrepreneurship education initiatives in Birjand offered by the local Science and Technology Park and links with a local university to add perspective on the role of education to increase local initiatives and support the improvement of business practice.

**FULL TEXT**

**Introduction**

Entrepreneurship is one of the most significant drivers influencing the development of local economies. The establishment of new firms and the activities of Small- and Medium-Sized Enterprises (SMEs) help drive local job creation and economic growth by accelerating innovation and promoting the full use of human, financial and other resource capital (Low and MacMillan, 1988; Porter, 1998). The role of new and small enterprises, especially, can increase competitiveness, and therefore, influence on the ***performance*** of a local economy. Specific to this paper, the technology sector has the potential to help enable enterprises to accomplish various tasks by not only helping people access new innovations but to also foster a stronger local community of suppliers. However, in order to understand how entrepreneurship ***performance*** and technology can impact a local economy, the aim of this paper is to assess relationships and links between entrepreneurs, government policymakers and educator initiatives focusing on the peripheral case of Birjand in the emerging economy of Iran.

In peripheral cities, economies are dependent upon local enterprises, entrepreneurship and innovation to support growth locally (Guerrero and Urbano, 2017; Jiao et al., 2016). Education and supportive policies are also important drivers which impact entrepreneurial activity; moreover, the formation of local knowledge communities enables businesses to share ideas and improve their product and service. This is especially important in Iran given the burdening sanctions that have impacted the countries trade, collaborations and exchange of products in the past decades. As a result of the sanctions, business communities in Iran have established their own initiations to spur innovation. The data collected from interviews with techno-entrepreneurs in Birjand discussed in this paper will show how those involved with the local Science and Technology Park (S&TP) react to support, policies and entrepreneurship education initiatives – to further not only production and product development, but to improve business practice.

Pertinent to this special issue, promoting Continuing Professional Development (CPD) courses is an attempt to foster a stronger sense of community among techno-entrepreneurs. The local entrepreneurship education initiative also helps promote better business practice and support to strengthen the impact of the S&TP on the local economy of Birjand. Díez-Vial and Montoro-Sánchez (2016) discuss that S&TPs can create advantages for entrepreneurs as these are innovation communities (see also EIT, 2017; Ji et al., 2017). Innovation communities can shape the interface strategy which will lead to a more sustainable and integrated market resulting in technology enhancement, which is both critiqued and is further discussed in the following sections and results (see EIT, 2017). The Triple Helix concept will also be presented to outline conceptual approaches to locate critical problems and practical solutions concerning techno-entrepreneurship, government informed policy and education initiatives. To understand the local economy and future development in techno-entrepreneurship in Birjand, Iran, it is important to better understand connections and limitations that interconnect industry, government and education. An overview of the case and some content is offered in the next section.

**Birjand's S&TP**

Concerning the case assessed in this paper, Birjand is a small city in the east of Iran in the South Khorsan Province (see Figure 1). S&TPs are common in smaller cities across Iran. South Khorasan S&TP in Birjand is affiliated with the Ministry of Science, Research and Technology. Birjand's S&TP opened in 1992 and is located in a single building bringing together techno-entrepreneurs – working locally and across the immediate region acting as a local innovation community (see South Khorasan Science and Technology Park, 2016). Science and technology is at the centre of economic development chains. What is unique about Birjand's S&TP is they offer classes and along with free offices since 2011 to pursue goals of scientific and international development in view of the potential capabilities of local talent suitable for various economic fields, in particular industry and mining so that the city and region's residents can better access products and technologies offered by local suppliers. Figure 1.Location of Birjand in Iran. Source: Google Earth.

The impact of the S&TP on Birjand's local economy resulted in the bringing together of techno-entrepreneurs to develop ideas through entrepreneurship education classes. They are attempting to increase the city's entrepreneurial base by working with the Payamnoor University of Birjand to enhance the relationship between industry and academia. To create a sense of community (see Wise, 2015), the S&TP has developed a series of entrepreneurship education classes. For instance, the classes focus on business model generation, leadership skills, the management of change, marketing, sales and business planning as well as management techniques including general, change, ***strategic*** and innovation management. The aim of the classes is to inspire recent graduates and local residents to become entrepreneurs to create a more sustainable future economy in Birjand. One issue in ***rural*** eastern Iran is once students are educated they are attracted to larger cities such as Tehran or Mashhad because of more opportunities and the appeal of higher salaries. Such occurrences are common in remote ***rural*** areas and have been observed in other peripheral cases (e.g. Mulec and Wise, 2013) and this trend is discussed in other papers in this special issue. By attempting to create opportunities locally, the goal is to also innovate locally to promote economic development in Birjand.

**The promotion of entrepreneurship in Iran**

Entrepreneurship is driven by and individual, or individuals, who discover an existing opportunity or market niche which can lead to venture creation. Technology entrepreneurship is expanding in Iran which is the combination of specialised (multiple) domains working to innovate products for related industries and fulfil consumer needs (Garud and Karnøe, 2003). Plattfaut (2014) argues that embracing and forwarding technology is necessary for contemporary entrepreneurs to gain a competitive advantage based on market demand across a number of sectors. Therefore, entrepreneurs and techno-entrepreneurs extend their abilities to produce new products by combining creativity and technology to produce innovation which is seen as an important part of any technological system to increase business activity.

In the last decade, the Iranian government began actively focusing on the increased importance of entrepreneurial activity due to strict sanctions impacting the nation's economy (Hedjazi and Rezaei, 2015). Sanctions challenged entrepreneurs to be more creative and develop innovative products that meet consumer and business needs and market demands because sanctions limited imports and the flow/exchange of ideas (Mitra and Matlay, 2004; Zahra, 2005). Furthermore, according to a report by the World Economic Forum (2015), on Iran, after the lifting the sanctions in April 2015, the market is ready to invest and Iran's technological potential. This could redefine business targets, and the nation's economy, as the country starts to promote and trade their products in international markets. The source highlights that as the doors are open for investment in Iran, and the technology sector improves with new influences from around the world – this is expected to change the Iranian techno-landscape. Specific attention on how entrepreneurs implement new technology became an aim for the Iranian government. Literature has focused on how the government of Iran has created and implemented new policies to show their support of entrepreneurship education (see Farsi et al., 2012; Karimi et al., 2010, 2017); however, more research is needed to understand how entrepreneurs in Iran are responding to support and policies based on the government's ambitions and expectations (Farzin, 2015). Findings from this research and the discussion is useful for scholars, policymakers and those with vested interests in entrepreneurship and expanding educational opportunities in entrepreneurship to build and promote innovation communities. This will help establish a sustainable foundation to increase entrepreneurship in Iran.

As techno-entrepreneurs expand operations in Iran, and as companies continue to invest in bringing new technology into their firms, new entrepreneurs will respond to the market accordingly (Baerz et al., 2011). Given the evolving and anticipated change, and the role of Iranian government, entrepreneurship expansion is necessary and will become more significant as new policies are introduced that will shape future growth in Iran. For instance, the government has a significant role to play in terms of allowing freedom of action and support the entrepreneurs to grow their businesses. Farashah (2013) and Ghazinoory and Farazkish (2010) noted that the Iranian government supports new ventures and entrepreneurs since they realise that increasing entrepreneurship in the country can influence the emerging economy and ultimately people's lives. In practice, the role of policymakers is to make it easier for entrepreneurs to establish a business and work towards establishing an appropriate trade-off between market concentration and productivity ***performance***, as discussed in the next section.

In Birjand, businesses are developed to enhance the local ***agricultural*** and food industry sectors, which rely on using new technologies. Support of the local policymakers and the local people for the entrepreneurs can help the SMEs develop their business which will have a longitudinal impact on the local community, enabling them to respond more closely to realities and demands for their products.

**Policy impacts: Social and economic**

The government and local industry can play a significant role in entrepreneurial behaviour, in terms of supporting investment in local businesses (Oosterbeek et al., 2010; Pittaway and Hannon, 2008). Yaghoubi (2010) and Zoltan and Laszlo (2007) noted that Iran is an emerging economy country and the direction, control, management and regulations put in place are made by the Iranian government which therefore includes Ministry of Labours and Labour Unions. The Iranian government is aware of the action and support needed for their entrepreneurs; however, there is still a need to investigate whether the techno-entrepreneurs, targeted in this research, received the support they expect for their businesses. Regulations and bureaucracy for entrepreneurs, and not having the freedom of action to make all decisions for their business, like in a trading market, can be effective for the entrepreneurial society. Thus, being involved with difficult bureaucratic rules can influence on growing businesses within the community.

Pertinent to this case, policymakers in Iran play an important role when it comes to encouraging people to become entrepreneurs by providing them with a platform to ease the process of investing in and building a new venture. Moreover, freedom of action to achieve habits and opportunities for entrepreneurial activity in an emerging economy (such as Iran) can bring employability and domestic products for the country. According to Guerrero and Urbano (2017: 294) ‘in emerging economies, the available literature about innovation and entrepreneurship is limited to explore the determinants of innovation ***performance*** as well as innovation constrains’. Hedjazi and Rezaei (2015) added that the strategies that the Iranian government introduced to encourage entrepreneurships include lower interest rates on loans, two to three years’ tax waiver programmes, special regulations, making facilities available, encouraging public and private partnerships, and help with networking to new entrepreneurs find a market to sell their product or deliver their service (see also Oosterbeek et al., 2010). Yaghoubi (2010) adds that the Iranian government can also show their support by making available networking and communications infrastructure.

While talking about government support, Fars News Agency (2015) reported that the Iranian government's long-term strategy is to ease the access of foreign investors to allow capital investment from foreign investors to support SMEs. This strategy aims to bring both economic and social benefits regionally (Middle East), nationally, at the province level (e.g. South Khorasan) and locally. To do this the government of Iran also plans to help entrepreneurs by offering unrestricted access to new technologies across sectors. However, to increase the number of investors, both domestically and internationally, it has been noted by participants in this study that the government needs to reduce and ease bureaucratic processes. Government systems are often bureaucratic, involving numerous rules, regulations and paperwork which are sometimes difficult for entrepreneurs to deal with. Karimi et al. (2017) and Rasmussena and Sørheim (2006) state that the bureaucracy in Iran is a complicated process but that the Iranian government is aware of what strategies are required for entrepreneurs to help them and encourage them with expanding their businesses. As a result, less bureaucracy may encourage more start-ups businesses in Iran. Besides helping domestic entrepreneurs by decreasing bureaucracy, the Iranian government may also help Iranian entrepreneurs access and build networks with international technology companies – with the aim of expanding the technology products market inside Iran (this made easier by the lifting of economic sanctions in 2015). When entrepreneurs receive adequate government support from effective policies, then they can have more of an influence on the market, economy and community (Azizi et al., 2008).

Acs and Armington (2004) added that technology entrepreneurship can contribute to economic growth by transforming innovations into viable products for the appropriate customer or industry base. Relatively, it has been argued that the establishment of new technology ventures can be critical in an emerging economy seeking new avenues for growth and financial stability – particularly relevant at the local scale (Jiao et al., 2016). There are many studies focusing on the impact of technology businesses in local economic development (see Hedjazi and Rezaei, 2015; Schumpeter, 1994; Stimson et al., 2006), but it is the ongoing investigation concerning how entrepreneurship can help develop the local economy that is important. These studies focusing on the impact of technology businesses suggest that cooperation among the government to techno-entrepreneurs may increase technological investment and lead to new venture growth. Technological entrepreneurship plays a central role in regional transformation of societies and their role in supporting entrepreneurship and industries can be important in economic progress. In Iran, after the lifting of sanctions, techno-entrepreneurs still play a significant role in exporting creative new products. In this regard, Iran has the potential to develop similar technologies competitive with those of from the west.

Capturing and embracing the abilities of an innovation community of inter-related entrepreneurs can greatly influence local economic production. When entrepreneurs can increase employability, this offers further social and economic impacts for supporting growth and development locally (Jahanshahi et al., 2011). While new enterprises are often the result of individual initiative, they are important bases for transforming a community and developing a local economy.

**The Triple Helix model and innovation communities**

The Triple Helix model was developed to assess boundaries pertaining to the linking of university, industry and government (see Etzkowitz, 2003, 2008, 2012). This concept is adopted accordingly in this paper (see Figure 2). Part of the broader conceptualisations here are based around increasing knowledge across society by enabling and enhancing knowledge communities and alliances locally (see Etzkowitz, 2003, 2008; Leydesdorff and Meyer, 2006; Ranga and Etzkowitz, 2013) and is related to the discussion of innovation communities. The co-evolution between the layers of Triple Helix can introduce the division of innovative industrial for the local economy. Linked to the Triple Helix understanding is the notion of innovation communities, which according to EIT (2017) ‘carry out activities that cover the entire innovation chain: training and education programmes, reinforcing the journey from research to the market, innovation projects, as well as business incubators and accelerators’. In this regard, and according to Etzkowitz (2012), the relationship between entrepreneurs, government policymakers and education initiatives can lead to more sustained economic growth and result in increased investment. The positive impact of this model is industry gains from R&D knowledge and can employ knowledgeable student graduates. In addition, the Triple Helix concept can help with increasing the utilisation of academic research in commercial settings; for example, through university spin-off companies with the support of the government. Furthermore, this model helps understand the economic utilisation of publicly funded research and build more links between government, industry and university has been shown to bring benefits to different business sectors, and students and graduates. Such collaborations between industry, government and education are an attempt to correct alleged market failures, which is important to consider especially in emerging economy countries such as Iran. Figure 2.The Triple Helix model concept adapted to the focus of this study showing links and connections between techno-entrepreneurship, government and entrepreneurship education.

Martini et al. (2012) adopted the Triple Helix approach to assess a knowledge-based economy emerging from economic corridors in Indonesia. Related to the focus of this paper, local economic development, and its assessment, through collaboration with universities, play a defining role when it comes to recognising economic development based on the needs of local and regional communities (Guerrero and Urbano, 2017; Jiao et al., 2016; Kim et al., 2012; Mayer et al., 2016; Supriyadi, 2012) and putting forward a local and regional strategy (Etzkowitz, 2012). While this paper does discuss some links with the S&TP entrepreneurs with Payamnoor University of Birjand specifically, it is the educational initiatives led by members of the S&TP in Birjand that are contributing to capacity building and increased business skills. This is a local initiative and as Supriyadi (2012: 299) argues ‘the success of collaboration depends on cohesivity, leadership, mutual understanding, trust, information, and transparency’ all contribute to local and regional growth and help meet and respond to local needs. Vaivode (2015: 1063) addresses points of uncertainty, and that a ‘targeted innovation policy design fosters innovation ***performance*** […] into product market innovations’. This resonates with the case of Iran more broadly, and speaking back to the ambitions of the Iranian government, outlined above, during times of uncertainty (such as during economic sanctions) it can be argued that strong policies driven by governments to fund education initiatives and promote SME development can promote innovation. When this is discussed locally concerning the case of Birjand, a peripheral city, innovation can result in local growth to support local businesses. Guerrero and Urbano (2017) add to this thought by framing the impact of Triple Helix agents (industry, government and education) in emerging economies. Their focus acknowledges that the Triple Helix approach needs to be adapted to each specific case based on operations, wider economic and political forces, and contexts, to understand affects and impacts across a range of scales.

Therefore, this paper embraces the Triple Helix model by looking at overlaps concerning local industry (techno-entrepreneurs in Birjand, Iran), government informed policy concerning entrepreneurship and local education initiatives to enhance business practice. As it has been discussed, the support of government policymakers for technology entrepreneurship, and the decisions of entrepreneurs to use newly acquired knowledge will help the local economy growth and build new industrial success in peripheral areas (such as Birjand). To meet targets and support for entrepreneurship and techno-industries in this case, which is currently being promoted by the Iranian government, Birjand's S&TP helps train entrepreneurs by providing CPD courses. This initiative is to further educate entrepreneurs and help them gain the necessary business skills necessary to grow their business. As found in this study, entrepreneurs have the necessary skills to develop and improve their products, but do not always have the business capacity and skills to promote and sell their products and meet wider business practice demands, and is especially important in an emerging economy context (see Watkins et al., 2015). Thus, the education initiative is a chance to increase business skills and is another opportunity to connect this innovation community in Birjand. The link between techno-entrepreneurs in the S&TPs can increase their exposure in the sector and encourage those with the training and technology skills interested in starting a new enterprise to get involved and work with established knowledgeable entrepreneurs. This can help innovators become more successful in their ventures as they have the chance to share the knowledge with techno-entrepreneurs.

New entrepreneurs, just like established companies, rely on both internal and external knowledge to create value and build capacity (see Rogo et al., 2014), and research conducted by scholars in universities can contribute much to how investors and entrepreneurs understand local markets and necessary innovation needed to supply current demands (see also Teigland et al., 2014). Building on this, according to Ji et al. (2017) and Martiskainen (2017), community-led innovation is not just economic focused, but aims to achieve social impacts as well, and this is also a theme in other papers included in this special issue. Building social capital and increasing capacity requires strong leadership and supportive policies (Perić et al., 2016; Watkins et al., 2015); and while this is key, and this is where some of the lines are blurred in this case, but the analysis attempts to frame how policies are making it easier for entrepreneurs in Birjand to develop products for niche markets.

**Research methodology**

With the aims of understanding the development of an innovation community and how entrepreneurship impacts the local economy in Birjand it was essential to gain insight from those playing a key role in developing Birjand's S&TP. To better understand this, it was important to consider local perspectives and experiences of entrepreneurs based in Birjand's S&TP, and likewise insight from policymakers who both inform and impact entrepreneurship and entrepreneurial activity. Discussions also framing and positioning education initiatives were discussed with research participants in line with the Triple Helix approach. Semi-interviews were conducted with 10 techno-entrepreneurs in Birjand's S&TP and with two policymakers in Birjand. Interviews with techno-entrepreneurs discussed the support they received from the government to expand their businesses in Birjand. They also shared their experiences on how sanction impacted their local business and how their business can benefit Birjand's local (and peripheral) economy. To add further insight, interviews with policymakers were sought to elaborate on existing policy and to give the researcher a better understanding of entrepreneurship policy based on national and local initiatives. Moreover, interviews with policymakers can help lend to recommendations for future research. It is important to understand how local policymakers can help the entrepreneurs expand their businesses and also how local entrepreneurs can impact the local economy which will play a role in expanding Birjand's innovation community. The Triple Helix model in the literature focuses on the role of universities. In this case, education initiatives are organised by the S&TP, but it was also useful to gain insight from academics at a local university in Birjand where an entrepreneurship education course is offered. Two academics involved with managing the entrepreneurship education course at Payamnoor University of Birjand were interviewed to discuss links between the university and the S&TP, while their insight was not linked to the main focus of this paper, their insight is incorporated accordingly into the paper.

Aligned with qualitative research, the interview method was the best approach for this study allowing participants to express their insight, reactions and concerns. Creswell (2013) notes that interviews aim to gain and produce new knowledge of people's experiences, their social worlds and business environments that are not available elsewhere. Furthermore, for the interview method, semi-structured interviews allow the participant to guide the direction of the interview leading to new insight – making the interview approach more flexible to gather new data specific to the case. Semi-structured interviews allow researchers to collect data in a way that is guided by the interviewee so that new insight can be gained. Also, semi-structured interviews are often preceded by informal and unstructured conversation/interview to allow researchers to develop a keen understanding of the topic of interest necessary for developing relevant and meaningful semi-structured questions. Interviews were conducted between September and November 2015. All interviews were conducted in Farsi (Persian Language) and translated to English.

**Results and discussion**

Based on the interviews conducted for this paper, the following three subsections are based on each component of Triple Helix concept outline above. This first section, ‘Government policies and support: Local agendas in the shadow of national strategies’, offers insight from entrepreneurs and policymakers to understand differing expectations. The next section, ‘The role of techno-entrepreneurs and local economic impact’, addresses the valuable contribution that Birjand's entrepreneurs make in this peripheral locale despite Iran being faced with sanctions for a number of years. The third section, ‘Local entrepreneurship education initiatives in Birjand’, adds perspective and the role of education to increase local initiatives and support the improvement of business practice. Interview data supporting each section are presented, and discussions are incorporated to reflect on responses.

**Government policies and support: Local agendas in the shadow of national strategies**

The cooperation among the government and entrepreneurs may increase technological investment in society and lead to the growth of new ventures. It is essential to analyse how the Iranian government supports entrepreneurs and thereby answer how Iranian policymakers show their support to industries and whether the government meets the expectations of entrepreneurs in Birjand. To understand the support of the Iranian government for entrepreneurs, and associated ventures, the participants in Birjand were asked what support in terms of start-ups, finances, bureaucracy and growth in business they have received from the Iranian government. The interviewees began by outlining their expectations and how they may or may not have received the promised facilities or services from government. In this regard, the entrepreneurs noted that: I expect the government to facilitate bureaucracies and rules for entrepreneurs. Bureaucracies are time-consuming and slow; many industrialists and business persons have to spend a lot of time to get a licence. I feel that I did not get that support from the Iranian government.In terms of being a techno-entrepreneur, operational timing is important since using an innovation in technology can expire quickly; however, the Iranian government cannot realise this and their given support is time consuming.By providing support from the government, the country will move forward advancement and development. However, in Iran, the main problem is this wrongful bureaucratic system, which results in a waste of time.Interviewed entrepreneurs noted that they are in need of support but there is much bureaucracy required before progress is made. One interviewee mentioned how time consuming licence issues are. While entrepreneurship is expanding in Birjand, the cooperation of government and industries can be more essential than before, especially since Iran was faced with sanctions, which makes matters more difficult for emerging economies. Other participants claimed that with the support of government, the economy of Iran can move forward; however, the arguments above show dissatisfaction in the first step of government support, namely, licence issue. Thus, the existing bureaucracy, scarce capital and an absence of understanding the emergency to adapt to be quick to respond to technical industries by the Iranian government can possibly make it difficult for entrepreneurs to scale up their work in Birjand.

Policymakers in Birjand were also asked what their strategies are in place to decrease the existing bureaucracy. The interviewee continued: At the moment, Iran is faced with fluctuations in the economy; therefore, the policies and government of Iran are supporting more than before for start-ups and entrepreneurs to bring innovation to the country.We provide them with different facilities such as holding free exhibitions and we ask them to attend to introduce their products, and we give long-term loans via Science and Technology Parks to expand their businesses; we do some networking for entrepreneurs and start-ups.The policymaker from Birjand noted areas of available cooperation for entrepreneurs such as loans, exhibitions and giving a chance to build up networks within their market are improving. Moreover, the participant added that because of the economic situation in Iran, the government is increasing its attention on entrepreneurship. Azizi et al. (2008) noted that Iran is regarded as a developing country with an emerging economy, and so the role of government in terms of supporting industry should increase more than previously. This relates to Farashah (2013) and Yaghoubi (2010) who discuss how the Iranian government needs to expand its cooperation with industries and show how building connections can influence the development of the country and have an impact on the emerging economy broadly, but the local emphasis is just as important.

While the policymakers noted the government is expanding support, the techno-entrepreneurs have been asked what support in terms of their start-ups businesses they have received from the government. They noted: We attend Science and Technology Parks in Birjand which the government opened these parks and we could attend classes and learn about how we can develop our business ideas.The Science and Technology Park helped us with commercialization of our product even we could apply for lower interest of loan from this institute.Although the policy makers could not help us much because of the lots of bureaucracy and long process going on the start-up our business, but the Science and Technology Parks which is run by the government helped me to develop my business idea and meet business angels and they also introduced me to industries which now I work for them.The techno-entrepreneurs who commented above noted that being based at Birjand's S&TP gave them the opportunity to increases their business knowledge to help them with growing and developing their business ideas. The participants claimed that they expect loans from the local government because of what they will contribute to the local community and economy. This was addressed in the above quotes with entrepreneurs noting that they can apply for these loans only if based at the S&TP. Those who gained support successfully grew their business and had positive feelings about local policymakers. By increasing the knowledge of commercialisation for technology products through the S&TP in Birjand, entrepreneurs are able to achieve their goals and have an advantage over competitors because they now have a strong command of the market and they could understand local demands for their product. In addition, having the knowledge of how to commercialise technology products and make the right products for local customers, while gaining from existing innovations, are supporting the local economy of Birjand because they can now better meet customer needs. The products need to be commercialised to sell and be present in the community. Therefore, by gaining new marketing skills the entrepreneurs interviewed also mentioned that they can better advertise their products. Techno-entrepreneurs have a local and regional customer base and their products can better compete with national competitor and even foreign products.

Because economic sanctions put against Iran made the country more independent of overseas markets and techno-entrepreneurs within the country expanded their businesses need and demand was high (Jahanshahi et al., 2011; Sadeghi et al., 2013). Therefore, dealing with less bureaucracy and giving licences to local entrepreneurs with new innovative ideas can be a solution to help local business in Birjand continue to grow as new products will likely be introduced. As the sanctions are lifted, this also allows local businesses to work international businesses across the Middle East and further afar to further expand their products and make use of the most up to date technologies which will also impact business and society. In addition, the support of the Iranian government to encourage domestic and local production will lead employability in Birjand and across the South Khorasan Province, to ensure products are produced and purchased locally so they do not become dependent on international products. By growing the Iranian domestic market, the entrepreneurial spirit can move forward in more peripheral areas especially, as reported by the Global Entrepreneurship Monitor (2014). Broadly considering, the economy of Iran is moving forward and improving, with different local markets dominated by a particular industry: ***agricultural***, oil and gas production, mining, art and crafts and many more, as neighbouring countries are not so diversified (Nawaser et al., 2015). Therefore, the government and policymakers can play a key role in supporting local entrepreneurship with the aim of helping domestic entrepreneurship grow in Iran and with local ventures continuing to expand their domestic products.

**The role of techno-entrepreneurs and local economic impact**

The Iranian government is trying to meet the challenges of globalisation and international sanctions, while still focusing on local impacts that entrepreneurs bring to more remote and peripheral areas. As briefly noted in the previous section, S&TP entrepreneurs in Birjand are getting help with marketing to help commercialise their research ideas and turn the ideas into valuable products to sell in targeted and convenient locations. So, the individual or investment group who start a business in Birjand have better knowledge of the local and regional domestic market. Therefore, the role of new business is effective and while the Iranian government is expanding their support of S&TPs nationally, their presence in peripheral areas means more freedoms for new start-ups: The happened sanctions in Iran made this country open-up to innovation, which in one hand helped with the economy improvement.What we do as an innovator in the current situation in Iran is turning the crisis into an opportunity, and this helped with overcome the issues against sanctions.We localize the production with cheaper price, and by this we help the local economy.The local economy mainly depends on our domestic productions now and the local customers are encouraging us for the mass production, however we mainly need the loans and the support of the Iranian government.While the country is faced with sanctions and an economy crises, Science and Technology Parks in the cities like Birjand helped start-up business. I got a lot of help from them to start my own business.The support of the S&TP in Birjand during sanctions helped with economic outcomes locally with businesses being able to establish or strengthen the value of their product. This helped to increase incomes, create employment, increase product production yields and improved ***agricultural*** methods for farmers. Although, there were still issues facing entrepreneurs, some improvements happened because of the sanctions because local dependence increased allowing local and regional economies to stabilise.

To add to this discussion, insight from local policymakers discusses their actions, because business freedom still depends on government regulations in Iran. The two interviewed policymakers added: We are aware of the role of SMEs on the local economy, they can help with the employability and will their mass production in factories the need of local customers can be met, we also encourage the local entrepreneurs to export their products into neighbourhood countries such as Afghanistan and Pakistan.We may not be able to give the techno-entrepreneurs low interest loan but we give them the permission to apply for loan via Science and Technology Parks. We even provide the entrepreneurs with recommendation letter to banks which entrepreneurs can apply for loan with at least 4% lower interest on their pay back the money.The local policymakers mentioned their awareness and encouragement for techno-entrepreneurs to expand their products by offering lower interest rates for loans. Interest rates are high in Iran and this has often discouraged people from borrowing money to start a new enterprise. Now the government is making it possible for start-ups to acquire adequate funds to start a new venture because of the anticipated impact a business can have locally (and nationally).

In addition, the techno-entrepreneurs interviewed above noted that taxes can burden a new business, and if the government can give them tax breaks during the early stages of their business this can enable them to focus more on production instead of worrying about bureaucracy and being able to cover taxes. Lower tax rates allow business owners and investors to invest in the product, which again can lead to longer term economic and social impacts in an emerging economy. The policymakers also are aware of their support for entrepreneurs in terms of lowering tax rates and helping them build their networks to grow their businesses. Policymakers also added that they are seeking opportunities to improve business ***performance*** among techno-entrepreneurs in Birjand so that they can invest in their business and expand their market. As businesses grow they will accumulate more tax revenue in the future according to the policymakers so this vital stage of encouraging start-ups should bring more sustained benefits to Birjand (and the South Khorasan Province).

**Local entrepreneurship education initiatives in Birjand**

Entrepreneurship education is important in Iran because such courses help prepare students with recognising opportunities, how to become risk takers, and advice and ***strategic*** approaches to setup and plan a future business (see Farzin, 2015; Matlay, 2012; Pittaway and Edwards, 2012). Entrepreneurship education is not only about teaching students how to start up a business, but it has also been said that it can provide entrepreneurship students with the knowledge, skills and competencies to act in a more enterprising, innovative and flexible manner. Regarding the context of Iran, entrepreneurship education is a fairly new subject and this course was introduced to Iranian postgraduate (MSc level) students in 2008 at the University of Tehran and to PhD candidates later in 2011. Courses spread to more peripheral areas like Birjand because of the need to focus in starting new businesses outlined in the above two subsections. Today an entrepreneurship module is an integral part of higher education for students in all disciplines and majors. The aim of entrepreneurship modules is to increase the awareness of self-employment and raising the knowledge and skills of students interested in setting up their own business (Farashah, 2013). Since entrepreneurship education is still a new topic area in Iran, there is limited research available to understand how significant this course is and to understand the content covered in the classroom for Iranian entrepreneurship students. However, the universities in Iran and the Iranian government are aware of by developing this course in universities, more students can have the chance to attend the entrepreneurship classes and all can lead into more entrepreneurial communities across Iran.

Although there are different views between academics about what constitutes an entrepreneurship education course and the subjects that need to be covered, it has been agreed that the aim of the entrepreneurship course is to increase the knowledge, skills and attitude of students (Matlay, 2012). Also, through collaborations and links between the government, universities and industry, new graduates can increase their employment opportunities after graduation. It can help universities secure research grants supported by the government to seek ways to increase employability and direct collaboration with industry.

To link this discussion to connections with intended local impacts and putting education policy into practice, MSc in Entrepreneurship is offered Payamnoor University of Birjand to help enable people to start their own local business. From the interviews with two lecturers from this university, they stated that one of the most important problems impacting the local community in the past is unemployment. A city like Birjand needs business leaders and specialists in the community. The lecturers mentioned: The goal of the entrepreneurship education is to use all the efforts, skills and by the help of student centres we can create a student cooperative companies which would help with students to develop their ideas for start-ups.There are ***indicators*** for assessing students, the most important ***indicator*** of employment ability is students themselves. The university with offering entrepreneurship education modules can only show them the path.The interviewed lecturers commented that studying entrepreneurship can help with employability (which is a social impact). However, the lecturers added that students need to learn more about risk taking and problem solving (part of the offered course).

Zahra et al. (2011) highlighted that the basic problem in Iran is not in employment, but in terms of student readiness for employment because there is no framework for regulating it, despite the fact that there is a lot of work in society, and the discussion of the cooperative is a platform for practical work. One of the lecturers added that: Considering that one of the strategies of the government is employment and entrepreneurship, in South Khorasan, entrepreneurship has been discussed since 2006. So far, 2,000,700 students [in Iran] have taken entrepreneurship education classes and their expenses are paid by the organization of work and social affairs, and now entrepreneurs are training in 120 disciplines.The lecturer commented that the Iranian government wants to increase employability by promoting local businesses. Organisations and businesses in Birjand fund their employees CPD, allowing them to attend classes at the S&TP or at a university. The interviewed lecturers believed that studying entrepreneurship education can help increase the number of start-ups in Birjand – in line with the Iranian government initiatives to increase employability through local entrepreneurship.

As noted, part of the wider education impact concerning this case and Birjand's S&TP, entrepreneurship education was not only offered at the local university, but it is also offered at the S&TP for entrepreneurs who wish to increase their business skills and knowledge. Birjand's S&TP, as noted provides office space, networking, commercialising opportunities and much more to support the potential of the S&TP's techno-entrepreneurs, all of which, as a result, influence and impact the local economy. However, while spaces exist and offers such as networking are in place to help entrepreneurs, these services are only beneficial if the entrepreneurs have the necessary skills and knowledge to successfully operate a business. Accordingly, the techno-entrepreneurs interviewed shared their thoughts on the CPD classes offered at the S&TP: I received much educational support from the Science and Technology Park. They helped me in terms of building my ideas. They also have different classes in entrepreneurship which were really helpful to me.The Science and Technology Park has allocated places to function like a company and to enable entrepreneurs to work there. I have an office there and they helped me gain knowledge on how to better network, market and promote my products.When discussing the impact of the CPD classes offered at the S&TP, positive impact comments were unanimous. S&TPs support techno-entrepreneurs with marketing and help them commercialise their ideas into valuable products to sell in targeted and convenient markets. This with supplemental support from the Iranian government and local S&TPs, they are expanding educational opportunities by further connecting with universities to increase market research. This conforms to the Triple Helix role and entrepreneurs are being supported by government (Mousavi and Taheri, 2008; Pruett et al., 2009; Sanz-Velasco, 2006) to build a more inclusive and well-rounded (and supported) innovation community. The S&TP obtains the benefits of close association with the university and thus, enables students to establish their technology ideas into a product by working directly with entrepreneurs. Participants noted that across Iran S&TPs are providing space for existing well-established businesses wishing to locate near to, or on, a university campus so as to facilitate research links with individuals or departments within the university.

It is possible in this subsection to conclude that, based on responses given by the techno-entrepreneur who participated in this research, Birjand's S&TP provides entrepreneurs with adequate facilities and educational opportunities to increase their business capacity for business planning, market research and commercialising products. Techno-entrepreneurs noted that they have learnt much by attending these classes because such knowledge and courses were missing while they were students at universities and now are pleased to have the chance to attend CPD classes at the S&TP.

Building on the impact of CPD classes offered at the S&TP in Birjand, techno-entrepreneurs who have attended classes noted that this has significantly increased the entrepreneurship capacity for their business and others. Now that individuals and product groups in Birjand know they may receive support from the university and S&TP, more students can be trained and encouraged to start a new techno-business. In developed economies such as the UK, for instance, S&TPs proved to be beneficial not only for the economy of the country but also in facilitating innovation locally. In a developed country context, S&TPs often have access to qualified research and development personnel in the areas of knowledge, which is improving in Birjand. But overall, in emerging economies S&TPs often have only limited access to supplemental resources as there are often not a strong link between industry and researchers (see Guerrero and Urbano, 2017; Martini et al., 2012; Supriyadi, 2012). In addition, in developed countries, the techno-entrepreneurs based in S&TPs also benefit from marketing experts and managerial skills teams. However, in the case of Iran, future research should not ignore how the Iranian government has provided S&TPs in most cities to better support techno-entrepreneurs.

**Conclusion**

As noted, the Iran government's support for entrepreneurs can include grants, loans, scholarships, education, making facilities available, tax breaks, special regulations, public and private partnerships, and minority sponsorship, as examples (Oosterbeek et al., 2010). The government's support for entrepreneurship and technology industries can lead to increasing opportunities. While a main point addressed by techno-entrepreneurs in this study was more financial support from the government would better enable them to improve, it is also altering policies and reducing bureaucracy that they also believed will assist with improving business ***performance***. Still, the role of local start-ups in a country previously met with strict economic sanctions needed to respond to economic limitations. Moreover, Iran is an emerging economy, so the economic influence of local business is vital to create a sustainable foundation to grow.

As noted, governments play an important role when it comes to creating policies and regulations for entrepreneurs. The immediate future remains uncertain until negotiations and bilateral agreements are formally established following the recent lifting of economic sanctions. While the Iranian government is aware that they need to be supportive and expand entrepreneurship across Iran by easing regulations, local initiatives are an attempt to create a stable economic base. As this paper has shown, the formation of local communities seeking a shared goal of both innovating and educating will support local entrepreneurial activity in Birjand. Local businesses owners often expect local policymakers to increase their understanding of the needs of local customers and encourage new local businesses by helping them start-up in a timely and organised manner. There is also a need to introduce further legislation and regulation to increase entrepreneurship culture in smaller cities – with the aim of encouraging youth and local people to start a business based on new ideas and local market demands. Future research is also needed to recognise the availability of skills locally, where researchers work in and with communities so that research can help contribute to business creation and social impacts locally.

To conclude, this study builds on previous work that has assessed policies of entrepreneurship education in Iran. Moreover, this study begins a new discussion based on perspectives and insight gained from techno-entrepreneurs in Birjand, Iran to realise benefits and gaps concerning how entrepreneurs are supported. Another point to take forward concerns how local education communities are leading the way in promoting CPD aimed at the acquisition of skills necessary to support the expanding technology industry in Birjand. This work is useful to expand elsewhere in small cities across Iran to look at impacts and connections linking local education initiatives, policymakers and entrepreneurs.

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[***P8\_TA(2015)0391 New challenges and concepts for the promotion of tourism in Europe European Parliament resolution of 29 October 2015 on new challenges and concepts for the promotion of tourism in Europe (2014/2241(INI))***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5PT4-N491-F0YC-N4XG-00000-00&context=1516831)

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**Body**

Brussels: Official Journal of the European Union has issued the following notice:

P8\_TA(2015)0391

New challenges and concepts for the promotion of tourism in Europe

European Parliament resolution of 29 October 2015 on new challenges and concepts for the promotion of tourism in Europe (2014/2241(INI))

(2017/C 355/10)

The European Parliament,

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| ? | having regard to the Commission communication entitled ?Europe, the world?s No 1 tourist destination ? a new political framework for tourism in Europe? (COM(2010)0352), |

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| ? | having regard to its resolution of 27 September 2011 on Europe, the world?s No 1 tourist destination ? a new political framework for tourism in Europe (1), |

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| ? | having regard to the Commission communication entitled ?A European Strategy for more Growth and Jobs in Coastal and Maritime Tourism? (COM(2014)0086), |

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| ? | having regard to the Commission Green Paper entitled ?Safety of Tourism Accommodation Services? (COM(2014)0464), |

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| ? | having regard to the Commission communication entitled ?Better regulation for better results ? An EU agenda? (COM(2015)0215), |

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| ? | having regard to its resolution of 25 October 2011 on mobility and inclusion of people with disabilities and the European Disability Strategy 2010-2020 (2), |

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| ? | having regard to the Council resolution of 6 May 2003 on accessibility of cultural infrastructure and cultural activities for people with disabilities (3), |

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| ? | having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 195 thereof, |

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| ? | having regard to Rule 52 of its Rules of Procedure, |

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| ? | having regard to the report of the Committee on Transport and Tourism and the opinions of the Committee on the Internal Market and Consumer Protection and the Committee on Culture and Education (A8-0258/2015), |

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| A. | whereas measures taken at EU level under Article 195 TFEU must complement the action of the Member States in the tourism sector, excluding any harmonisation of the laws; |

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| B. | whereas tourism is a key potential growth area of the European economy, which generates over 10 % of the EU?s GDP if sectors linked to tourism are taken into account; whereas tourism is also a driver of substantial employment, as it directly employs 13 million workers and consequently accounts for at least 12 % of jobs in the EU; |

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| C. | whereas Europe is the world?s number one tourist destination, with a market share of 52 %; whereas statistics show that the majority of trips abroad by EU residents continue to be to destinations within the EU, and whereas the number of international tourists arriving in the EU is forecast to increase by 140 million each year until 2025; |

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| D. | whereas tourism represents a major socio-economic activity in the EU, with a wide-ranging impact on economic growth, employment and social development, and whereas it could therefore be instrumental in addressing the current economic and employment crisis; |

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| E. | whereas coastal and maritime tourism is the largest maritime activity in Europe, and whereas it represents more than a third of the maritime economy, directly affecting many other sectors of the EU economy and employing 3,2 million people, most between the ages of 16 and 35; whereas it should also be noted that this sector has been a lever for growth and job creation, particularly in the Atlantic and Mediterranean regions; |

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| F. | whereas tourism policy priorities contribute to at least three priorities of the Juncker Commission, namely sustainable growth and jobs, the connected digital single market, and a deeper and fairer internal market; |

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| G. | whereas the actions announced in the 2010 Commission communication entitled ?Europe, the world?s No 1 tourist destination? foster the ambitious objective of maintaining Europe?s dominant position in the world as a tourist destination; |

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| H. | whereas there is no dedicated line for tourism in the EU budget, and whereas actions in this field come under various funds, pilot projects and preparatory actions; |

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| I. | whereas the tourism industry in Europe faces a number of new challenges, among them the digitisation of distribution channels, the development of the new sharing economy sector, increasing competition from emerging, less expensive third-market destinations, changing consumer behaviour, the transition to an experience economy, the demand for quality client service, the need to attract and retain skilled staff, demographic changes, and seasonality; |

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| J. | whereas tourism policymakers can address challenges such as demographic changes and seasonality in tourism by developing products and services which cater for the specific needs of the increasing number of seniors able to travel during the low season; |

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| K. | whereas SMEs in the tourism sector face considerable difficulties as a result of a heavy regulatory burden; |

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| L. | whereas promoting Europe through its own tourism destination promotion and brand strategy serves as an important tool for strengthening its image, profile and competitiveness as a set of sustainable and high-quality tourist destinations, enables European destinations to distinguish themselves from other international destinations and helps to attract international tourists, particularly from emerging third markets; |

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| M. | whereas conflicts near EU borders, for instance in Ukraine and in the Middle East, together with terrorist threats, have a negative impact on the tourism sector and thus require counter-measures at both national and European level; |

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| N. | whereas sustainable, accessible and responsible tourism which is in harmony with nature and landscape and with urban destinations, and which relies on resource efficiency, sustainable mobility and climate protection, helps to preserve the local environment, in particular in mountain and coastal regions and islands, and to bring lasting results in terms of regional growth, accommodates the increasing quality demands of travellers and helps companies to compete; |

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| O. | whereas European cultural tourism plays an important role in promoting Europe?s rich cultural diversity, strengthens European identity and promotes cross-cultural exchanges and multicultural understanding; |

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| P. | whereas regions play a fundamental role in the development and implementation of tourism-related policies at the regional level; |

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| Q. | whereas the sharing economy represents a shift towards new business models as a result of rapidly changing new technology, and whereas many of the players in the sharing economy are part of the travel service economy; |

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| R. | whereas, although information is scattered and it is consequently difficult to draw solid conclusions, it is most likely that the economic impact of the sharing economy has a positive effect on economic growth and welfare; |

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| S. | whereas offering services of a high standard and protecting consumer rights should be the highest priority for all those providing tourism-related services, including in the sector involving the sharing and use of the latest internet technologies; |

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| T. | whereas travel and tourism is one of the sectors most affected by digitisation, and whereas this opens up a number of opportunities for travel companies not only in Europe but also globally; |

The Commission’s action framework

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|  | 1. | Calls on the Commission to report back to Parliament on the implementation of the actions set out in its aforementioned 2010 communication and the use of budget allocations under the Structural Funds and the relevant EU programmes, in particular the Competitiveness and Innovation Framework Programme (CIP) and the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme, and the respective pilot projects and preparatory actions, in the form of a factual review including an assessment of the effectiveness of actions to promote tourism and to consolidate the competitiveness of the EU tourism sector; |

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|  | 2. | Expects the Commission to ensure that the future allocation of resources from the various promotional funds for the creation of a favourable environment for companies in the EU tourism sector remains possible; |

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|  | 3. | Strongly encourages the Commission to examine the possibility of creating a section within the next multiannual financial framework that is dedicated exclusively to tourism, on the grounds that tourism should be better recognised as an individual economic activity in terms of budget and actions, instead of being financed from the budgets of other policy areas; |

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|  | 4. | Recalls that the European Structural and Investment Funds (ESIF) are still the largest source of external financing for activities intended to stimulate the tourism sector in certain Member States; urges the Commission, therefore, to ensure greater transparency in the way in which structural funds are used by local administrations; |

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|  | 5. | Calls on the Commission, the Member States, regions and the authorities responsible for tourism, together with companies, in particular SMEs, to make the fullest possible use of the new funding opportunities under the European Fund for ***Strategic*** Investments, especially through national and regional investment banks, in order to give a qualitative leap to EU action in support of tourism; |

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|  | 6. | Urges the Commission to encourage the development of tourism-related pilot scenarios under the Horizon 2020 programme; |

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|  | 7. | Calls on the Commission to translate the funding support guide into the EU?s 24 official languages in order to facilitate access to information on funding possibilities, in particular for SMEs, given that access to finance is one of the barriers faced in this sector; |

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|  | 8. | Calls on the Commission to appoint independent experts to assess the impact of other EU policies on tourism and analyse real and potential threats to tourism as a result of conflicts in the EU?s neighbouring countries and regions, and to report back to Parliament with proposals for measures to enhance the positive impact on tourism and reduce the negative impact; |

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|  | 9. | Expects the Commission to present an overview of up-to-date data on the basis of the new Regulation on Tourism Statistics; |

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|  | 10. | Notes that further effort is needed to develop an integrated approach to tourism, ensuring that the interests and needs of this sector are taken into account when formulating and implementing other EU policies (e.g transport, ***rural*** policy); |

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|  | 11. | Calls on the Commission to present a new strategy for EU tourism to replace or update the 2010 communication; |

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|  | 12. | Expects the Commission to present detailed implementing measures for the new set of common actions in the context of the next European Tourism Forum; |

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|  | 13. | Strongly recommends that the Commission transfer sufficient human resources to its tourism policy, given the importance of tourism as an essential factor for economic growth and jobs in Europe; criticises the fact that the subject of tourism is not listed visibly enough on the new DG GROW website; also recommends making this website multilingual; |

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|  | 14. | Emphasises the importance of coordination among Commission services and departments; |

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|  | 15. | Urges the Commission to consider reducing the disproportionate regulatory burden, which has a negative impact on the competitiveness of SMEs in the tourism sector; calls on the Commission and the Member States to reduce, and not add to, the existing regulatory burden; |

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|  | 16. | Reminds the Commission that tourism is a key sector of the European economy, and that it is consequently necessary to improve considerably the coordination between Member States, regional and local authorities and financial institutions and to create synergy between the public and private tourism sectors; calls on the Commission to engage in finding a mechanism for effective coordination and cooperation in the sector; |

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|  | 17. | Considers that, within the framework of cooperation and good neighbourliness, the EU should develop cooperation actions for the development of tourism in third countries with a view to enabling balanced development of their economies, which will also help to ease tensions in the area of neighbourly relations and to enhance the attractiveness of the region and the flow of incoming tourism; |

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|  | 18. | Considers that designating a European Year of Tourism would help to promote the diversity of European tourism and raise the profile of the various stakeholders active in the tourism sector; calls on the Commission to consider such an initiative; |

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|  | 19. | Calls on the Commission to submit an analysis of the advantages and disadvantages of setting up a European Agency for Tourism; |

Branding/joint promotion of Europe as a tourist destination

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|  | 20. | Strongly encourages the Commission, in cooperation with the European Travel Commission (ETC), which brings together the national tourism organisations, to continue and deepen the promotion of Europe as the world?s top tourist destination under the umbrella of a common European approach; calls in particular for the implementation of the long-term strategy launched by the Commission and the ETC in February 2014, ?Destination Europe 2020?, which includes a set of marketing, branding and promotion actions for Europe as a tourist destination; |

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|  | 21. | Calls in particular for the creation of a ?Destination(s) Europe? brand with the aim of complementing and enhancing the promotional activities of tourism organisations operating at the national, regional, cross-border and local levels, and of the European tourism industry, for the benefit of the visibility and competitiveness of European tourist destinations, especially in long-haul markets; stresses that the ?Destination(s) Europe? brand needs an inclusive approach which generates advantages for both established and less-known European destinations while preserving the inherent diversity of different European regions inasmuch as they make a living from their own territorial brand, and that it must fully respect the competences of the Member States in accordance with Article 195 TFEU; |

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|  | 22. | Recognises that common objectives need to be clearly defined and the potential and added value of a ?Destination(s) Europe? brand analysed, in accordance with the needs and specific requirements expressed by the Member States; takes the view that, in order to achieve these results, further in-depth consultations need to be conducted with the industry, tourism organisations and regional and local authorities; recommends the setting-up of a brand manual, which should specify agreed promotion modalities; |

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|  | 23. | Recommends giving consideration to how the private sector can become involved in the ?Destination(s) Europe? brand?s marketing strategy, and how it can contribute financially to the development and goals of the strategy; stresses the importance of public-private partnerships and consequently suggests developing a Special Public-Private Partnership of Tourism (SPOT) programme; calls on the Member States to involve their respective regional and local authorities in this process, and to cooperate constructively with the industry in order to achieve those objectives; |

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|  | 24. | Calls for the enhancement of the ?Destination(s) Europe? brand as the most family-, child- and generation-friendly holiday region in the world; |

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|  | 25. | Views it as essential that one of the key elements of the ?Destination Europe? brand be the security of tourists; calls, therefore, on the authorities of the Member States, in close cooperation with the Commission, to implement strategies (including tourist information campaigns) with the objective of giving tourists the safest possible experience in European tourist destinations; |

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|  | 26. | Stresses the need to increase political awareness of the fact that promoting Europe in third countries serves as a marketing tool with the objective of increasing the number of inbound tourists, and thereby helps to bring economic benefit not only to less-known destinations and countries experiencing economic difficulties, but also to the EU as a whole; considers that a strict visa policy is a barrier to inbound tourism from third countries; welcomes the measures put forward by the Commission in 2014 with a view to issuing new tourist visas and facilitating the movement of tourists through the Schengen area; encourages the Council, to this end, to reach a rapid agreement with Parliament so that the EU can benefit from a greater influx of tourists from certain third countries with a high potential interest in visiting the EU; |

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|  | 27. | Recalls that the EU should start investing in order to be ready to tap the potential of third countries with a large population and emerging economies, particularly the BRIC countries, where the number of outbound tourists is rising; points out the need for initiatives aimed at promoting tourism and for greater flexibility and consistency in respect of tourist visa arrangements and border crossings; stresses that the promotion of a larger number of Visa Tourism platforms, coupled with a cautious approach to the simplification of the Visa Code, is an important component in increasing the number of tourists from outside Europe and raising the visibility of European tourist destinations; highlights the potential of touring visas for groups of tourists who had already been in the country, and the importance of implementing more visa waiver agreements in order to make optimum use of international tourist arrivals; considers it advisable, with due respect for the Member States? right and duty to control entry across their own borders, for the European institutions and the Member States to develop, in the context of the common visa policy, a long-term strategy for better-coordinated and simplified visa procedures; |

Pan-European and transnational tourism products

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|  | 28. | Takes the view that public and private stakeholders should strengthen their efforts to develop new transnational European tourism products, while taking full account of the role of macro-regional strategies in their development; notes that macro-regions such as the Adriatic-Ionian macro-region offer distinctive natural, cultural and historical bases for the development of such products; calls on public and private stakeholders in the EU?s Baltic, Danube, Adriatic-Ionian and Alpine macro-regional strategies to devise, each in their own area, joint strategies for the development of tourism; |

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|  | 29. | Encourages international cooperation in the creation of transnational thematic itineraries (at the level of a larger number of European countries) in order to amplify experiential elements that motivate visits to certain destinations (defined at the state level), increase the mobility of holidaymakers, achieve higher average spending and broaden the promotional platform (in particular as regards visitors from ?long-haul? inbound markets); |

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|  | 30. | Highlights the increase in international competition with the emergence of destinations outside Europe; considers it essential, therefore, to foster greater cooperation between European destinations through tourism clusters and networks at the local, regional, national and transnational levels and within maritime basins; |

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|  | 31. | Recognises the importance of transnational tourism products in promoting territorial cohesion; is convinced, therefore, that initiatives implemented within institutionalised cooperation frameworks should be supported through adequate incentives; |

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|  | 32. | Calls on the Member States to promote new tourism routes by regenerating disused areas, streets, railways, deserted paths and outdated routes; |

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|  | 33. | Calls on the Commission and the members of the ETC to support its existing mandate to assist in the development and promotion of targeted transnational and pan-European tourism products and services, together with coastal and maritime tourism, by means of an advanced, improved and fully accessible Visiteurope.com portal; calls on the Commission to ensure that the Visiteurope.com portal can also be accessed on all common mobile and portable terminals via a specially programmed application (app); |

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|  | 34. | Calls on the Commission, furthermore, to boost its cooperation with the Council of Europe, the ETC and the UN World Tourism Organisation, together with other international partners, in order to strengthen efforts to develop new transnational and pan-European tourism products; |

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|  | 35. | Stresses, while taking into account the fact that today?s consumers tend to seek a tourism experience rather than a mere destination, that a successful marketing strategy to promote European tourism products needs to correspond to the needs of different travel segments and markets in third countries; |

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|  | 36. | Highlights the need for travel agents and tour operators to promote the 112 European emergency number on relevant websites and e-tickets, and in our main tourist destinations; |

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|  | 37. | Welcomes the Calypso social tourism initiative, which allows seniors, young people, people on lower incomes and people with disabilities to go on holidays outside the high season; stresses that this initiative has the potential to overcome the problem of seasonality, particularly in less well-known destinations; |

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|  | 38. | Believes, however, that in order to combat seasonality in Europe there needs to be a stronger focus on developing targeted tourism products which offer travellers a specific tourism experience and correspond to their specific needs; calls on the Commission, therefore, to encourage and support the Member States and the tourism industry in creating more diversified and targeted products around specific themes such as the ***rural***, cultural and industrial heritage, history, religion, health, spa and wellness experiences, sport, wine and food, music and art as forms of alternative tourism which help to bring added value to the area in question by diversifying its economy and making employment less seasonal; encourages the Member States, to this end, to make appropriate use of EU funds, and calls on the Commission to extend the objectives for action under the COSME programme accordingly; considers that sport, music and arts festivals have strong potential to mobilise tourists from Europe and abroad; |

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|  | 39. | Emphasises that Europe?s diversity and multiculturalism offer great potential for the development of themed tourism, and allow the coordinated promotion of alternative and sustainable tourism and cultural exchanges; encourages initiatives to connect tourist attractions to one another in order to establish thematic tourism products and trails on a European, national, regional and local scale, exploiting the complementarity and specificities of the various European tourist attractions so as to provide the best possible experience for tourists; |

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|  | 40. | Stresses the need to promote and highlight Europe?s rich cultural heritage, using the UNESCO World Heritage List as a unique selling proposition but also including sites that may be less widely known or not easily reachable, especially given that cultural tourism accounts for about 40 % of European tourism and thereby contributes significantly to economic growth, employment, social innovation and local, regional, urban and ***rural*** development, while reducing the impact of seasonality; also stresses, in this context, the key role played by sponsorship in maintaining Europe?s heritage and helping Member States bear the cost burden; |

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|  | 41. | Stresses that the promotion of cultural events at various levels could contribute to the attractiveness of tourist destinations, and therefore suggests looking at the possibility of creating a Europe-wide calendar of events, to be posted at the VisitEurope.com portal, in order to improve tourist information services; |

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|  | 42. | Calls on national tourism organisations to lend adequate web visibility to initiatives and awards highlighting the European heritage, and to foster related promotional initiatives and activities (such as the European Heritage label and the European Cultural Routes); |

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|  | 43. | Reiterates the importance of protecting and preserving the cultural heritage against the possible harmful effects of structural changes caused by tourism activities, and against the risks posed by mass tourism, especially during the high season; gives priority to the quality of the work performed rather than its cost; stresses, in this context, the role that patronage can play in helping to conserve the European heritage and compensating for the decline in public budgets allocated for this purpose; |

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|  | 44. | Asks the Commission and the Member States to implement the action to protect endangered monuments and sites in Europe in order to safeguard and promote the cultural heritage and thereby encourage cultural tourism; |

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|  | 45. | Stresses the important role played by European cultural tourism in furthering personal development and knowledge, especially among young people, promoting Europe?s rich national and local cultural diversity and heritage, contributing to intercultural learning, providing an opportunity for networking, strengthening European identity and expressing European values; |

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|  | 46. | Stresses the potential of cultural tourism for poverty alleviation; calls, in this connection, for the fostering of Member States? creative industries and of ***rural*** tourism in order to promote Europe?s extraordinary cultural wealth and to fight poverty and unemployment; |

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|  | 47. | Stresses that the joint acquisition of travel passes and tickets should be simplified as a form of support for cultural campaigns; |

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|  | 48. | Stresses that Europe?s breadth of languages ? official, co-official, minority and lesser-known ? form the bedrock of its cultural heritage and are themselves key to sustainable and responsible tourism; |

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|  | 49. | Notes the opportunities offered by significant historical events and sites, such as the Sites of Conscience, to address contemporary challenges through sensitive interpretation and education programmes; encourages the use of cultural heritage and tourism to foster intercultural dialogue and bring the people of Europe closer together; |

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|  | 50. | Stresses the potential of sport tourism, which could in future become one of the most dynamic sectors in the developing European travel industry, and calls for the introduction of specific policies to promote and support its development; recalls the important place of sporting activities in making Europe?s regions attractive to tourists; highlights the opportunities arising from travel by athletes and spectators in the run-up to sports events and during those events, which can attract tourists to even the most remote areas; emphasises that the potential of sport tourism is not yet sufficiently exploited; |

Quality

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|  | 51. | Is convinced that European tourism must make a transition from a model of quantitative growth to a qualitative model leading to steady and sustainable development, and that there is, in fact, a need to build a tourism industry that allows the creation of more qualified jobs which are properly remunerated; believes that the economic diversification of tourism in ***rural*** and coastal areas offers opportunities for new and sustainable employment; |

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|  | 52. | Acknowledges the difference in standards of service quality in the tourism sector, and takes the view that quality standards are important as a means of levelling the playing field for operators and increasing transparency for the consumer, thereby helping to strengthen the confidence of all parties; calls on all stakeholders to take further the discussion of how the EU can promote agreed quality standards for tourism services; |

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|  | 53. | Calls on the Commission to launch a European tourism quality brand to reward rigorous efforts by tourism professionals in supporting the quality of tourism services based on the highest respect for the cultural and natural heritage, improving the quality of tourism jobs, enhancing accessibility for all and promoting the cultural traditions of local communities; |

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|  | 54. | Calls on the Commission to boost collaboration between Member States in order to improve product quality by protecting the ?made in? brand; |

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|  | 55. | Calls on the Commission and the Member States to collaborate with tourism associations, and together to define a common European system for the classification of tourism infrastructure (hotels, restaurants, etc.); considers that the Hotelstars Union initiative aimed at gradually harmonising accommodation classification systems across Europe should be further promoted, thus allowing a better comparison of the accommodation offer in Europe and contributing to common service quality criteria; |

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|  | 56. | Believes that maintaining safety standards in tourism services in the EU is an essential ingredient of good quality; welcomes, therefore, the Commission Green Paper entitled ?Safety of Tourism Accommodation Services?; notes the submissions from many consumer groups, fire safety organisations and tourism sector organisations supporting action at EU level on tourism safety; calls on the Commission, therefore, to come forward with proposals for minimum standards for tourism safety in the EU, in particular in the area of fire safety and carbon monoxide safety in holiday accommodation; stresses the need for systematic collection of data on accommodation safety; |

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|  | 57. | Underlines the fact that high-quality tourism services are guaranteed if combined with appropriate training and decent work conditions, and that disregard for, and the weakening of, the required skills and social achievements in the sector are counterproductive; |

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|  | 58. | Takes the view that investing in training and education is an essential element in providing quality services in a sector that employs mostly young people, typically aged between 16 and 35; strongly encourages the Commission to work with private entities and other public bodies to create low-season training and internship programmes in order to make the sector more attractive and less seasonal; considers that such training should emphasise higher qualifications and soft skills development, leading to improved job prospects across the sector; calls on the Commission, therefore, to support the tourism sector?s efforts to upgrade employers? and employees? skills and competences in order to anticipate future trends and skills needs; takes the view that statistics on employment in the tourism sector should be improved; |

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|  | 59. | Calls on the Commission, in this connection, to support the tourism industry by eliminating skills gaps and boosting the market relevance of vocational education and training; suggests that the Commission issue and distribute a guide on best practice and available training opportunities in the EU, thereby enabling a higher degree of professionalism and greater voluntary mobility among professionals within the EU; |

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|  | 60. | Underlines the importance of improving the mutual recognition by Member States of professional qualifications in the tourism industry in order to enable workers to identify the best possible career prospects, thereby fostering their mobility; |

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|  | 61. | Welcomes mobility tools, and cooperation projects such as Knowledge Alliances and Sector-Skills Alliances under Erasmus+ and Erasmus for Young Entrepreneurs, as efficient means for tourism workers involved in education and training at all levels to exchange best practices, improve their language skills and obtain practical knowledge of cultural tourism; is concerned, however, at the lack of interest among young people in pursuing careers in certain tourism sectors; stresses the advantages of a ?dual-education? system in the tourism sector and the importance of combining learning with hands-on work experience, thereby improving both theoretical knowledge and practical skills; calls on the Member States and on local and regional authorities to take full advantage of the opportunities offered by the European Social Fund and by other EU, national and regional funds to promote vocational training; |

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|  | 62. | Calls on the Member States to invest in high-quality training for tourist guides and to encourage a multilingual approach in order to better promote sites of interest to foreign tourists; further calls on the Commission and the Member States to define European quality standards for tourist guides, ensuring compliance with minimum training requirements; |

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|  | 63. | Calls on the Commission to carry out a study on the impact on Europe?s competitiveness as a destination of taxes and levies raised on tourism products and services at local, regional, national and European level; calls on the Member States to recognise the importance of reducing VAT rates on travel and tourism services in order to help develop local economies and sustain growth and jobs, as well as helping Europe to remain competitive on the global market; |

Unlocking the potential of coastal and marine tourism

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|  | 64. | Recognises the importance for coastal and island areas of the European Strategy for more Growth and Jobs in Coastal and Maritime Tourism (in line with the Blue Growth strategy and the Europe 2020 strategy), which presents a set of common responses to the many challenges they face; |

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|  | 65. | Strongly encourages the Commission to present an action plan to accompany the 14 actions described in the aforementioned coastal and maritime tourism strategy, with concrete goals and timetables, and to report to Parliament on the progress made on those actions; |

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|  | 66. | Calls on the Commission to conduct an annual seminar, with the participation of the coastal and marine Member States and the respective regions, with the aim of promoting a pan-European dialogue and facilitating the sharing of best practices and the implementation of a long-term strategy; |

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|  | 67. | Recalls the importance of connectivity and accessibility, and notes that they differ between high and low season in the outermost regions and islands, which depend largely on sea and air transport; also emphasises the importance of creating regional plans that promote mobility within destinations; asks the Commission that Action 12 of the aforementioned coastal and maritime tourism strategy also take into account the efficiency of State aid in coastal and maritime regions; |

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|  | 68. | Strongly encourages the Commission, together with Member States and stakeholders in the nautical and maritime tourism sector, to assess the need to create intelligent and innovative strategies as a solution for combating seasonality that is adapted to both the high- and low-season periods and takes account of various target groups; calls on stakeholders to make efforts to create experiences, products and complementary services that are integrated with local products, particularly in connection with maritime heritage and culture, water sports, recreational sailing, observation of marine life and nature, sun and beach-related activities, artisanal fishing, food and health; |

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|  | 69. | Highlights the importance of cruise tourism for the growth of the tourism sector in Europe; calls on the Commission, therefore, together with the Member States, to assess the resources required and existing port and nautical infrastructure, and to standardise the sorting of waste and recycling, in order to create innovative planning actions for these areas by developing the concept of the smart port city; |

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|  | 70. | Stresses that joint planning and joint action are just as necessary for the acceptance of tourism by the population as they are for its sustainable development; |

Sustainable, responsible and social tourism

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|  | 71. | Calls on the Commission to continue to promote sustainable, responsible and eco-friendly tourism in cooperation with ***strategic*** partners such as the ETC and other stakeholders by developing new specific products and promoting existing ones, and suggests setting up a Europe-wide, fully accessible web platform that brings together existing information on certified products, new forms of tourism, destinations and routes, and on specific services such as transportation means and tourism guides, in one database with access through the Visiteurope.com portal; |

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|  | 72. | Believes that increased (co-)funding must be earmarked for sustainable tourism projects under the COSME programme; |

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|  | 73. | Urges the Commission to finalise the European Charter for Sustainable and Responsible Tourism and to continue to give financial support to important initiatives and networks such as EDEN (European Destinations of Excellence) and European cultural trails; |

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|  | 74. | Encourages the national tourism organisations, on the basis of standards proposed by the Commission, to set up a specific unique portal at national level on sustainable and responsible tourism in order to allow customers to make an informed choice among targeted national and transnational products and destinations; |

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|  | 75. | Stresses the importance of ensuring the development of sustainable, responsible and accessible tourism, in which the concept of the ?smart destination? should be central to destination development, and which should combine the aspects of sustainability, experiential tourism and appropriate use of natural resources, together with the new technologies, including the aspects of physical and information communication accessibility; is convinced that information networks on soft tourism projects offer good opportunities to support SMEs, local sustainable development, sustainable jobs and stable economies; |

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|  | 76. | Calls on the Commission to carry out a study on sustainability certificates for soft tourism services, including an analysis of voluntary instruments indicating which instruments have been successful; |

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|  | 77. | Calls for the promotion and further development of child- and family-friendly options in the tourism sector, for example through the creation of a European family-friendly tourism seal; |

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|  | 78. | Emphasises the importance of promoting programmes to allow outdated hotel facilities to be regenerated in accordance with eco-sustainable tourism criteria; |

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|  | 79. | Emphasises the crucial role played by European tourism in the regeneration of ***rural*** and urban areas with a view to achieving sustainable local and regional development; |

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|  | 80. | Calls for the development of sustainable tourism services in those regions which, despite having great cultural and tourism potential, have suffered damage to their image as a result of a greater focus on, and the development of, other sectors, including the industrial sector; |

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|  | 81. | Highlights the importance of an awareness that tourism should not have a negative impact on residents? daily lives; considers that, on the contrary, the resident population should be positively integrated with, and able to participate in, the tourism phenomenon; |

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|  | 82. | Emphasises that the natural and cultural heritage and biodiversity protection constitute a precious capital for the tourism sector, and therefore supports the Member States and regional authorities and tourism businesses in promoting eco-tourism and complying with EU environmental legislation when deciding on and executing infrastructure projects; calls on the Member States to integrate natural heritage initiatives into their national and regional tourism strategies; |

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|  | 83. | Stresses the importance of sustainable and responsible tourism for the protection and promotion of the regional natural and cultural heritage; is convinced, therefore, that regional tourism products and short stays should be supported and promoted through appropriate measures; |

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|  | 84. | Calls on the Commission and the Member States to develop networks of green routes incorporating ***rural*** and wooded areas and minor natural sites, by integrating existing transport infrastructure networks with new eco-sustainable solutions; |

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|  | 85. | Emphasises that sustainable fishing tourism can make an important contribution to the economy of ***rural*** areas in Europe; stresses that this form of tourism can only continue to exist if endangered fish species are managed more sustainably in Europe?s inland waters; |

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|  | 86. | Notes that agro-tourism is one of the most basic forms of alternative tourism in the EU and calls on the Commission, in cooperation with the Member States, to support actions designed to provide incentives to further develop the infrastructure and accessibility of this sector; |

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|  | 87. | Calls on the Commission to further promote local areas and specialities by encouraging the showcasing, and ensuring the protection, of local products such as ***agricultural*** and non-***agricultural*** protected geographical indications (PGIs); |

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|  | 88. | Considers that sensitive regions such as islands, coasts and mountains, and in particular remote and outermost regions, often depend strongly on tourism business and are the first to be affected by climate change; is convinced, therefore, that climate protection should be a priority and be more strongly integrated into European, national and regional tourism and transport policies, including through a focus on energy efficiency, renewable energy, sustainable transport and waste management; calls on the Commission to make an impact assessment of how climate change affects tourism in these sensitive regions ? economically, environmentally and socially ? and of the influence it will have in the future; |

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|  | 89. | Underlines the need to promote the tourism potential of remote ***rural***, island, coastal and mountain areas, encourages the development of sustainable maritime and marine tourism in the EU, and calls on the Member States to develop sustainable infrastructure and improve cross-border connectivity as a means of enhancing their appeal and accessibility; |

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|  | 90. | Highlights the fact that islands have their own problems, especially in terms of connections between smaller islands and the mainland, and calls on the Commission to propose measures to boost investment in that area; |

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|  | 91. | Considers the introduction of voluntary ?environmental checks? with the aim of improving environmental quality in the tourism industry to be a useful contribution on the part of the industry, and recommends that companies displaying particular commitment be recognised; |

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|  | 92. | Calls on the authorities and operators responsible at national, regional and local level to make a stronger effort to promote non-vehicular networks such as European bridleways, walking routes, pilgrimage routes and cycle tracks, in combination with all cross-border rail services, including high-speed and night trains; recalls that transport interoperability with other modes should also always be explored; recommends eliminating increased fares on border stretches, which are one of the barriers to the more widespread use of railways by tourists in border areas; |

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|  | 93. | Recognises that sustainable urban tourism is a fast-growing business and that mobility and transport policy in touristic city centres should be efficient and sustainable and lead to win-win situations for both the visitors and the visited; |

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|  | 94. | Supports the development of integrated multimodal forms of transport for tourists through the creation of tickets enabling different transportation means to be used according to differing requirements; emphasises that progress in integrated ticketing services would be a strong incentive to cross-border tourism; |

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|  | 95. | Emphasises that electric vehicles offer an increasingly attractive solution for both ***rural*** and urban tourism in terms of the new, flexible mobility, and that this mobility option should be offered increasingly in holiday resorts; |

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|  | 96. | Stresses the importance of facilitating the use of public transport by bicycle users; |

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|  | 97. | Strongly encourages the Commission to assess the possibility of making the European Tourism ***Indicators*** System (ETIS) an EU instrument to help tourism destinations to control, manage, evaluate and improve their ***performance*** in terms of sustainability; |

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|  | 98. | Calls on the Member States to pass on positive experiences of sustainable tourism management in the context of international cooperation abroad; |

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|  | 99. | Takes the view that full accessibility and affordability in tourism are an integral part of the sector?s sustainability; affirms that the ?tourism for all? principle allows and empowers people, particularly those with specific needs (such as people with disabilities or reduced mobility, young people, the elderly, low-income families, and families with children), to enjoy their rights as citizens, and that it consequently needs to be the reference for any national, regional, local or European tourism-related action; calls on the Member States to place particular emphasis on the use of new technologies when developing tourism concepts for senior citizens and people with specific disabilities; |

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|  | 100. | Recommends that the Member States develop a Europe-wide uniform and transparent identification system for accessible options and establish corresponding internet platforms; calls on the Commission to submit suggestions along these lines; |

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|  | 101. | Recommends that the Member States introduce the establishment of accessibility as an eligibility criterion for the tourism industry in the context of economic development programmes; |

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|  | 102. | Stresses that consumer trust in companies providing services in the tourism sector also relies on companies making available to consumers simple, effective and quick alternative means of resolving consumer disputes, and on companies protecting consumers? personal and financial data; |

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|  | 103. | Takes the view that, in order to make European tourism accessible, airlines must put an end to the distorted and frequently widespread practice of allocating more space to business class than to economy class; |

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|  | 104. | Stresses the contribution of civil society in promoting new forms of tourism through social networks, voluntary organisations, cultural and sports associations, citizens? action groups, and organisations representing young people, women and expatriate communities; |

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|  | 105. | Calls for greater recognition of the vital role played by the voluntary sector in developing and supporting the tourism sector through cultural volunteering; |

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|  | 106. | Urges the Commission and the Member States to pay attention to and support the potential of the social economy to develop sustainable and responsible tourism; |

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|  | 107. | Considers that tourism has important social value for young people, wage earners and retired people, and calls on the Member States to use EU funds for the development of health-related and recreational tourism; |

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|  | 108. | Stresses that the continuing immigration crisis in Europe particularly affects coastal areas, where tourism is an important element of residents? income; calls on the Commission to draft a report on the impact that the uncontrolled influx of immigrants into the EU is having on the tourism sector; |

Sharing economy

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|  | 109. | Welcomes the opportunities brought by the sharing economy for start-ups and innovative companies in the tourism sector; acknowledges the complementarity of these services with other tourism offers as regards their location and the people they target; |

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|  | 110. | Recalls that the sharing economy, or collaborative consumption, is a new socio-economic model that has taken off thanks to the technological revolution, with the internet connecting people through online platforms on which transactions involving goods and services can be conducted securely and transparently; |

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|  | 111. | Emphasises that the current legislation is not suited to the sharing economy, and that for this reason local and national governments have started to analyse such online platforms and are trying to regulate their effects, often applying disproportionate measures which are somewhat disparate within the Union; urges the Commission, together with the Member States, to analyse the best possible initiatives to be taken at European, national, regional and local level; recommends that consideration be given to establishing an appropriate regulatory framework within the overarching EU digital single market strategy; |

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|  | 112. | Stresses that the response to the rise of the ?sharing economy? must first be analysed before regulatory measures are taken; considers, however, that any action on the part of public authorities needs to be proportional and flexible in order to enable a regulatory framework that secures a level playing field for companies, and in particular a supportive positive business environment for SMEs and for innovation in the industry; considers, furthermore, that for the sake of consumer protection the security, safety and health regulations applicable to the traditional tourism sector should also apply to tourism services provided on a commercial basis within the sharing economy; |

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|  | 113. | Stresses that providers? activities need to be categorised correctly in order to distinguish clearly between ad hoc or permanent sharing and professional business services, to which appropriate regulations should apply; |

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|  | 114. | Emphasises also that platforms need to be fully accessible and that consumers using such sites must be correctly informed and not misled, and the privacy of their data protected; underlines the importance of a viable and transparent system of reviews, and of ensuring that consumers are not penalised by service providers for leaving negative reviews; |

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|  | 115. | Emphasises that the technology companies acting as intermediaries need to inform providers of their obligations, particularly as regards the protection of consumer rights, and to provide reliable and accessible information about all fees and hidden costs associated with conducting business, and about how to remain fully compliant with local laws, particularly as regards tax law and the observance of norms pertaining to consumer safety and the working conditions of those providing tourism services; |

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|  | 116. | Calls on the Commission to assess the economic and social impact of the sharing economy and its implications for the tourism industry, consumers, technology companies and public authorities, and to report back to Parliament on the outcome of the initiatives it has undertaken so far, including the work of the task force set up by DG GROW; |

Digitisation

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|  | 117. | Calls on the Commission to define jointly with industry and tourism associations a smart roadmap of initiatives focusing on the wider scope of innovation (process, ICT, research) and on the required skills, in order to encourage travel and tourism companies to adopt digital tools and use them more efficiently; takes the view that the Commission could make a concentrated effort to disseminate best practices in this area; |

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|  | 118. | Welcomes the Commission?s Digital Tourism Platform and its objectives of (i) boosting the innovation capacity and digitisation of tourism-related SMEs for the purpose of activating the tourism sector, and (ii) generating proposals as to how to adapt and shape sustainable, competitive and consumer-focused policies aimed at further developing the tourism sector; encourages the use of innovative technologies, the sharing of best practices and the deepening of cooperation at regional level with a view to making Europe?s tourism sector more attractive and competitive; considers that the promotion of e-learning and the increased uptake of digital technologies would further advance this goal; |

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|  | 119. | Is aware that SMEs (most of which are micro-enterprises) and start-ups in the tourism sector face considerable difficulties in promoting their services abroad and in adapting to the fast-changing market conditions; notes that new IT tools such as the Tourism Business Portal developed by the Commission, together with webinars, can help them take advantage of digital opportunities; stresses that making the Tourism Business Portal available in all the languages of the Member States would further promote the territorial benefits of these actions; encourages the taking of similar initiatives at the local, regional and national levels; |

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|  | 120. | Calls on the Commission to continue to foster collaboration between public and private travel and tourism stakeholders in order to facilitate research on, and the adoption of, digital solutions by European companies; highlights, in particular, the need for better coordination between public tourism administrations at the national, regional and local levels, tour operators, the hospitality sector and digital businesses; |

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|  | 121. | Calls on the Commission to assist the sector in constructing tools which will make it possible to monitor visitors? destinations, build up their profile and trace their mobility, so as to identify their interests and develop appropriate products, and to create tools offering à la carte destinations or the monitoring of networks in order to ascertain the opinions of our visitors; |

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|  | 122. | Expects the Commission to present a comprehensive report encompassing an assessment of the current state of play as regards digitisation in the EU tourism market, with a view to identifying and addressing challenges and opportunities for the various public and private players at national, regional and local level; considers that such a report should include appropriate recommendations in order to ensure fair competition and a level playing field for all actors and to protect consumers by providing for transparency, neutrality and accessibility; |

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|  | 123. | Notes the increase in the online booking of tourism services directly by the user and the risks which this may carry for consumers, who are often unaware of their rights and of the applicable legislation; requests that the Commission pursue in detail any abuses which may arise in this area, in particular involving combined purchases from various service providers (flight tickets and car hire, for example), and to adapt and develop these new ways of booking services at the time of the next review of the Package Travel Directive; |

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|  | 124. | Welcomes the recent conclusion of the trilogue negotiations on a revised Package Travel Directive; calls for its timely and effective transposition and application with a view to transforming the sector and protecting consumers in the digital environment; |

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|  | 125. | Calls on the Commission to refocus funds and programmes in order to better support the digitisation of European tourism companies; |

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|  | 126. | Calls on the Commission to ensure that service providers are given fair and equal access to relevant data by travel and transport operators in order to facilitate the deployment of digital multimodal information and ticketing services; notes the importance of intelligent transport systems (ITS) in providing accurate, real-time traffic and travel data for the development of integrated mobility services that would benefit European tourism development; |

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|  | 127. | Calls on the Member States to identify and support EU-wide initiatives that foster the use of digital infrastructure and interoperability among different platforms; calls on the Member States, in this context, to provide free wi-fi in tourism areas and to abolish roaming charges by 15 June 2017, as decided, and also geo-blocking; |

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|  | 128. | Calls on the Member States and local authorities to ensure that all stations and arrival, departure and transfer platforms are equipped with information offices incorporating trained staff able to provide information on key destinations, transportation means and tourism facilities, together with multilingual digital information systems offering free and unlimited access to wi-fi networks that can also be used by people with disabilities; |

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|  | 129. | Stresses that travellers still face differing prices, terms and conditions when booking accommodation or means of transport online; welcomes, therefore, the Commission communication entitled ?A Digital Single Market Strategy for Europe?; calls on the Commission to adopt a comprehensive proposal to end the unjustified geo-blocking of access to goods, services and the best available rate on the basis of geographical location or country of residence; |

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|  | 130. | Urges the Member States to encourage access to high-speed broadband as a priority for remote and outermost tourism areas such as islands and coastal, mountain and ***rural*** areas in order to enhance the growth of tourism businesses and to reduce the digital gap in the EU; |

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|  | 131. | Calls on the Member States and the players involved to develop effective means to counter the skills shortage in all parts of the tourism industry, in particular in the area of digitisation; |

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|  | 132. | Is worried that many of the economic benefits of online distribution are not being reaped in Europe; takes the view that European governments should do more to empower entrepreneurship and, in particular, technology-oriented solutions in Europe; |

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|  | 133. | Instructs its President to forward this resolution to the Council and the Commission. |

(1)  OJ C 56 E, 26.2.2013, p. 41.

(2)  OJ C 131 E, 8.5.2013, p. 9.

(3)  OJ C 134, 7.6.2003, p. 7.

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[***Hunger Amidst Plenty: Locating Vulnerability in a Resource-Rich Region in India***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BH2-VXY1-JBMY-H3YV-00000-00&context=1516831)

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**Body**

**ABSTRACT**

This paper illustrates how politics on resource entitlement have historically shaped the vulnerable condition of people in Nuapada district (formerly Nawapara sub-division of Kalahandi district) of Orissa, India. It finds that the underutilisation of existing resources in the district, backed by loopholes in district administration, has widened the vulnerability conditions of local people. The collapse of the state command economy during post-economic reform and the subsequent withdrawal of welfare state from welfare activities, which opens space for elite groups and middlemen to exploit both resources and local people, have caused serious disruption in the development of the district as evident from the declining livelihood options and increasing distress migration. Thus there is a need to bring reform in equitable distribution of resources at the state level.

**FULL TEXT**

**Introduction**

Resource, either endowed by nature or human action, plays crucial roles in the livelihood of people. It is categorised as renewable, non-renewable, conventional or non-conventional, encompassing phenomena such as land, water, forest, public transports, education, infrastructure, hospitals, etc. The present development paradigm uses resources basically in terms of human resources, capital resources, natural resources, and institutional or community resources. The use of such resources in development framework shows that each resource influences the other. For example, human resources including population, skills, knowledge, and education influence the production capacity. Capital resources consist of the resources used in the production process and accumulation of assets such as investment, reserves, technology, and livestock. The natural resources such as land, forest, water, and other common property resources have a larger impact on ***rural*** livelihood and contribute direct employment to around 0.82 billion ***rural*** poor over the world.

For many living in ***rural*** areas, natural resources are only assets available for their survival, often as a household coping strategy (Shah, 2009; Streeten, 1994; Sugden, 1993; WRC, 2002). The poor in India also earn 20–25% of their income directly from the natural resources (Parikh, 1998) and about 10 million workers are directly or indirectly engaged in forest-related activities only (Sarap, 2004). Various state-induced institutional resources and community-initiated resources are also evident in many developing countries meant for enhancing the ***rural*** livelihood. In India such institutional resources are found in terms of food-based safety net programmes, income generation schemes, social security schemes, etc.

But availability of resources does not guarantee entitlement rather governed by various socio-political factors. The theoretical polemics of vulnerability show that the failure to entitlement largely implicates the vulnerable condition often intertwined with various livelihood gamut including the asset endowment (investment, store, claims) or what Sen (1981) calls ‘commodity bundle’ acquired either through procurement or exchange. Given the high incidence of hunger and poverty in developing counties with rich resources, there have been long-standing discourses on resource entitlement both at public policy level and academic forum. Such discourse basically brings the process and practice of resource allocations and distribution within a household or group of households to understand the entitlement level. In fact, resource forms a buffer for livelihood and helps in livelihood cping strategies but it’s entitlement is largely determined by factors like institutional structure, political process, ecological system, and traditional social institutions such as caste and kinship. Thus there are both state-determined entitlements and community-determined entitlements. In the latter, customary laws do have a larger influence on land and common property resources in particular (Auty, 2001; Azam 2001; Huang, 2007; Mazrui, 1995; Wimmer, 1997). Moreover, when state becomes the authority in resources distribution, the idea of power hegemony leads to conflicts on right over resource as evident from the devastating livelihood of ***rural*** poor owing to decline in livelihood-based resources. The exploitation of, say land, forest, and mineral resources by the multinational corporations invited by the state, have been affecting the traditional livelihood in many countries. It is also noticed that the skewed distribution and elite capture of land resources always trigger vulnerability in farming communities by directly controlling their production functions (De Waal, 1989; Deo, 2009, 2012; Devereux, 1996; Guyer, 1995; Keen, 1994; Maxwell and Wiebe, 1999); thereby their resource potentiality becomes limited, as a result the grim of marginalised groups- Scheduled Tribes (ST), Scheduled Castes (SC), landless, marginal farmers and destitutes becomes double than usual largely in terms of, to quote Chambers (1989) ‘physically weaker, economically impoverished, socially dependent, humiliated and psychologically harmed’.

Entitlement over resources is difficult to measure because of their temporal and seasonal dimension, but poverty is always accepted as a proxy in it. Literature shows that entitlement over livelihood resources is affected by the conflict over the resources (Dietz, 2006; Huang, 2007; Menon, 2012; Padel, 2012; Shah, 2009; Turner, 1999, 2004) for which the existing resources remain unutilised or over-utilised. For example, the conflict over national parks and wildlife conservation in India has been depriving the forest-dependent communities from collecting the forest produces, thereby affecting their forest-based livelihood (Fernandes, 1990; Nadkarni, 2000). Similarly, the conflict over Cauvery water distribution in South India has affected the ***agricultural*** production of Karnataka and Tamil Nadu. Many times fights between the local communities due to the scarcity of resources are also evident. Bogale and Korf’s (2009) study on resource entitlement among the pastoralists of Ethiopia reveals how the sharing of resources in a resource-scarce situation like drought shapes their entitlement to resources. Thus conflict over the resources- both in resource-scarce and resource-abundant situations- always denies entitlement to resources. Under such situations, it is alleged that instability in the government and lack of subsequent policies on resource use prevent the proper realisation of the resource value for regional development (Haddad and O’Shaug, 1999; Johnson and Forsyth, 2002; Maxwell and Smith, 1992). For example, the sub-Saharan Africa is anguished with many natural resources and Congo is blessed with gold and copper, but millions of people in these countries live with poverty and hunger only because of the underutilisation of such resources. The African Development Bank (2012) analysed the food security situation in six North African countries, i.e. Algeria, Libya, Egypt, Mauritania, Morocco, and Tunisia. The first two countries are rich in mineral resources, whereas the other countries are poor with the same resource. It is found that rising food prices are a major cause of food insecurity and a higher prevalence of stunt growth children. However, the Global Hunger Index (GHI) of each country is found to be increasing from previous GHI (IFPRI, 2011). Similarly, Nigeria is rich in oil resources and the third largest economy in Africa, but is placed in a lower position, i.e. 160th out of 177 countries in the Human Development Index. With high market trade of oil resources, the country is unable to feed its population, as seen from the 60.9% of hungry people ([*http://www.bbc.co.uk/news/world-africa-17015873*](http://www.bbc.co.uk/news/world-africa-17015873)), which is largely attributed to the corruption and incompetency of the ***rural*** economy and poorly managed safety net programme (World Bank, 1996).

While using Chambers’ definition of vulnerability, that is, vulnerability as ‘not lack or want, but defencelessness, insecurity and expose to risks, shocks and stresses’ (Chambers, 1989: 1), Watts and Bohle (1993) also find internal and external factors of resource vulnerability and notice that poor health, unskilled knowledge,lack of access to resources and information and disturbance in ecological system (land degradation, earthquake, flood, drought, storms, deforestation, etc.), exacerbates the condition of vulnerability. The political economy approach to vulnerability is largely discoursed via Sen’s entitlement failure model. Given the high prevalence of hunger, malnutrition, and starvation death, this approach in Indian context argues that there is an abundance of food resources but they are not reaching the people due to the politics at policy level on one hand and lack of accountability and transference in the system on the other (Currie, 2000; Jena, 2008; Leach and Davies, 1991; Mooij, 2007; Salih, 1995; Sen, 1981; Senauer and Sur, 2001). India too claims increasing ***agricultural*** production, but the absence of storage has led to the rotting of food grains rather than distributing among the poor (Chand, 2007; Patnaik, 2005). That is, despite avilability of foodgrains, the lack of access to foodgrains due to various reasons continues to remain the base of household food vulnerability in India (Mooij, 2001; Ray, 2004; Sen, 1981).

Further, the adaptation of new economic reform in India has made it possible to transform the economy, culture and livelihood of the people as evident from increasing ***agricultural*** growth, but has resulted in the withdrawal of state command economy and welfare activities and thereby giving direct authorities to the elite and funding agencies. The concept of free market has enabled middlemen to exploit the available resources in ***rural*** areas, where the state often mediates as noticed from invitation to mining companies to extract the resources. The new economic reform, being market driven, affected the local market by directly allowing the traders to enter into the market which aggravated the existing poverty and deprivation of the landless and marginal labourers in particular, as evident from declining food consumption and the increasing absolute poverty level (≤$1.25 per day in 2005 Purchasing Power Parity) (Ahluwalia, 2000; Jha, 2009; Deaton and Dreze, 2009; Gillespie and Kadilaya, 2011; Patnaik, 1997; Rao, 2000). In this process, the ***rural*** poor were only forced to participate as subsidiary parts in an economically disadvantaged position rather than as primary shareholders, which has made the people more vulnerable and crisis ridden (Chand, 2008; Patnaik, 2003; Radhakrishnan and Ravi, 1992; Swaminathan, 2009).

Given the aforesaid understanding, this paper examines the interface between resource availability and vulnerability in the Nuapada (formerly Nawapara sub-division of Kalahandi district) of Orissa, one of the resource-rich regions in India. It seeks to understand how the political economy of resource entitlement in the district has historically shaped the vulnerable conditions of the people in the district. Despite affluent resources, the district is always plagued with poverty, hunger, malnutrition, and starvation deaths and is considered one of the hundred identified backward districts in the country. Such situations have been widened after the adaptation of new economic reforms in the states as evident from the distress migration and subsequent allegations of starvation deaths. Following these, a long-term action plan has been enacted by the central government for the development of this region under the name of KBK (Kalahandi–Bolangir–Koraput) besides other welfare supports. Still the grim of the district remain the same. Thus the present paper, while understanding the drama of vulnerability process in the district, seeks to understand the externality of vulnerability of local people under broad political economy approach with a theoretical assumption that ‘resource-rich region does not necessarily backward’ rather backwardness is due to improper utilisation or underutilisation of existing resources.

**Methodology**

This is a reflective study conducted in the Nuapada district of Orissa over a long period of time. As the present day Nuapada district was earlier part of present Kalahandi district till 1993, this study uses Kalahandi referring to both the districts. However, most of the data presented are in relation to present day Nuapada district. The broad objective of this study was to understand the interface between the resource availability and vulnerability. Does denial to resource entitlement lead to vulnerability in this region? In doing so it captures the factors responsible for denial of resource holding of the local people via a narrative approach of data collection. However, historical methods could also translate the reality of livelihood among people. Thus qualitative information was mostly gathered through ethnographic methods. This uses both the political economy approach and structural model to vulnerability developed by Sen (1981) and Watts and Bohle (1993) respectively, to understand the process of vulnerability in the district, emphasising the collapse of traditional food institutions consequent to adaptation of new economic reform. The Context-Input-Process-Product, popularly known as the CIPP model, a qualitative tool adapted by Elliot (1989) was used to collect information on the occurrence of vulnerability in the area. The ‘*context’* here is resource abundancy, ‘*input’* is the entitlement, *process* is the political power hegemony, and ‘*product’* is the food insecurity and vulnerability. All such qualitative information was collected through informally interviewing few people over a prolonged stay in the district through unstructured questionnaires with open-ended questions. Data pertaining to the functioning of the various food-based safety net programmes were collected over a long period through informally interviewing the local people, government officials in charge of various food safety programmes and gram panchayat officials at the lower strata of administration to measure the reliability and validity of the study. However, being from the same district, data on the local economy and functioning of different food-based institutions were collected as a mere participant observer over a long period of stay in the district. The secondary information, on the other hand, basically the statistical data, were collected from various publications of government office in the district and then de-coded to give a meaning to it through the narrations collected from the identified vulnerable people. Vulnerable households in this study were used, referring to marginal ***agricultural*** workers and landless families with frequent migration.

The district, sorrounded by hills and mountains, consists of five community development blocks largely concentrated by ST/SC.The data on different resources were collected from the concerned offices located in the district. For example, data on ***agricultural*** pattern and production were collected from the district ***agricultural*** office located in Nuapada. The data on livestock resource were gathered from the Chief District Veterinary Office, Nuapada. Data on educational resources, employment both in organised and unorganised sectors were collected from the District Education Office and District Employment Exchange Office based at Nuapada. The District Industrial Centre gave the data on the industrial potentiality of the district. The data on migration, an important socio-economic issue in the district, were collected from the District Labour Office. The data on rainfall and drought conditions in the district were collected from the District Meteorological Department, Nuapada. The Economy Survey of Orissa of various years were major sources of data pertaining to the economic achievement and status of resources in the district apart from other relevant data.

***‘The Nuapada/Kalahandi’*: Godown of Resources vs. Starvation Capital**

Ever since the first child-selling case during mid-eighties, Kalahandi district of Orissa does not need much introduction because of its continuous allegations of hunger, malnutrition, starvation deaths, distress migration, etc. The district is located in western part of Orissa between 19°.3′ North to 21°.3′ North latitude and 82°.20′ East to 83.47 East longitude, bordering newly formed Chhattisgarh state in India. The first child selling case which actually occurred in the present day Nuapada district in 1985 not only influenced media and bureaucrats but became nationally important and spurred the then Prime Minister Rajiv Gandhi to visit the alleged family. Gradually, the rest of India soon began hearing of Kalahandi on a daily basis as national media interest increased manifold. Thereafter, the district became the frontline of each media report following the subsequent occurrence of famine and drought grasped the district in 1965, 1972, and 1985 (Purohit et al., 1985). Following this, Keshan Pattanayak filed a Public Interest Litigation (PIL) in the Supreme Court of India and the Orissa High Court against the state government (*Kishan Pattanayak and others vs. the State of* Orissa) about the occurrence of poverty and hunger in the district highlighting These people are beyond the pale of juristic justice and what we are trying to present as a case is only one aspect of the unlawful and oppressive system that has replace the legitimate functioning of the state. (quoted in Banik, 2004: 17)

The frequent drought conditions in the district continued to force ***rural*** poor to migrate to other cities like Andhara Pradesh, Gujurat, and Raipur in search of employment depending on rainfall and crop production. Migration is now a regular phenomenon in this region that usually begins immediately after harvesting of crops. Households belonging to ST/SC generally opt migration as a livelihood strategy. Following it the Government has been pushing different livelihood-based programmes to the district in order to enhance people’s livelihood. Still the story of famine and hunger deaths in this district continue to appear in daily newspapers due to non-implementation, non-accountability and non-transferancy of existing schemes/programmes. As Nagbhusan Patnaik (*Indian People’s Front vs. State of Orissa*) in 1989 repeats the reoccurrence of drought in Kalahandi and Koraput districts of Orissa saying, ‘…being victims of “chill penury”, the people of Kalahandi are sometimes forced to sell their children. The starvation deaths of the inhabitants of the districts of Koraput and Kalahandi are due to [the] utter negligence and callousness of the administration and the Government of Orissa’. In 2007 the Paharia community of the Nuapada district was alleged eating stone in the absence of food to eat unlike eating of mango kernels in the Koraput district. However, it was later disproved by the district administration. In 1996 following the death of Dombudha Majhi of the Mahulkot village in the Khariar block, the Government was compelled to declare Kalahandi as one of 41 districts in India ‘prone to starvation’ and extended various supports and implemented Relief Code for the loss of crops. A long-term action plan (LTAP) was amended in 1992 under the umbrella of KBK (Kalahandi–Bolangir–Koraput) to extend livelihood support to the local people irrespective of class. Despite such attempts the socio-economic situations of the district remain same due to various political economy factors.

The resource potentiality in the district, which the present study measures in term of human, capital, natural and institutional resources, shows that land and forest resources are abundantly recorded and constantly supporting the livelihood of local people. The district is primarily an ***agricultural*** district with 73% of people depending on ***agriculture*** as against 74.07% of the state (2001 Census). Land resource is an important source of production. The land utilisation pattern in the district reveals predominance of forest area (41.19%) compared to 35.93% of the state. The net sown area of the district is 163 thousand acres that accounts for 48.70% of the geographical area as compared to 40.41% of the state. The economic ***performance*** of the district reveals that the real per capita Net District Domestic Product (NDDP) is 78. The district showa an increasing Gross District Domestic Product (GDDP) that accounts for 82921 lakhs in 2004–05 to 150659 lakhs in 2008–09 (Government of Orissa, 2010). In term of economic growth, the district is ranked 14th in the state (Government of Orissa, 2012).

The District Meteorological Department estimates increasing rainfall in the district with an average rainfall of 1286.4 mm (Figure 1); however, its erratic nature and lack of storage facility has affected the irrigation potential, leading to drought conditions in some years. The irrigation level of the district is estimated very low compared to 198,326 hectares of cultivable area and 189,170 hectares net cultivable area. It is estimated at 31.36% (‘000 hectares) compared to 30.65% in 1996–97 and 39.65% in 1988–89 (Government of Orissa, 2005–06). The dug-well and bore-well is hardly feasible in the district, and shallow tube wells and filler points are seldom found in the Khariar block. The ***intervention*** of NABARD in the district has been able to increase the irrigation coverage of the district, i.e., 33919 hectares in 1998 to 35,533 hectares in 2003. Of the total cultivable area, i.e. 198326 hectares, 38734 hectares are under irrigation as on 2005. Data shows that a total of 208 bore wells have been sunk under RIDF scheme out of which 195 are functioning so far. There is only one major irrigation project namely Lower Indra Irrigation Project, Tikhali, three medium Irrigation Projects and 33 minor irrigation projects in the district. Most of the minor irrigation projects are defunct due to lack of storage potentiality. Despite these, the ***agricultural*** production, particularly paddy and rice, is reportedly increased from 2004–05 to 2011–12 (Table 1) and trends of production, especially of paddy is higher than few other distircts in the state (Figure 2). The per capita net food production in the district, particularly rice and cereals, shows average production, but milk, pulses, egg, and fish are found to be very low (Table 2). The data on foodgrain production in Nuapda also shows that the paddy production in the district has gone up from 152,126 quintal in 2005–06 to 209,071 and 244,528 quintals in 2006–07 and 2007–08, respectively (Figure 3). In 1989–90, the per capita food grain production was Rs.384 compared to Rs.256 for the state. The crop pattern of the district reflects low importance of rice (37.66%) in the total cropped area, but relatively higher food production (78.45%) compared to 48.01% and 76.88% for the state (Jenamani, 2005). The productivity of rice is much lower for the district (7.01 quintals per hectare) compared to 12.37 quintal per hectare of the state. However, the crop intensity of the district is reported to have increased from 133 in 1997–98 to 154 and 160 in 2001–02 and 2005–06, respectively (Government of Orissa, 2007-08).

**Figure 1.**

Rainfall pattern in the Nuapada district.

Source: Compiled from the rainfall data of different years.

**Table 1.**

Production of paddy and rice in Nuapada district (Figure in Metric Tonne (MT)).

| **Years** | **Paddy** | **Rice** |
| --- | --- | --- |
| 2004–05 | 141.49 | 96.21 |
| 2005–06 | 156.14 | 106.18 |
| 2006–07 | 179.69 | 120.39 |
| 2007–08 | 301.51 | 205.03 |
| 2008–09 | 225.03 | 153.02 |
| 2009–10 | 228.64 | 155.48 |
| Average | 218.2 | 148.48 |

Source: Economic survey of Orissa of various years.

**Figure 2.**

District-wise paddy production in Orissa, 2005-06 to 2009-10 (Figure in MT).

Source: Compiled from data collected from different reports of Government of Orissa.

**Table 2.**

Per capita net food production per day in Nuapada district.

| **Food items** | **Per capita net food production in gram/day** |  |
| --- | --- | --- |
|  | **Orissa** | **Nuapada** |
| Rice | 173.76 | 225.5 |
| Cereals | 389.27 | 628.0 |
| Tuber | 28.20 | 5.34 |
| Pulses | 21.21 | 9.84 |
| Sugar | 5.33 | 10.5 |
| Edible oil | 4.55 | 13.17 |
| Milk | 48.0 | – |
| Egg | 5.78 | – |
| Fish | 20.47 | 8.0 |

Source: Panda, 2008.

**Figure 3.**

Production of food grains in the Nuapada district (in Tonne).

Source: Compiled from ***agricultural*** production of different years published in ***Agricultural*** directories, Orissa.

The natural resource potentialities in the district are also noticed from its 1849.69 sq.kms forest covers out of total geographical area of 3852 sq.kms. The data provided by Forest Department, Nuapada shows that reserved forest in the district constitutes 983.749 sq.kms whereas demarcated protected forest, unclassified forest, forest under revenue department and village forest cover an estimated area of 24.33 sq.kms, 0.54 sq.kms, 345.25 sq.kms and 1.698 sq.kms respectively. The Sunabeda Wildlife sancatury, which now got tiger project status by central government, is another attraction which harbours various floras and faunas. Its core zone spreads over 600 sq.kms. The water bodies in the district also constitute important natural resources which covers an estimated areas of 2881.1 hactares of land as per the data provided by District ***Rural*** Development Agency, Nuapada. Mohanty (1992), Mishra and Rao (1992), Nayak (2009) and Mishra (2010) observe that Kalahandi district has plenty of natural resources, but at the same time its high proportion of poor typifies the whole state. The Enquiry Committee’s Report on Orissa States (1939) notes that Kalahandi, one of the few big states of Orissa… majority of the people are aborigines…state most undeveloped with extensive jungles… ruler all in all…the virtual serfdom of the people has kept then absolutely timid and backward. We are led to believe that economic exploitation of the people are probably the worst. (cited in EPW, April 30, 1988, p. 886).

Human resource plays prominent roles in the production of livelihood resources such as food production, employment and simultenously make the food resources available at household level. The estimated data show that there are 53,744 marginal workers, 151,694 main workers and 386,330 non-workers in the district altogether sharing primary, secondary, and tertiary sectors (Census 2011). A large proportion of the population are engaged in ***agricultural*** labour work. The data on educational achievement in the district portrays that people hardly attain higher education and dropout rate is extremely high due to poverty and lack of higher educational institutes. Data provided by Office of the District Employment Exchange, Nuapada shows that during 2005-06 only 7015 person were engaged in organised sectors which declined to 6800 in 2007-08. So there are high prevalence of unemployment largely among the youth andowing to lack of technical skills engagement in service sectors is very low.

The livestock resources continue to provide gainful employment to the local people in the district. These become important assets for people that are usually sold during financial crisis. However, the declining areas of grazing land in some parts of the district have led to the distress sale of the livestock. Now the district has an estimated population of 176,706 cattle and 42,267 buffalo and produces 10.20 metric tonne of milk with an average production of 100.23 kg/year (CDVO, 2005) (Table 3). The per capita milk availability in the district is 21 grams as against 94 grams in the state. There is a unique variety of cattle in the district, popularly known as Khariar-breed cow, which are said to give more milk. Similarly, poultry is also an economic source for poor people in the district. The local poultry (desi) has high demand in the region but gradually being replaced by the improved variety of poultry.It is estimated that there were 216.831 desi poultry, producing 5.528 metric tonne of eggs (CDVO, 2005). The fishery sector also contributes a little to the district economy. Over the year the district has been able to produce 2676.83 metric tonnes of fish in 2005–06, which went up 2688.39 MT and 3113.80 MT in the year 2006–07 and 2007–08, respectively, and estimates 10.70, 10.75, and 14.1 Crore rupees, respectively (Depatment of Fishery, 2009).

**Table 3.**

Livestock production and per capita availability in Nuapada.

| **Livestock Product** | **Production** | **Per capita availability (in kg)** |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **India** | **Orissa** | **Nuapada** | **India** | **Orissa** | **Nuapada** |  |
| Milk | 68.6 million tonne | 0.685 million tonne | 10.20 million tonne | 73.3 | 18.25 | 19.22 |
| Egg | 28,162 million | 639.3 million | 5.528 million | 30 nos. | 17 nos. | 10.42 nos. |
| Meat | 16.45 (000 MT) | 29,488.2 MT | 0.47 (000 MT) | 1.7 kg | 1.087 kg | 0.886 kg |

Source: District Statistical Handbook and CDVO, Nuapada 2005.

The resource potentialities of the district are also evident in the form of both institutionalised pro-poor delivery services and the community-initiated programmes. The former include subsidised food-based programmes (public distribution system (PDS), supplimentary nutritious schemes (Integrated Child Development Scheme (ICDS), Mid-day Meal Scheme (MDM)), income-generating schemes (Mahatma Gandhi National ***Rural*** Employment Guarantee Scheme (MGNREGS), SampoornaGraminRozgarYojana (SGRY)), and social security schemes (old aged pension, disability pension and widow pension) which aim at enhancing people’s capability to purchase food commodity. The flow of funds to the district (Table 4) too constitutes important capital resources.

**Table 4.**

Sector-wise allocation of funds in the district (Figure in Rs. Lakh).

| **Name of the schemes** | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
| --- | --- | --- | --- | --- | --- |
| SGSY | NA | NA | 391.84 | 598.05 | 706.98 |
| IAY | 760.89 | 533.96 | 567.66 | 772.62 | 1103.71 |
| PMGY(GA) | 14.77 | NA | NA | NA | NA |
| Mo-KUDIA | NA | NA | NA | NA | 233.45 |
| NFFW | 1390.57 | 1548.26 | NA | NA | NA |
| NREGA | NA | 1548.25 | 10825.29 | 2750.00 | 5559.57 |
| BRGF | NA | NA | NA | 1698.00 | 1129.00 |
| Biju KBK | NA | NA | 300.00 | 1695.44 | 931.65 |
| RLTAP | 48.75 | 8125 | NA | NA | NA |
| SGRY | 1525.56 | 1796.69 | NA | NA | NA |
| Sub-total | 3740.54 | 5508.40 | 12084.79 | 7514.10 | 9664.35 |

Source: District Human Development Report, 2012.

Besides, the district receives a special grant from central government under Kalahandi–Bolangir–Koraput (KBK) plan where both BPL and ALP households are entitled to obtain food rations at a subsidised price. Under the revised long-term action plan (RLTAP) of the KBK scheme, an integrated approach to development, i.e. Biju KBK Plan, named after the then Chief Minister of the state, has also been functioning in the district. The Plan basically sought to fill the gap between the efforts made to the development of the region and the availability of the resources, the proper utilisation of which can enhance not only the infrastructure of the region but also the quality of life of people. Despite such measures, the level of economic development in the district is slow and always remains much below the state development index. Large-scale distress migration, malnutrition and hunger deaths are still reported in many villages and thus it cannot be wrong to call undivided Kalahandi the ‘starvation capital’.

**Political Economy of Resource Entitlement and Vulnerability in Nuapada**

Availability of resources, as said earlier, does not guarantee entitlement rather depends on various factors. This section sheds light on the factors governing resource entitlement of people in Nuapada district. The following three factors are broadly found for the resource vulnerability and hunger situation in Nuapada district.

Colonial legacy

Liberalisation, new economic reforms and denial to resources

Political trigger to ‘Sardar*-Raj’*

**Colonial Legacy**

The social history of the Nuapada district shows that it was administered by colonial government under Central Province. Its post-transferred phase portrays that colonial rulers, after replacing military order of Bonsala Raja, brought many changes in this region largely in agrarian and revenue arrangements. After conquering this district they realised the dominant position of the local Raja, recognising them as Zamindar and placed them in revenue generation under the ‘thekadari system’ introduced in 1968 (Deo, 2009), which became ‘thekadar’ under the revised system. However, few tribal communities had predominance over the land resources. The adivasi leaders were gradually replaced by the non-adivasi peasant and artisan groups purposefully invited by the Zamindar. The non-adivasi headmen, who were loyal to Zamindar, retained their position and the invited non-adivasi from the economically advanced groups took the fruits of the system and were later given the post of ‘*Goantia’* – the village headmen – who enjoyed moufi (rent-free village) and waste and fallow land . Gradually the horse traders (muslim from north India), wine vendors (Sundhi from Chhattisgarh), the Kultha (expert cultivator from Sambalpur), and the Brahmins who were settled there took the advantage of this system, maybe due to their prior experience of state structure, and monetised economy. The adivasi headman with their low level of ***agricultural*** technology and having little experience of a monetised economy, complex social setting, and state structure, could not compete with economically more powerful groups and were gradually replaced by non-adivasi (Deo, 2009). Gradually the entry of Marwaris, Punjabis, Sindhis, Biharis into the tribal hinterland again accelerated the marginalisation of the adivasi as they captured the adivasi’s land in various means including keeping adivasi as bonded labour at their home. In the later part of the colonial regime, the coastal elite who migrated to this district also started exploiting the adivasi of this district. As *Report of the Orissa State Enquiry Committee* (1939) headed by Harekrishna Mahatab describes: The original inhabitant – the adivasi – of this district basically used to practice shifting cultivation as to some extent now. The zamindars during that period too encouraged them to settle down for permanent cultivation in order to increase the revenue of the Zamindari which perhaps resulted to bring non-adivasi peasants and artisan from outside. These incomers were allotted wasteland and area left fallow by the adivasi in the course of their shifting cultivation. To the fact, the ability to pay the revenue by the adivasi many times basically in between 1870 to 1901 led to the mortgage of their land and the non-adivaisi traders including liquor vendors, Kulthas and Brahmins could only afforded to purchase that land.

It is said that this is not confined only to this estate but is widespread in western Orissa and tribal-dominated regions in the present-day Chhattisgarh. Further, the process accelerated due to famine after which price of food grains is reported to have increased; for example, rice was 70–80 seers per kg in 1862–63, in 1900 it was down to 6 seers (Dewar, 1906) further adding to the miseries of the people.

The adivasi headmen, in the pre-colonial era, occasionally used to pay *bheti* (gifts) to the Raja depending on their status and influence. But the communal ownership of land and the widespread shifting cultivation often made the revenue collection hard, resulting in the low *bheti*. It led to the land transfer as Imperial Gazetteers of India (1906) notes, ‘between 1863 and 1888, one fifth of the village lands had changed hands, half of the transfer being to the money lending as opposed to the cultivators classes’. The irregularities in the revenue collection led to the neglect of the inhabitant on the part of colonial rulers. It was only after the implementation of Revenue Settlement of 1891, some tribal goantia who could prove long possession and improvement of villages were given protected status against arbitrary eviction by the Zamindars. Out of the 18 protected goantias or thekadar of villages, 17 were adivadi (Deo, 1984). In spite of the protected status given to the tribal goantias, ownership of one-third of the total land passed from the adivasis to moneylenders and businessmen between 1891 and 1910. The unprotected tribal goantias in general and in some cases even the protected goantias lost their land only due to the arbitrary nature of the non-tribal who always wanted to exploit the adivasis. Given this, Central Province Land Alienation Act was passed in 1917 to reduce the land transfer particularly from the adivasi. However, proper implementation of the Act remains a dream due to its inherent political nature.

Further, apart from ***agriculture***, the marginalised sections in this district, largely ST/SC, used to depend on the forest resources for their socio-economic livelihood. But the non-tribal immigrant to this region gradually exploited the forest resources and ***agricultural*** land by various means. The adivasi peasants with less knowledge on the monetised economy simply could not compete with the non-tribal and continued to depend on them during crisis, which many times forced them to mortgage their cultivable land, even in many cases converted the landowning tenants into tenants-at-will and bonded servants. Similarly colonial rules opened up forest resources for commercial exploitation that led to denudation not only of minor forest produces but also valuable timber species like Sal (*Shorea robusta*) and teak (*Tectona grindis*) for which the Khariar Zamindiri or the present day Nuapada district was known for.

**Liberalisation, New Economic Reforms and Denial to Resources**

The development of the Orissa in general and undivided Kalahandi in particular can be understood through transition of social and economic conditions. The economic history of Orissa reveals that especially in the pre-colonial period, it had a feudal system without many statistical facts and figures about the economy. It was only the new economic reforms that helped the state economy to integrate with the larger economic set up of the country. However, the Indian financial feudal structure gradually neglected the state owing to its low economic contribution. Under the feudal structure, the higher caste people engaged in developed ***agricultural*** activities helped to generate necessary surplus for the rise of regional kingdoms of ancient Orissa. The developed ***agriculture*** after the adaptation of new economic reform only contributed to the marketable surplus in the villages and led to the formation of ***rural*** market institutions which were the meeting ground for economic exchanges between peasants, craftsmen, and merchants (Sahu, 1993). But its market-driven orientation has minimised the state action and new trajectory to other resources. The nature of the free market under this system de-structured the ***agricultural*** landholding by directly controlling over the ***agricultural*** production; thereby the deprived sections particularly Scheduled Caste and Scheduled Tribe became more vulnerable.

Land and the land relation system is an important phenomenon that defines the backwardness of a region (Behera and Nath, 2004; Fernandes, 1997; Tripathy and Nath, 2008). Land relation is basically understood in term of ‘right over land’. In this context, talking about land relation in the Nuapada district, the lopsided distribution of land resources and exploitative nature is clearly visible as many of the people are landless and marginal farmers having an average landholding of 2.5 acres (Jenamani, 2005). Land is an important asset for livelihood among the people of this district but the fertile and irrigated land are largely occupied by the elite and politically dominated families especially the Brahmins, although ***agriculture*** is not the primary source of their livelihood. It has in turn marginalised and made the poor more vulnerable. However, few tribal households have captured the land in Komna tahsil. Thus as ***agriculture*** among the elite political groups is not the major interest they do not show any interest in developing an irrigation system in the district. Although some of them are told fought favouring Ichhapur dam and Tikhali dam in the district, this was basically to mobilise the votes, but the lack of storage never benefitted the local farmers as expected. Despite the lack of irrigation, the district produces more food grains, particularly paddy, compared to other districts of the state and has become the net exporter of the paddy, which is attributed to the high rainfall of the district. Despite this, the vast number of people in the district have been reeling under the acute poverty which is said due to on proper utilisation of the existing resources including that of traditional irrigation system, cottage industries (husking, oil extraction) and forest resources.

The land utilisation pattern in erstwhile Kalahandi reveals that there is high inequality in land distribution and thus a high degree of marginal farmer categories are found in the district. The ***agricultural*** labour in the district is also reported to have increased from 33.14% in 1971 to 35.39% in 1981. The relatively low level of ***agricultural*** labour household in the district is due to the allotment of ceiling land but converted many farmers into marginal farmers due to limited land distribution. As a result there is a high degree of encroachment of land leading to the deforestation and decline of a forest-based livelihood. The context for the landless and marginal farmers to fall back on dependence on forest resources is found to be gradually reduced over time. As of 2002, out of the total forest areas of 58,135.47sq.kms, 45.32% are under Forest Department. The Reserved Forest and Protected Forest constituted 71.99% of the total forest areas in the state while it is found to be 85.59% in the Kalahandi district. During 1982–2002 there has been officially approved transfer under 252 projects involving an area of 27,563.18 hectares of forest land for non-forest use (Government of Orissa 2003–04).

Further, the local people in this district continue depending on the forest resources and forest land for their livelihood, but the inherent forest laws has affected the whole population by restricting them in acccess to forest resources. The construction of Tikhali dam, for example, in the district has displaced 54,000 people from 98 villages in the recent past. The construction of the Hirakud dam in Sambalpur district, however, benefitted the local farmers in terms of increase in the yield; however, it somehow ruined the economic condition of the farmers in rain-fed and non-irrigated areas like Kalahandi and Nuapada and stood as an instrument for high economic inequality. The Kalahandi region, which is less influenced by the modern ***agriculture***, was affected due to the ***agricultural*** change in the new economic era to the sense that the supply of food grain relief from outside under this reform continued to discourage growth of local food production. As a result there was alarming decline for demand of the local food produce and thus purchasing power of the people. For example, in 1982–83 the support price for paddy was Rs. 122, which was not adequate at all. During the period 1982–92 the loss of production has gone up by four to five times and hence in 1992 the support price of paddy should at least have been 450 per quintal. But the government had fixed it as 280. Moreover, during 1991–92 in Kalahdndi the actual price of paddy was between 180 and 220 per quintal. This has been pauperising the farmer and leading the entire population into the grip of poverty (Pradhan, 1993).

**Political Trigger to Sardar Raj**

Despite the affluence of resources, why is the Kalahandi-Nuapada region still poor? Is it natural? This question has been answered here through the historical analysis of functioning public policy programmes and political stigmatisation in the district. It discusses how the democratic failure and fight for the political seats have led to the food insecurity situation in the district. It is seen that given the lack of voice from the poor, the elite classes and the middlemen, basically non-tribal who have been exposed to and experienced the monetised economy, have benefitted under this state ideology. This section discusses such political and exploitative gamut in the district largely under Kothari’s ideology of *State against Democracy* (1989) through sketching the political history of the state and functioning pro-poor delivery services.

The political history of Orissa in post-independence reveals that the state had a strong presence of the rule of Ganatantra Parishad until the 1962 Lok Sabha election that was replaced by the Swatantra Party in 1967 and 1971 elections much contested with the Congress Party. However, the Congress Party ruled India throughout, and the emergence of the Congress as a dominant political force in Orissa was late by the standards of most Indian states. It was only in 1980 that the Congress began to take charge. Though it suffered a setback during the 1989 Lok Sabha election, which was won by Janata Dal, Congress in the state remained a major political force in the state. The 1998 and 1999 Lok Sabha elections were black years for Congress, losing the power in the state that was taken over by the BJP (Biju Janata Dal) leading to a coalition government at the Centre. Even today Congress fights against BJD, which is in alliance with BJP. Looking at the state-level power domination through the election, Vidhan Sabha, Congress became the ruler only after the 1980s election held concurrently with the Parliamentary election marked the emergence of Congress as an importance political force in the state that was, unlike the Lok Sabha election, taken over by the Janata Dal in the 1990s election (Kumar, 2004).

The democratic set up in Orissa remains puzzling, with the fight for the power after 1980 forgetting about development of the state. The political economy of development of the Kalahandi district, in this line, can be comprehended through the power domination in terms of geographical space and time. It is here of paramount importance to think about the development of this region through the emergence of political parties in the state in general and the development imperatives for the Kalahandi district in particular. However, no allegation of hunger was found during the rule preceding Congress domination in 1980, which may be due to the well-functioning food safety net and responsible government. J. B. Patnaik’s Congress (I) government was voted out of office in 1989 in the face of allegations of child selling. The subsequent government formed by Biju Patnaik (Janata Dal) blamed the previous Congress government over the failure of subsequent allegation of hunger and starvation deaths in the district. Despite the conformation of Orissa High Court in 1992 about the occurrence of starvation death in Kalahandi, Biju Patnaik’s government simply ignored the High Court’s recommendations as Currie (1998) aptly remarks ‘this judgement was used more as a tool to discredit its political opponents, rather than as a set of guidelines for improving governance in programme administration’….This government was subsequently voted out of office amidst public concern of corruption and administrative bungling and replaced by the previous government (Currie, 1998). To the current grim spread throughout the western Orissa (referred to as Koshal) in which Nuapada-Kalahandi was a part, even though the regular election process has continued to serve to topple government, no policy changes are observed impacting on the livelihood of the people of the Kalahandi region in terms of relief measures and food policy that remain away from the accountability and transference of such good governance. Therefore, despite Kalahandi issues are always taken up in Parliamentary debate by opposition parties over government’s failure to provide livelihood and use of available relief funds, the persistent hunger, malnutrition and food insecurity erases the democratic nature of the Indian Constitution.

Land is an important asset which determines both production and availability of food at individual households necessary for food security. But the historical records of land settlement in the district show that the land settlements, which were meant only to add land revenue during the long colonial period have alienated the local population from their landholding due to some inherence political factors and/or negligence of ruling government. The historical possession of land by the people in the district shows the domination of unfertile and inland land that itself affects the production of crops. The district, however, is claimed to have increase in ***agricultural*** production and net exporter of paddy, the factual question arises who generally produce more? It is only the landholding groups, generally Brahmins and non-adivasi, who can acquire benefit by producing more. The practice of bonded labour is still found in many ***rural*** villages (Harichandan, 2010; Mishra, 2010). Mishra and Rao (1992) rightly observe that the colonisation of Kalahandi by outsiders meant to increase ***agricultural*** production not only reduced the local population to the status of ***agricultural*** labourers and *now to the youth migration to other states* but also damaged the then existing other factors like community water management through wells, tanks, and other techniques (p. 1245 *emphasis added*).

The historical analysis of hunger in the district reveals that the historical neglect of the region’s development, absence of relief measures and largely the lack of public action are primarily responsible for the underdevelopment of the district. The political threshold in the district reveals that the fight for the power among the elite group with different political ideologies does not allow them to think over the development of the district rather than the political seat. Although politicians from the Kalahandi region occupy some position in the assembly, they fear bringing the Kalahandi issues in the fear of losing their power in consecutive terms. The democratic system in India, as Sen (1981) observes, has been able to prevent poverty and hunger in the post-independence period due to its free press and democratic political structure. However, the incidence of malnutrition and allegation of hunger and starvation deaths in different parts of the country including KBK districts in Orissa still challenges the so-called democratic nature of the country where food stocks are reported to be even higher than the buffer stock (Banik, 2007; Currie, 2000; Patnaik, 2003). Nowadays, although a colonial form of exploitation is less observed in this region compared to the 1980s, the corruption at district level and labour contractor (Sardar) as a new form of exploitation in this region has affected the livelihood of the people. It is observed that although people grow a few selected varieties of vegetables during peak season, they are unable to sell these directly in the market and operate through middlemen, which directly impacts on their income. The net analysis of those who died in starvation confirms that they were landless, and some had no ration cards to access food from the PDS store. The lack of assets, particularly land, has impacted on the purchasing power of the people of this district within and outside the PDS provision. When they are unable to afford money to purchase from the PDS under the quota during the distribution, they are compelled to buy food from the open market at a high rate, resulting in them either to mortgage their ration card or any other household assets that remain a process among the marginalised groups, i.e. ST/SC. Despite the ranges of income generation works available under MGNREGA and KBK scheme, the district administration is unable to create the work in accordance with the need of the poor, which is nothing but deliberate attempts by district authority towards livelihood vulnerability of local people.

**Discussion and Conclusion**

The experience with erstwhile Kalahandi regions affirms that there are abundant resources (human, natural, and community) in the district. We cannot conceptualise hunger, and food insecurity in the Kalahandi region is due to lack of food resources rather than lack of access to resources. It was found that the paradox of underdevelopment of the district has a historical origin to colonial laws, forceful de-structuring of traditional food based institutions, and the exploitation of middlemen. The non-tribals invited to the district long back still dominate the politico-economic sphere in the district keeping aside the original inhabitants, mostly the tribals. The other perpetuating factors found are the absence of market structure, underutilisation of existing resources, and human dignity. Since the last two decades, however, educated youths of many villages in the district have been observed migrating to metro cities for temporary employment and to contribute income to their household; food security and the asset endowment level of the concerned households remain the same. Once they stop going to cities for work, they become workless. This is because they do not want to do either as manual or causal work, which they perceive will lose them their dignity being return from big cities like Mumbai or Surat as usually they migrate temporarily in search of employment, which was earlier an option for many poor households. Such ideology perhaps has escalated the problem of development in that area and has been re-entering again into the national mainstream of poverty debate.

The resource potentialities in the district show that there are affluent resources both traditionally owned by the kinship or individual and induced by the state. The entitlement of such resources is governed by some sets of rules, the absence of which may deprive an individual of his/her entitlement. The land resources traditionally play an important role in the livelihood of the local people, but the advent of liberalisation has caused serious disruption of both local people and the land resources that are largely seen from the construction of dams and mining sectors. However, large-scale human displacement is never reported yet because of limited and small development projects. But is it sure that it has submerged ***agricultural*** land particularly of the ST/SC households.The rehabilitation of the project affected people in the district is dis-courasing whose voices were largely suppressed by the elite groups. Thus the state purposefully does not protest the interest of the poor, rather devoid the human sensibilities, where the bureaucrats and elite groups are found to get benefits out of the project. Thus the laws and orders meant for the poor are not implemented properly in this region and the poors are deliberately pushed to the povery and the interest of the dominant classes are entrenched in the new structure of policies and laws in hidden forms. Further the adaptation of new economic reform has, however, had an impact on socio-cultural transformation of certain sections of the population; the penetration of mainstream market into the district has rooted the ***rural*** value and culture out. It is observed that the entry of the monetary economy to the district not only ruined the traditional economy but also de-structured the traditional food institutions by encouraging the capitalist system in the region. It is further noticed that, although the district produces more food grains, the lack of market infrastructure means that many farmers sell their products through the middlemen at a lower price, which broadens the marginalisation of the people.

The irrigation potentiality influences the ***agricultural*** production of a region. But the land holding pattern in the district portrays that the fertilised land is largely occupied by the non-***agricultural*** groups because of which they do not attempt to enhance the irrigation of the district. Despite this, the district has been able to produce more, basically paddy, than the other districts of the state. Besides, the district frequently experiences drought conditions not due to the lack of rainfall but owing to the erratic nature of the rainfall. The district receives high rainfall compared to other districts, as shown in Figure 3. Similarly, the livestock resource in the district is reported to have declined because the traditional variety of cows are gradually declining and being replaced by the hybrid variety. The latter are only possessed by the high caste people and the poorer section cannot afford to purchase this variety due to lack of money. However, some women self-help groups in the district are supported by the local NGOs to purchase the hybrid cows. However, the lack of support regarding the absence of money to buy the fodder, has caused them to sell the cows again at a lower price and the concerned households are yet to repay the loan amount.

There are growing numbers of NGOs (national and international) working in the district, but these have not been able to change the fate of poor neither in economic terms nor at social level rather busy harnessing the available resources in the district. They are busy building big offices, training, and conference rooms not only to assemble the target population but also to expense the received grants to avoid penalty from the audit. The flow of funds to the district has drawn thousands of outsiders, largely coastal elite, to this region, who usually settle in the district to grab the capital resources or funds via self-initiated NGOs. The KBK project has also produced no results. The absence of grass-root politics, unawareness about political rights, and lack of skilled education in this region has perpetuated the situation as the majority of posts in all office districts are occupied by the costal elites. Even at bureaucrat level, posting or transfer to western and southern Orissa including the Nuapada district is always perceived as punishment and they try their utmost to transfer back to the lowland districts. The political representatives from the constituency are less vocal and those who are more vocal about the vulnerability situation of the region are suppressed by the other dominant politicians. So the political economy of development of this region is observed from the ‘lukewarm’ position of the local politician and bureaucrats. They only take poverty and hunger as a ‘trump card’ to create a political base and do not look for a permanent solution to the problems as Sainath (1996) rightly remarks ‘*everybody loves a good drought*’. In this context, a poem by Nirmal Prakash Purohit (in oriya) (2007) must be remembered which expresses the political economy of the development in the district that translates that ‘there are abundance resources in the district, received both from government and international bodies, but elite group only get benefit there’. It goes on saying ‘without any aid, Kalahandi region can survive and can sing the song of self-esteem. But these political leaders, government officials, NGO workers and journalists will die without any aid; they will be bankrupt and die in poverty in search of money, money and money’.

It is interesting to observe that when media published the starvation death in Kuliadungri village of the district in November 2011, the village was crowded with political leaders and district bureaucrats. The political leaders who are said to hardly visit the village were in the village for quite a long time. Those who visited the village viewed the death of Laxman Jagat differently, but nobody promised to provide the BPL cards immediately to others living in the same conditions, but rather were busy mobilising people to vote as was scheduled in February 2012, including the Congress party which has been spontaneously supported by the Kalahandi people since the 1980s. The Supreme Court teams visited the village in December 2011 to study the case but the ruling party and district bureaucrats refuted the allegation of deaths claiming the well functioning of PDS in the district and said that Laxman Jagat died in illness. Many starvation deaths are reported before Laxman Jagat, but were denied by the administration often counter-defending the petitioners through their own newspaper leaving the cases stopped without investigating. Unlike the Laxman Jagat’s case, such vulnerability is perpetuated in many ways in other regions but is unreported by the state. As Banik (2011) observes politicians holding and editing many influential and local newspapers often enable governments to dismiss critical reports as politically biased (p. 101). He further goes on writing ‘…allegations of starvation deaths are routinely used by opposition parties to exemplify the incompetence and callousness of the sitting government…. Moreover, as soon as any of these opposition parties came to power in Orissa, they were just as quick as their rivals had been a few months earlier to deny the occurrence of starvation deaths. The Kalahandi case shows that despite regular shifts in government, the party in power in an Indian state largely inherits and adopts the development policies of its predecessor. The general tendency is to react only when the situation crosses a high threshold and even then the reaction may simply be to refuse to accept the magnitude of the problem or to blame the policies of the previous state government *instead of initiating radical changes* or the stinginess of the central government for its failure to provide adequate and timely calamity relief’ (p. 101, *emphasis added*). In this context, remembering the starvation case in the Khariar block of the Kalahandi district in 1996, Manoranjan Mohanty (1998: 206) writes, So Orissa has another wave of elections. The time with new avatars carrying Jagannath Jyoti and more of Indira style eloquence, complete with hi-tech audio-visuals. But for 15 year old Tularam, whose mother got Rs 5,000 as relief after the news of his father’s starvation death got publicized last year this election has very little that is new.

And, borrowing from Parenti’s *Democracy for the few* (1983) *‘Elections come and go, and the life of poverty goes on pretty much as before’* (p. 217).

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**Highlight:** Many states in South East Europe benefit from being EU members, or else enjoy the policy anchor of aiming to achieve membership. This places their operating environments on a steadily improving trajectory and enables them to access EU funding for a wide range of projects to improve infrastructure and governance. Regional transport links are also becoming increasingly well-integrated, facilitating trade flows. Nevertheless, numerous structural risks must still be tackled, including a shortage of highly skilled workers, high labour costs and excessive red tape.

**Body**

*BMI View: Manystates inSouth EastEurope benefit from being EU members, or else enjoy the policy anchor of aiming to achieve membership. This places their operating environments on a steadily improving trajectory and enables them to access EU funding for a wide range of projectsto improve infrastructure and governance. Regional transport links are also becoming increasingly well-integrated, facilitating trade flows. Nevertheless, numerous structural risksmust stillbe tackled, including a shortage of highly skilled workers, high labour costs and excessive red tape.* Labour Market Risk

*BMI View: Businesses operating inSouthEastEuropeface significant risks emanating from thecountries' highly regulated labour marketsand shortage of highly skilled workers.Goodlife expectancyand improvingprimary andsecondary educationlevels offer businesses some advantages, especially for those seeking a low-skilled labour force.*Risks with regard to the availability of labour include the relatively low percentage of working-age population currently in active employment, limited female labour force participation rates and the comparatively small urbanisation levels in most of these states. Education risks arise from the poor quality of tertiary education and the limited level of skilled university graduates available in the labour pool. This results in a small pool of skilled workers and necessitates additional costs in the form of imported skilled foreign labour or additional education and training for the domestic workforce. In addition, businesses face high labour taxes in most of these countries (except Macedonia, where there is no labour tax), high minimum wages in comparison with many of their emerging market peers, and high additional employment costs in the form of severance pay and annual leave requirements, in conjunction with poor worker productivity.Bosnia is the underperformer for Labour Market Risk among the 12 states in South East Europe. This is due to its limited labour force, the rather poor quality of the education system at all levels, the over-regulated labour market and high labour tax. These concerns are reflected in the country's score of 45.2 out of 100, leaving it in 134th place globally in **BMI**'s Operational Risk Index.

**South East Europe - Labour Market Risk**

|  | **Education** | **Availability Of Labour** | **Labour Costs** | **Labour Market Risk** |
| --- | --- | --- | --- | --- |
| Serbia | 72.1 | 53.4 | 57.7 | *61.0* |
| Romania | 70.2 | 53.5 | 58.8 | *60.8* |
| Montenegro | 68.6 | 46.7 | 55.8 | *57.0* |
| Bulgaria | 68.3 | 40.0 | 56.8 | *55.1* |
| Cyprus | 64.6 | 51.6 | 47.6 | *54.6* |
| Kosovo | 58.6 | 51.4 | 53.6 | *54.5* |
| Slovenia | 77.3 | 47.9 | 33.6 | *52.9* |
| Croatia | 73.0 | 43.7 | 40.4 | *52.4* |
| Turkey | 68.6 | 49.0 | 34.6 | *50.7* |
| Albania | 63.2 | 36.8 | 42.7 | *47.6* |
| Macedonia | 49.7 | 35.5 | 54.4 | *46.5* |
| Bosnia | 57.9 | 27.0 | 50.9 | *45.2* |

Note: Scores out of 100; higher score = lower risk. Source: BMI Labour Market Risk Index **Albania** Albania presents some of the highest risks to incoming businesses with regard to the labour market in South East Europe. This is due to the fact that although the level of working-age employment (at 46.3%) is high in regional terms, this is one of the lowest employment levels globally, out of an extremely small domestic workforce of just 2mn. This constraint on available labour is further compounded by the poor female labour participation rate, which at 44.8% is well below the global average of 53.3%. In addition, the population remains ***rural*** to a large extent, with an urbanisation rate of 57.4%, which substantially reduces the potential size of the easily available workforce, both skilled and unskilled. These factors heighten the risk that businesses will be forced to shoulder, the additional costs associated with importing labour from other countries or from ***rural*** regions (including visas, habitation and dependants), or face lengthy delays and reduced productivity associated with workers commuting from distant ***rural*** areas.However, Albania's workforce has a comparatively good life expectancy, of 75.3 years, which reduces the risks of high staff turnover and repeated training costs, and improves worker productivity. We expect this to improve as the government starts focusing more on the quality and availability of healthcare in the country. This will, in our view, result in further improvements with regard to productivity and depress the level of absenteeism due to ill health.The majority of Albania's workforce has received basic education, with only 4.5% of the total available workforce having no form of education at all. Although the country boasts an extensive primary school enrolment rate, which at 93.2% is one of the highest among the South East Europe states, and a high completion rate, Albania has the third lowest literacy level in the region, at 97.6%, reducing its regional competitiveness. In addition, Albania has the second lowest level of average schooling years in the region at 9.9 years, limiting skills development.

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| Pool Of Skilled Workers Expanding From A Low Base |
| South East Europe - Gross Tertiary Enrolment Ratio |
|  |
| *Note: Data not available for Kosovo. Source: UNESCO* |

The actual quality of the education infrastructure is, however, poorer than that of the majority of developed states, and government spending on education remains subdued. The quality of the skilled workforce is further reduced by the fact that a limited number of Albanians complete secondary education and only 45.3% of the workforce has received secondary education or higher. Even fewer (12.9%) have tertiary-level qualifications. Of those who go to university, only a limited number graduate from the key science, engineering and manufacturing courses. This results in significant cost risks for incoming businesses, particularly those involved in the infrastructure and industrial sectors, which are reliant on specific skill sets. There will be a dearth of suitable labour available and a strong likelihood that they will need to import foreign skilled labour, accruing the attendant visa, relocation and dependant costs such an undertaking entails.Albania poses further substantial cost-related risks to businesses due to the regulated labour market and high labour tax. At the equivalent of 18.8% of profits, the Albanian labour tax and social contributions cost is very high, particularly in comparison with other emerging markets. For example, Macedonia has no labour tax at all. In addition, although the monthly minimum wage of just over USD191.60 is extremely low in comparison with developed states and remains below the regional average of around USD444.80, Albania's minimum wage level is still high globally and makes it less competitive as an investment location. The Albanian labour market is more heavily regulated than many of its regional peers, resulting in higher levels of severance pay (at 10.7 weeks, the second highest in South East Europe) and annual leave (at 20 days, the fourth highest in the region). This is far higher than the majority of emerging markets and severely undercuts the country's attractiveness for incoming businesses. We further highlight Albania's redundancy notice period of 10.1 weeks, which is the highest in the region and far above the regional average of 4.2 weeks, resulting in higher costs for employers seeking to reduce the size of their workforce. **Macedonia** Similar to Albania, Macedonia presents significant risks as an investment destination and location for incoming businesses, albeit to a slightly lesser extent than its western neighbour. Macedonia's underperformance is due to a variety of factors, many of which are similar to those faced by businesses entering Albania. The overall size of the active workforce in Macedonia is small at 1.5mn people. Around 39.9% of the total working-age population is in formal employment, the second lowest level in the region and one of the worst ***performances*** globally. In addition, the country's female labour participation rate is low at just 44.8%, the second lowest in the region, resulting in an extremely small domestic workforce to draw from.Moreover, although businesses stand to benefit from a good life expectancy, of 75.3 years, we believe there are persistent risks of absenteeism and loss of productivity due to ill health. The healthcare system is underdeveloped, with just USD246 spent on healthcare per capita. Just over half of this is spent by the government. This level of spending is not only the second lowest in the region and less than half the regional average of around USD680 per capita, but it is one of the lowest globally.In addition, businesses entering Macedonia will also have to contend with the effects of comparatively limited education, even at primary level, which severely impedes the development of a skilled, or even literate, workforce. Macedonia has the second lowest primary school enrolment levels in the region above only Romania, at just over 86.5% of the children in the relevant age bracket. Consequently, Macedonian literacy, although still in the top third of the Operational Risk Index at 97.8%, is the fourth lowest among the South East European states and renders Macedonia less competitive regionally.Macedonia also performs poorly with regard to higher education, posing substantial risks to businesses given the limited level of workers receiving an adequate secondary and/or tertiary education, reducing the skilled labour pool and necessitating training the domestic labour force or importing skilled labour, both of which will increase costs for employers. Just 75.4% of the workforce has secondary education or above. Although this is higher than that of Albania (50.8%), it is still low compared with developed markets and means that 25% of the workforce is only suitable for lower-skilled roles. Given the small size of the working population, this lack of education represents a substantial slice out of an already small pie and reduces the potential skilled workforce.The limited availability of workers with higher education is likely to continue, as, at present, Macedonia has the lowest secondary and second-lowest tertiary education enrolment levels, at 77.6% and 39.6% respectively. The lack of tertiary education in the country is a particularly serious issue, as it has left Macedonian businesses with the lowest level of skilled science and engineering graduates in the region, substantially increasing cost risks for businesses reliant on skilled labour, such as those found in energy and infrastructure sectors. As a result, Macedonia would benefit from further investment into the education sector in order to increase skill levels in the country. Nevertheless, we note that advantages stem from the fact that English is widely spoken, as are Romanian, Turkish and Serbian, which can facilitate trade and supplier links in the region.

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| Mandatory Minimum Wages Elevate Labour Costs |
| South East Europe - Minimum Wage (USD/month) |
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| *Source: World Bank* |

However, there are still some significant advantages to investing in Macedonia that negate the potential cost risks associated with the need for skilled migrant labour. These are largely associated with the limited costs of employment and relatively unregulated labour market, making it the top performer with regard to labour cost risks in the South East Europe region. Not only are there no labour tax or social contribution requirements for businesses in Macedonia, but there is also just 8.7 weeks' severance pay required, and the minimum wage is low at just USD287.50 per month. Macedonians work typical eight-hour days, although the law remains flexible as to hours worked. In addition, although work permits are required, the law does not set limits on the number of foreign workers firms can employ; neither does it specify the duration of the working contract.Due to these considerations, Macedonia receives a score of 46.5 out of 100 for Labour Market Risk, putting it in 11th place out of 12 countries regionally in **BMI**'s Operational Risk Index. **Montenegro** The main risks facing businesses considering entering Montenegro with regard to the domestic labour market relate to the limited availability of workers with a tertiary education and the extremely small working-age population. In terms of the overall size of the available labour force, Montenegro is one of the weakest performers in the region. The risks posed by the small total population of just over 400,000 are compounded by the fact that only 40.4% of the working-age population is formally employed. This leaves an extremely limited pool of available workers for businesses looking to enter the country. In addition, the population has a very good life expectancy at almost 76.5 years. In the wake of the rolling out of voluntary supplemental insurance by the government, whereby employees will make healthcare contributions under the Law on Health Insurance, we believe businesses will see reduced absenteeism and lost productivity due to ill health as the additional healthcare insurance coverage will enable the provision of better healthcare services. Moreover, Montenegro's diminutive landmass offers a further advantage in the form of a relatively high urbanisation rate, which at more than 63.8% is the second highest in the region, behind only Bulgaria, reducing worker transport delays and relocation cost risks.

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| Low Employment Rates Result In High Training Costs |
| South East Europe - Working-Age Population In Employment (%) |
|  |
| *Source: World Bank, BMI* |

Businesses entering the country also stand to benefit from high literacy rates and good primary education, which ensures a solid basic skill set in the majority of the workforce. However, although primary education is comparatively widespread, with a 94.6% enrolment rate contributing to 98.7% literacy in the country, beyond primary level the level of education starts to tail off. In our view, this poses some risks to businesses, as the already small labour pool is further constrained with regard to skilled labour. However, often members of the workforce have studied and trained abroad, especially in the technical professions. Foreign languages are widely spoken, particularly German, Hungarian and English. As a result, Montenegro receives its highest score for the Education pillar in **BMI**'s Labour Market Risk Index. At 68.6, this score places it fifth highest in the region.Montenegro offers the third lowest labour tax in the region, at 13.3%; a minimum wage of USD235.4 per month, which is very low globally; and just 6.9 weeks' mandatory severance pay required. However, the regulated labour market poses some risks, particularly with regard to paid annual leave, which at 21 days is the second highest in the region after Greece. Core issues with labour market legislation include costly firing procedures, the rigidity of regulations related to the number of work hours, and an extensive list of benefits made available to all employees, including generous provisions for holidays, housing, transport, meals and pensions.In light of these considerations, Montenegro is a regional outperformer in **BMI**'s Labour Market Risk Index, ranking third in South East Europe with a score of 57.0 out of 100. Logistics Risk

*BMI View: The logistics networks of countriesinSouth EastEuropeare becoming increasingly integrated with one another and the wider European network, enhancing trade links and strengthening utilities provision. Trade barriers between countries in the region are also falling as they pursue and achieve EU membership. Nevertheless, while sustained investment in transport infrastructure is improving the quality of supply chain options, businesses will continue to face risks of delays and disruption due to transport deficiencies.*Slovenia is the regional outperformer due to its integration with the European market, which entails strong international transport connections and limited trade barriers with major partners. This is reflected in a score of 71.0 out of 100 in **BMI**'s Logistics Risk Index, placing the country top of the pack regionally. In contrast, the worst performer in the region, Bosnia-Herzegovina, has a logistics network that is still suffering from the lingering effects of the 1992-1995 war, during which damage to utilities and transport infrastructure was extensive. With limited subsequent investment in the improvement of the logistics network, investors face risks of higher costs and disruption to supply chains, while Bosnia's lack of domestic resources and reliance on Russian fuel mean there is a higher risk of supply shortages and cost increases. These factors have converged to account for Bosnia-Herzegovina's poor overall score in **BMI**'s Logistics Risk Index, with 46.3 out of 100 placing the country last among its South East Europe peers.

**South East Europe - Logistics Risk**

| **Country** | **Market Size And Utilities** | **Transport Network** | **Trade Procedures And Governance** | **Logistics Risk** |
| --- | --- | --- | --- | --- |
| Slovenia | 55.9 | 75.2 | 81.8 | *71.0* |
| Croatia | 57.4 | 70.6 | 79.1 | *69.0* |
| Turkey | 44.5 | 78.7 | 64.8 | *62.7* |
| Bulgaria | 55.9 | 56.5 | 70.5 | *61.0* |
| Romania | 53.0 | 49.5 | 76.4 | *59.6* |
| Macedonia | 58.3 | 51.2 | 64.5 | *58.0* |
| Kosovo | 55.3 | 41.8 | 71.5 | *56.2* |
| Montenegro | 55.1 | 55.2 | 56.8 | *55.7* |
| Cyprus | 46.1 | 54.9 | 59.4 | *53.4* |
| Serbia | 48.9 | 41.9 | 66.7 | *52.5* |
| Albania | 45.5 | 53.2 | 53.6 | *50.8* |
| Bosnia | 56.6 | 28.2 | 54.2 | *46.3* |

Note: Scores out of 100; higher score = lower risk. Source: BMI Logistics Risk Index **Albania** Albania's infrastructure continues to suffer from years of underinvestment and lack of proper maintenance. The roads are poorly maintained and motorways are in the early stages of development. A short stretch of four-lane highway between the capital Tirana and the port city of Durres and a highway linking across the border to Kosovo are the only stretches currently in operation. The rail network also lacks capacity, with only 667km of standard gauge track in operation throughout the country.Albania has average electricity prices on a regional comparison, at USD0.07 per kilowatt hour (/KWh), but there continue to be risks to businesses due to the unreliability of the country's electricity mix. In part this is because production relies nearly exclusively on hydropower, making it highly vulnerable to climatic changes. In addition, losses in the distribution network (which, according to World Bank data, are equivalent to 23.7% of the total electricity produced) are forcing the country to rely on imports of electricity to make up for the massive shortfall. We further highlight that Albania has the most power outages in the region, at 4.1 per month, and the highest value lost due to electrical outages, at 5.4% of sales, reducing the country's regional competitiveness in this regard and posing substantial risks to businesses. The fourth lengthiest time regionally to permanently connect to the electricity supply (at 134 days) will further increase costs to businesses.

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| Generally Competitive Electricity Costs Somewhat Offset By Unreliable Supplies |
| South East Europe - Electricity Costs (USD per KWh) |
|  |
| *Source: National sources* |

However, Albania's power sector reforms, particularly efforts to improve the reliability of the electricity supply, will substantially reduce risks to businesses with regard to the reliability and availability of electricity supplies. Ongoing redevelopments of the country's power sector will include institutional restructuring, reforms in sector management and implementation of a short-to-medium term plan for the financial sustainability of energy sector. All of this bodes well for incoming businesses, particularly those that require large, steady electricity supplies.In addition, government investment of hundreds of millions of euros in a ***strategic*** infrastructure investment programme is beginning to pay off, with considerable improvements to road and port infrastructure in recent years. Tirana has signed key deals and memoranda of understanding with major foreign utility firms to build and maintain new electricity generation, transmission networks and roads. Albania is working to become a major transit corridor connecting south-eastern Europe with the central and western regions of the continent. A recently opened highway linking Tirana to the Kosovo border will boost economic development and benefit logistics and supply chains in the area. A new highway has also halved the time it takes to travel from the Macedonian border to Tirana.Meanwhile, Durres container terminal (DCT), situated on the Adriatic Sea on Albania's west coast, serves the Albanian market and acts as the chief common-user gateway for containerised cargo; it has an annual capacity of 180,000 twenty-foot equivalent units (TEUs). After the privatisation of DCT in February 2013, the Durres Port Authority granted a 35-year concession for the terminal to a joint venture of Turkey-based steel manufacturer Kurum and Malta-based Mariner. During the concession period, an amount of more than USD30mn will be invested in DCT to improve its quality and capacity over the longer term, benefiting logistics and supply chain groups.In terms of access to water, we note that the country boasts the second-highest amount of renewable freshwater resources in the South East Europe region, at 9,311 cubic metres per capita. This is due to the country's numerous river systems and freshwater lakes, and benefits businesses operating in water-heavy industries in particular. While water availability in Albania is high, internet penetration is extremely low. With only 14.8 broadband subscribers per 100 people, the country sits in last place regionally for this ***indicator***. Albania further ranks towards the bottom of the regional rankings with regard to the relative number of 3G/4G subscriptions and telephone lines, which poses risks to businesses reliant on internet connectivity and accessibility. **Macedonia** Macedonia is one of the smallest countries in South East Europe, sharing borders with Albania, Bulgaria, Serbia, Kosovo and Greece, with the latter having the longest border. As a mountainous country, Macedonia's geography is characterised by deep basins and valleys. In addition, there are three large lakes and the River Vardar separating the east and west of the country. Despite the relative extremity of the Macedonian terrain, the transport network is fairly well developed and effective. Temperate weather facilitates the relatively efficient transport network, although seismic shocks remain a natural hazard.Macedonia has a small road network stretching to 18,000km, 39% of which is paved. The main highway running through Macedonia is the E-75, which is part of Pan-European Corridor 10 running from Salzburg in Austria to Thessaloniki in Greece. In January 2015, the government announced plans to invest EUR132mn in the construction and improvement of regional and local roads, with a particular emphasis on motorways and express roads.Aside from the road network, Macedonia also has 699km of standard gauge railway. Express trains operate five times a day between Skopje and Belgrade. Another international express rail connection, the Balkan Express Rail Line Project connecting the Greek port of Piraeus and Budapest via Skopje, is currently at planning stage. The line, which has an overall length of 650km, will further increase Macedonia's regional connectivity in the medium term. Furthermore, a cooperation agreement has been signed between the Macedonian and Greek railway companies to improve railway connectivity and the transfer of passengers and goods across the border, as well as boost both countries' economies and expand bilateral relations. There is also a plan for rail operator **Makedonski Zeleznici-Infrastruktura** to construct the Beljakovce-Kriva Palanka railway, forming part of the pan-European Corridor VIII, which will ultimately link the Black Sea coast in Bulgaria to the Adriatic coast in Albania via Macedonia. Construction of this project, which is being financed by the European Bank for Reconstruction and Development, was suspended in Q215 due to a lack of funds, with one-third of the works complete.In terms of airport connections, there are 17 airports in Macedonia, of which 10 have paved runways. Two international airports can be found in Skopje and Ohrid, with local carriers operating routes between Austria, Germany, France, Switzerland and the Netherlands. A third international airport is in development at Stip.

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| Rail Underperforming But Improvements Elsewhere |
| South East Europe Average & Global Average - Infrastructure Quality |
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| *Note: 7 = highest score; 1 = lowest score. Source: World Economic Forum's Global Competitiveness Index 2017-18* |

The country's airport sector is underdeveloped and would benefit from further investment. At present, airport connectivity is extremely low, with no air freight at all and just 0.04 air passengers carried per capita annually. This leaves Macedonia almost wholly reliant on its road and rail networks for both domestic and international connectivity (as it lacks ports infrastructure and maritime trade). Due to this, and the need for transhipment or lengthy overland transportation from other, better equipped, transport hubs in nearby countries, businesses in Macedonia face elevated trade costs. In spite of this, businesses stand to benefit from the relatively limited documentation and swift import and export lead times. Bureaucratic requirements for trade are light, taking just 11 hours to complete for exports and imports, though costs are less competitive at USD148 for exports and USD200 for imports.In addition, the government of Macedonia has adopted a feasibility study to establish private-public partnerships (PPP) for the construction of a EUR150mn (USD200mn) gas distribution network in Macedonia. The 650km gas distribution network will cover 26 municipalities in eastern Macedonia and 37 municipalities in the west of the country. If successful, this development will redress a number of risks for incoming businesses, and potentially reduce the uncompetitive cost of electricity in the country (at present it costs 0.09 per KWh, slightly higher than the regional average). The cost of fuel, however, is the lowest in the region, at USD0.93 per diesel litre, somewhat mitigating the high electricity costs through lower logistics charges.Macedonia is somewhat uncompetitive with regard to freshwater water availability: 2,599 cubic metres per capita leaves it fourth from bottom regionally for this ***indicator***. The vast majority - around two-thirds - of freshwater available in the country is withdrawn for industrial purposes, leaving only about 20% for domestic use and around 12% for ***agricultural*** purposes. The country performs better in terms of internet connectivity, with 44.1 broadband subscribers out of 100 people, which is moderate on a regional comparison. Though 3G and 4G subscriptions are somewhat lower on a regional comparison, businesses enjoy relatively good access to high-speed fixed line connections, facilitating global communications. **Montenegro** Montenegro has the second-smallest road network in the region at just 7,762km, of which 92% is paved. Nevertheless, the quality of the road network is below European standards as a consequence of the economic crisis of the 1990s and because the Yugoslav wars restricted the availability of finance for maintenance and expansion of the road network. As a result of the poor condition of Montenegrin roads, driving in the winter and in the evening can be dangerous. Constrained public finances mean that domestic investment in the critical infrastructure needed to benefit from greater European integration will be lacking. **BMI**'s Country Risk team does not expect the government to ramp up spending any time soon as part of its attempt to keep a tight rein on public finances to aid the country's attempt to join the EU. High public debt levels, which almost doubled between 2010 and 2014 to above 50% of GDP, will motivate the government to rein in public finances.That said, significant improvements have been made in recent years, helped by aid from the EU's Community Assistance for Reconstruction, Development and Stabilisation programme. In particular, the connections between Podgorica and the coastal towns are markedly better, and journey times have become shorter and routes have become safer. The two major roads in Montenegro are the Adriatic motorway from Igalo to Ulcinj and the motorway linking the north and the south, from Pertovac to Bijelo Polje via Podgorica and Kolasin. The country also has reasonable road connections with neighbouring countries.One of the largest infrastructure projects ever undertaken in Montenegro has moved a step closer to realisation after the framework agreement and the agreement for design, procurement, construction and installation of equipment and materials for the Smokovac-Matesevo section of the Bar-Boljare Highway have been signed. Following the signing of said agreements between the Montenegrin government and **China Communications Construction Company** (CCCC) and **China Road and Bridge Corporation** (CRBC), only the financing of the project is left to secure - which is likely to be determined after the adoption of a new Law of the Highway to expedite its construction. The Bar-Boljare Highway is being developed through a PPP and will be 164km long, including 50 tunnels and 95 bridges and viaducts, and has a total estimated cost of around EUR2bn.

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| Landlocked States Benefit From Neighbours' Strong Connections |
| South East Europe - Liner Connectivity |
|  |
| *Source: UNCTAD* |

The country has one of the best rail networks in the region, with 250km of railway, all of which is standard gauge. While the railway system is reliable and inexpensive, services are quite limited, slow and outdated. Nevertheless, since independence in 2006, significant efforts have been made to reconstruct and improve the railway. Montenegro's key railway line runs from Bar-Podgorica-Belgrade, and then connects to the European network.Montenegro's main airport is Podgorica Airport, located 15 minutes outside the capital city. A new terminal has recently been built at the airport, which has helped to improve travel conditions. Flights are available from Podgorica to major European cities including Rome and Paris; the frequency of flights increases in the summer months. Another international airport is located at Tivat; this airport is mainly used by charter flights to the northern coastal resorts, as it is close to the key tourist destinations of Kotor and Budva. The airport was extensively refurbished in 2006, and there are currently plans to further upgrade it. In addition to **Montenegro Airlines**, a number of international carriers service both airports.The main port in Montenegro is located in Bar and is capable of serving between 14 and 20 boats simultaneously. Bar is also a port for ferries to Bari and Ancona in Italy. Montenegro has three smaller ports at Kotor, Tivat and Zelenika, which are mainly used for warehousing. In addition, it has the second-highest air passenger per capita levels in the region at 0.80, but the limited capacity in its existing airports continues to constrain air freight capacity.Montenegro's electricity mix is currently overly reliant on hydropower (accounting for around 55.2% of the country's installed capacity) and thermal sources, mainly lignite. Consequently, capacity expansion and diversification will be needed to meet growing demand (driven by robust GDP forecasts). The development of a power transmission corridor between Italy and Montenegro will address some of these issues. The project, which will put in place the infrastructure to support a wider scheme to establish a 415km transmission line to connect the Jaz peninsula in Montenegro with Villanova in Italy, is indicative of a broader trend of cooperation between Balkan states and Western Europe in the power sector. Electricity costs remain highly competitive, at USD0.04 per KWh, while fuel costs are also low on a regional comparison, at USD1.30 per diesel litre, reducing operating costs for businesses. Crime And Security

*BMI View: Businesses inSouthEastEurope face fewcrime and security risksin comparison with other emerging markets. The greatest threats stem from organised crime along some of the pan-European transit corridors and domestic terrorism in some of theweakerstates.*Slovenia is generally the safest place for foreign business travellers, expatriates and tourists; foreigners are not at higher risk of crime than Slovenian citizens. The main threats to foreigners are from petty crime and robbery rather than from violence or indiscriminate acts of political violence. Slovenia also has considerably less organised crime than newer members of the EU such as Bulgaria and Romania. NATO membership has strengthened the country's ***strategic*** security interests, lowering Slovenia's risk of interstate conflict. These factors contribute to Slovenia's regional and global outperformance in the **BMI** Crime And Security Risk Index, where it scores 83.6 out of 100.Kosovo faces significant security challenges, particularly with regard to interstate conflict risk with its former Yugoslav neighbours. It also experiences financial crime and cybercrime owing to a general lack of secure internet servers and weak crime reporting standards. In terms of the former, we particularly highlight Kosovo's lack of military capabilities in comparison with its regional peers. This is only partially mitigated by its ***strategic*** international environment, having close ties with NATO, which has been supporting the establishment of a secure environment in the country with peacekeeping force KFOR since 1999. KFOR continues to contribute towards maintaining a safe environment in Kosovo, somewhat mitigating crime and security risks for businesses. Nevertheless, the risk of violent and petty crime continues to be the highest in the region. Assault, burglary and robbery rates are particularly high. All of these factors contribute to Kosovo's score of 40.5 out of 100 in **BMI**'s Crime And Security Risk Index, which leaves it in last place regionally.

**South East Europe - Crime And Security Risk**

|  | **Conflict Risk** | **Crime Vulnerability** | **Business Crime** | **Crime And Security Risk** |
| --- | --- | --- | --- | --- |
| Slovenia | 80.0 | 83.6 | 87.1 | *83.6* |
| Croatia | 72.4 | 78.5 | 81.8 | *77.5* |
| Cyprus | 54.6 | 74.9 | 82.6 | *70.7* |
| Romania | 74.0 | 63.5 | 69.6 | *69.0* |
| Bulgaria | 72.0 | 55.1 | 58.4 | *61.8* |
| Montenegro | 54.8 | 60.5 | 62.9 | *59.4* |
| Albania | 60.1 | 56.4 | 57.9 | *58.1* |
| Macedonia | 40.0 | 67.3 | 64.1 | *57.1* |
| Serbia | 43.6 | 60.9 | 50.4 | *51.6* |
| Bosnia | 36.6 | 60.4 | 46.3 | *47.8* |
| Turkey | 33.8 | 43.4 | 53.9 | *43.7* |
| Kosovo | 25.9 | 63.6 | 32.0 | *40.5* |

Note: Scores out of 100; higher score = lower risk. Source: BMI Crime And Security Risk Index **Albania** The establishment of a relatively stable liberal democracy coinciding with efforts to join Euro-Atlantic institutions such as the EU and NATO has meant that security risks have declined considerably in Albania in recent years. We believe that the politically motivated targeting of foreigners is not a major risk. That said, organised crime and corruption remain serious issues, and the level of street violence is a problem worth noting. The US Embassy has placed security restrictions on its employees requiring police and/or security escorts in the north and south of the country. Therefore, we have awarded it a score of 58.1 out of 100, putting it in seventh place out of 12 countries in South East Europe. **Macedonia** Macedonia has enjoyed relative stability since politically motivated violence largely subsided following the 2001 Ohrid Framework Agreement, which improved the legal and political rights of ethnic-Albanians in the country. Furthermore, the government's pro-reform agenda and aims to integrate further with the WTO and EU have helped to reduce tensions. That said, criminal violence, particularly in the larger cities, remains a risk. Regional tensions also remain a nascent risk to political stability in the Balkan region. Ethnic disputes that fuelled the various Balkan conflicts in the 1990s and early 2000s remain largely unresolved, providing a potential flashpoint. In addition to the possibility of regional conflicts spilling over into Macedonia, domestic disputes between nationalist Macedonians and ethnic Albanians remain. The country experienced a lengthy political crisis following attempts to prevent ethnic Albanian political parties from joining the ruling coalition, being without a government for six months from December 2016 to May 2017. Though a government was eventually formed, ethnic tensions will remain to the fore over coming years, with a strong opposition heightening government instability. Consequently, Macedonia scores 57.1 out of 100 for Crime and Security Risk, ranking it eighth regionally.

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| --- |
| Generally Low Homicide Rates Beneficial For Foreign Worker Security |
| South East Europe - Homicide Rates (per 100,000 people) |
|  |
| *Source: UNODC* |

**Montenegro** Security risks in Montenegro are low, and the country has no disputes with neighbouring countries. In addition, while the population is split between a large segment of the Orthodox Christian population that declares itself to be Serb and supports strong ties with Belgrade, and another segment that declares itself to be ethnically Montenegrin, the country has been able to avoid the ethnic conflicts that have plagued many of its former Yugoslav neighbours. However, Montenegro is at risk from the regional instability that has been caused by Kosovo's declaration of independence in 2008, which we caution may fan nationalist sentiment and separatist movements across the Balkans, potentially undermining stability in the country. While the smuggling of goods, particularly of cigarettes, by organised gangs has diminished significantly since its heyday of the 1990s, it continues to remain a problem in the country. Nevertheless, government efficacy in dealing with this is increasing, and the prospect of closer links with Euro-Atlantic institutions is likely to help to spur improvements to border and customs supervision. Therefore, we have awarded it a score of 59.4 out of 100, putting it in sixth place regionally. Trade And Investment Risk

*BMI View: Increasingly open economies and growing integration with the EU are driving positive changes in the operating environments ofSouth East Europeancountries. Existing EU members havealready made structural reforms to open their economies to trade and investment and prospective members are making progress. That said, prevailing risks include unstable legal environments, particularly in Turkey where the rule of law continues to be steadily undermined, and burdensome tax obligations.*Cyprus is the regional outperformer with regard to trade and investment risk. The country offers an open economy, streamlined bureaucratic procedures and strong contract enforceability. The major risks are posed by a relatively heavy tax burden and systemic weaknesses in the banking sector, which have restricted access to financing. Cyprus's strong ***performance*** across the three components of the Trade And Investment Risk Index is underlined by its overall score of 70.5 out of 100, placing it first regionally.Bosnia is the least competitive market in the region. The country's moderate level of economic openness with regard to foreign direct investment (FDI) does little to relieve investors from the burden of a complicated and fragmented regulatory structure. The country's operating environment is characterised by a time-consuming, non-transparent process to open a business and the risk of double inspections and fees (due to overlapping jurisdictions of fragmented state and cantonal authorities). The most significant risk to investors is posed by the weak rule of law and meagre protection of property rights in the country. This leaves the country with an overall Trade and Investment Risk Index score of 41.2 out of 100.

**South East Europe - Trade And Investment Risk**

|  | **Economic Openness** | **Government *Intervention*** | **Legal** | **Trade And Investment Risk** |
| --- | --- | --- | --- | --- |
| Cyprus | 76.1 | 64.4 | 71.1 | *70.5* |
| Macedonia | 59.5 | 73.2 | 62.8 | *65.2* |
| Romania | 60.4 | 64.5 | 57.3 | *60.7* |
| Turkey | 63.4 | 63.5 | 55.0 | *60.6* |
| Slovenia | 63.6 | 52.2 | 65.2 | *60.3* |
| Bulgaria | 72.2 | 59.9 | 46.5 | *59.5* |
| Serbia | 65.4 | 49.9 | 54.6 | *56.6* |
| Croatia | 64.7 | 53.2 | 50.6 | *56.2* |
| Kosovo | 47.2 | 64.2 | 53.8 | *55.1* |
| Montenegro | 55.0 | 56.7 | 50.1 | *53.9* |
| Albania | 40.3 | 54.1 | 50.7 | *48.4* |
| Bosnia | 54.3 | 36.1 | 33.1 | *41.2* |

Note: Scores out of 100; higher score = lower risk. Source: BMI Trade And Investment Risk Index **Albania** Albania is one of the highest risk markets for potential investors with regard to trade, economic openness and the various issues connected to corruption, the legal system and intellectual property rights. However, the country poses comparatively minimal risks with regard to the overall bureaucratic environment owing to minimal red tape and a swift turnaround for opening and closing businesses.At present, FDI accounts for a fairly small portion of the Albanian economy, at around 35.5% of GDP in 2015, highlighting the lack of market openness. Nevertheless, economic growth is expected to pick up over the medium term after slowing to 1% y-o-y in 2013, it will average 3.6% y-o-y between 2017-2021. Albania offers relatively open international trade policies. This, in conjunction with its future market growth potential, is likely to boost trade flows over the longer term. Indeed, trade is already benefiting from Albania's EU candidate status, which was granted in June 2014, and we expect EU membership criteria to anchor the government's policy trajectory and underpin reform momentum. However, the track record of successive administrations implies progress will remain sluggish.Stagnant wage growth and weak credit from banks is weighing on household disposable incomes, limiting consumers' propensity to spend, and consequently imports are expected to account for 41.2% of GDP in 2017, while exports will reach just 27% of GDP, highlighting the country's limited industrial development and export capacity. The majority of imports come from Italy, and the main import products are minerals and machinery. Meanwhile, with regard to exports, the main products are minerals and base metals, and the key trade partner is also Italy, which accounted for the majority of exports (more than USD982mn in 2015 - latest available data).

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| --- |
| Turkey Leading The Pack For Attracting FDI |
| South East Europe - Inward FDI Stock, 2015 (USDbn) |
|  |
| *Source: National s tatistics* |

Although Albania has an underdeveloped financial market, with just 22 banks per 100,000 members of the population (the third lowest in the region), and limited access to international markets, it offers significant advantages with regard to fiscal barriers and the bureaucratic environment. These include a moderate corporate tax rate and a government that is least dependent on tax revenue in a regional comparison. Albania also boasts swift turnaround in terms of opening a business (4.5 days) and closing a business through insolvency proceedings (two years). In spite of these considerations, Albanian investors face substantial risks arising from endemic corruption, poor contract enforceability and limited rule of law observance, as well as negligible intellectual property protection. In light of these considerations, we have awarded Albania a score of 48.4 out of 100 in the **BMI** Trade And Investment Risk Index, putting it in 11th place regionally and in 114th place globally. **Macedonia** Macedonia is one of the most attractive and lowest-risk countries in the region with regard to trade and investment. Lower taxes on personal and corporate income, as well as the regulatory reform programme which greatly reduced the bureaucracy involved in setting up a new business venture, have proved favourable for foreign investors. The country is let down somewhat by its limited financial market development and poorly enforced legal system. That said, the open economy, limited fiscal barriers and low levels of bureaucratic red tape, together with relatively strong intellectual property protection, offer incoming investors significant advantages.Investors entering Macedonia stand to benefit from limited government ***intervention*** in the economy. The country offers the second lowest corporate tax rate in the region at 10%, which is on par with Bosnia, Bulgaria and Kosovo and slightly higher than Montenegro's 9%. Macedonian businesses also benefit from the combination of limited red tape and improving e-governance capabilities, which have contributed to the lowest time required to pay taxes in the region at just 119 hours per year on average. The government has introduced a one-stop-shop system for business registration, which has seen the creation of a single registration office, a single standardised form, a guaranteed time frame (previously three days, now shortened to just four hours) and a single fee for company registrations. By simplifying bureaucratic procedures, the reforms have reduced the potential for corruption, expedited business registration, cut start-up costs for new businesses and created a more efficient financial system. This is hugely beneficial for foreign firms wishing to set up operations in Macedonia, and the success of these measures can be seen in the fact that it takes just two days to open a business, and FDI now accounts for more than 45.2% of the country's GDP.

|  |
| --- |
| Quick Turnarounds A Boon For Businesses |
| South East Europe - Time To Open A Business, days |
|  |
| *Source: World Bank 'Doing Business '* |

Trade flows have also risen, with imports and exports expected to account for 78.6% and 60.4% of GDP respectively in 2017. In part this is due to the fact that after gaining membership of the WTO in 2003, Macedonia has committed itself to eliminating quantitative restrictions on trade and has engaged in an extensive liberalisation of the tariff regime. Furthermore, the pro-reform government views foreign trade liberalisation as a policy instrument to increase competition in the domestic market.Macedonia has concluded bilateral free trade agreements (FTAs) with fellow former Yugoslav republics Slovenia, Croatia, Serbia, Montenegro, Albania and Bosnia, as well as Bulgaria, Turkey, Ukraine, Romania and the European Free Trade Association states. The FTAs allow complete liberalisation of trade with industrial products, and reduced tariffs for trade with ***agricultural*** and food products. Accession to the WTO has provided further momentum for liberalisation. Around 96% of total trade is unrestricted, although some restrictions are enforced for textile products. With the adoption of the new Foreign Trade Law, enacted by parliament in June 2002, Macedonia prioritised the complete harmonisation of its trade regime with the WTO. So far, results on the liberalisation of tariffs have been more impressive than on the elimination of non-tariff barriers. Now that Macedonia has attained EU candidate status, it will have to prepare for the common external tariff regime of the EU. Simple average 'most-favoured-nation' tariff rates in Macedonia declined from 11.1% in 2004 to 1.8% in 2016.However, there are still come risks facing new entrants. These include high construction permit costs at 5.1% of warehouse value, high fees to settle commercial disputes (at 25.7% of the claim value), widespread corruption and an inefficient judicial system, poor contract enforceability, and limited access to financial markets. Although foreign investors are permitted to purchase land and property, they acquire land-use rights only and not ownership rights. The government cadastre system for registering real estate is poorly organised, although reform efforts are under way to streamline such registrations. For the time being, foreign investors still face delays in securing property rights.We would highlight that even these risks are being addressed, albeit gradually. For example, Macedonia has taken steps to combat corruption, becoming a signatory to international conventions fighting corruption, as well as establishing anti-graft laws. Macedonia has signed the OECD's Convention on Combating Bribery as well as signing (but not ratifying) the UN Convention Against Corruption. Anti-graft laws include the Law on Criminal Procedures, the Law on Money Laundering Prevention and the Law on Corruption Prevention. Due to these considerations, we have awarded Macedonia a score of 65.2 out of 100 in the **BMI** Trade And Investment Risk Index, putting it in second place regionally. **Montenegro** Montenegro sits in 10th place regionally in our Trade and Investment Risk Index for South East Europe. The country boasts high levels of fiscal freedom and comparatively solid intellectual property legislation. However, these advantages are partially negated by high levels of red tape and limited financial market development, which drives up the costs and delays for incoming businesses. While FDI to Montenegro represents a significant 90.9% of GDP, the nominal total of USD4.3bn in inward FDI stock is the lowest in the region, emphasising the small size of the country's market and its limited appeal as an investment destination.In terms of trade, imports will continue to outweigh exports over the coming years, as the country continues to deal with the fallout from the bankruptcy of its largest industrial plant, **Kombinat Aluminijuma Podgorica AD** (KAP) in 2013. While a local metal company **Uniprom** has bought the bankrupt aluminium smelter, thus helping the company evade a full-fledged liquidation, production had taken a severe hit. Product exports are forecast to expand at a faster pace than imports over the medium term (2017-2021), at 9.2% y-o-y compared to 6.9% y-o-y respectively as the plant begins to recover, but this will not be enough to significantly reduce the country's wide trade deficit. However, we expect the overall impact on exports to be partially offset by services exports, especially in tourism.

**Albania, Macedonia, Montenegro - Top 5 Export Products, (USDmn), 2015**

| **Albania** | | **Macedonia** | | **Montenegro** | |
| --- | --- | --- | --- | --- | --- |
| **Product** | **Value (USDmn)** | **Product** | **Value (USDmn)** | **Product** | **Value (USDmn)** |
| Mineral products | 512 | Chemical industry products | 970 | Base metals & articles thereof | 115 |
| Textiles & articles thereof | 364 | Machinery, electronics & mechanical appliances | 967 | Mineral products | 74 |
| Footwear, headgear & umbrellas | 350 | Base metals & articles thereof | 685 | Prepared foodstuffs, beverages & tobacco | 41 |
| Base metals & articles thereof | 272 | Textiles & articles thereof | 592 | Wood, cork, straw & articles thereof | 33 |
| Vegetable products | 84 | Prepared foodstuffs, beverages & tobacco | 332 | Machinery, electronics & mechanical appliances | 23 |

Source: Trade Map The main advantages obtained by businesses locating in Montenegro include a relatively well developed financial sector offering good access to international markets and the second highest number of banks per 100,000 people in the region, at 41.8 (although this is largely due to the diminutive landmass and small population of the country). Investors also stand to benefit from the lowest corporate tax rate in the region at 9%, a major incentive for FDI in the country.However, we emphasise that incoming businesses face various risks, including the delays and costs pertaining to the lengthy payment of tax procedures (requiring on average 300 hours a year, the third highest in the region), and those resulting from the protracted property registration procedures. In addition, construction permits are very expensive, costing on average 11.3% of warehouse value, making Montenegro one of the worst performers globally. This latter concern, in conjunction with the poor contract enforcement and limited intellectual property rights protection, pose significant threats to potential investors and businesses considering entering the country. Due to these factors, we have awarded Montenegro a score of 53.9 out of 100 in our Trade And Investment Risk Index.

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[***Ephemeral Development Agendas and the Process of Priority Shifts in Malawi***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BH2-VXY1-JBMY-H40G-00000-00&context=1516831)

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**ABSTRACT**

Drawing on 70 interviews with civil society staff in Malawi, I argue that when development trends and issues in the country change, at donors’ wishes, organizations proactively strategize to vie for donor funds. Collected over three research trips, my data show that between 2008 and 2010 there was a widespread belief among civil society in Malawi that climate change was becoming the “it” issue, surpassing HIV/AIDS in predominance. Alongside this belief, there was a dynamic, if invisible, process of organizational repositioning. Comparing the earlier interviews with those conducted in 2014, I contend that the issues of focus, while interesting, are less telling than the ways Malawian organizations endeavor to adapt and respond to them. This paper adds a critical dimension to development literature, investigating a process that occurs when development agendas change.

**FULL TEXT**

**Introduction**

This paper employs a grounded theory approach to explore the process by which perceived donor and government development agendas are interpreted and incorporated into diverse organizational programming. A small heavily donor-dependent nation, Malawi is subject to the preferences of donors and, between 2008 and 2010 my fieldwork showed a significant shift in the perception of donor priorities—from HIV/AIDS to climate change. Returning in 2014, after significant economic and political upheavals in the country, I was struck by the *absence* of one particular “big issue”: unlike previous years, respondents did not perceive one issue dominant above all others. Parsing out the ways people in civil society organizations (CSOs) interpret development trends and the ways in which they position their organizations to attract funding and donors, I found that while CSOs may not be setting development agendas, they respond to them in very active ways.

Beginning with a brief overview of theoretical literatures that guide my work, followed by a synopsis of data and methods, I examine how climate change entered development discourse, considering both elite conceptions of the issue as well as ways CSO workers saw their roles within this potential new agenda. I conclude with an analysis of a more recent perceived lack of donor/global priorities, highlighting both the continuance of top-down development and the process by which CSOs position themselves to take advantage of funding streams.

The literature on foreign aid identifies problems of methods and outcomes, offering critiques, generally related to development failures and inequalities, at the continent or global level (Calderisi, 2006; Easterly, 2006; Moyo, 2009) as well as the local (Braun, 2011; Englund, 2006; Hunsberger, 2010; Mannell, 2012). International attention to humanitarian and development problems can change often, leading to a succession of disconnected development trends (Mohan and Stokke, 2000; Morfit 2011; Mosse and Lewis, 2005; Olesen, 2008; Saunders, 2008; Warren, 2012). Few authors, though, have examined a change from one development priority to another *while it is happening*. This paper is unique in that it situates us in two particular moments in time when governmental and donor attention appear to be in flux. By providing a “thick description” of the ways Malawians address these observed development shifts, emphasizing the seeming interchangeability with which climate change usurped AIDS’ top-priority status and comparing this with the supposed lack of priority several years later, this paper adds an essential dimension to development research, investigating a *process* by which changing development agendas are incorporated into local discourse and programming.

Critical development studies literature (Cooper, 1997; Diouf, 1997; Escobar, 1995; Ferguson, 1990, 2006; Finnemore, 1997; Fridell, 2013; Gupta and Sharma, 2006; Li, 2007; Zalanga, 2014) shows that development is often depoliticized, failing to address underlying power structures that help perpetuate global inequality. Critical development theory thus highlights the relational quality of discourse creation, its connectedness to power, and its importance in critiquing donor agendas and local responses. Governments, CSOs, and donor organizations interact to form “transnational topographies of power” (Ferguson, 2006), structuring global authority and governance. More recent scholarship investigating challenges to the development landscape (Burger et al., 2015; Hackenesch, 2013; Kragelund, 2014; Lange and Tjomsland, 2014; Nega and Schneider, 2014) demonstrate that while the aid industrial complex still thrives, various power and economic shifts, including the growing influence of China in Africa, may impact how African governments interact with traditional donors as well as civil society.

Sociological institutionalism, or world culture theory, offers a means to understand globalization and the seeming universalism of economic development models and agendas in diverse nation-states; it posits the nation-state as a worldwide institution created and upheld by globally sanctioned cultural and political models. Specifically, sociological institutionalism highlights the ways non-governmental organizations legitimize world society values (Beckfield, 2003; Boli and Thomas, 1997; Meyer et al., 1997; Meyer and Jepperson, 2000; Robinson 2015), how professionalization of civil society may devalue or undermine local ideas and participation (Fridell, 2013; Ghosh, 2009; Hunsberger, 2010; Olesen, 2008), and the ways world cultural values may take precedence over economic development (Frank and McEneaney, 1999). Literature on sociological institutionalism led me to examine how global discourse was being interpreted by those in CSOs and to question whether local elites1 might influence local strategies or must simply adapt to world cultural goals, thus conceptualizing CSOs’ embeddedness in a complex “field of tension” (Sadomba and Helliker, 2010).

In 2010, listening to Malawians discuss how climate change was altering the development landscape in Malawi, I noticed how much of the language, methods, and opportunities echoed those I had heard two years earlier, when respondents were still heavily focused on AIDS. Rakner et al. (2004) discuss “budget as theatre” in Malawi, noting that there is almost a performative element to creating a budget, which can purposely highlight particular ideas to attract donors’ interests and protect the interests of the powerful. But while it is important to recognize the strength of global discourse and ideology, it is also vital to consider how people on the ground interpret and modify them in current or succeeding development strategies. Eerily similar discourse and development structures, putting “old wine in a new skin,” as one of my respondents terms it, may be one of the unintended consequences of global development priorities.

**Data/Methods**

Over the course of multiple research trips to Malawi, spanning 2000–2014, I noticed marked changes in respondents’ perceptions of donor interests, but obvious similarities in the ways they addressed and discussed these changes. I lived in Malawi for a year and a half during 2000 and 2001, doing research in both urban and ***rural*** settings and returned to Malawi for several months each in the summers of 2008, 2010, and 2014. Data for this paper are drawn from the latter three trips and the completion of 70 in-depth interviews with CSO staff in Lilongwe. Using a method referred to as “onion-snowball” sampling (Cress and Snow, 1996) to locate CSOs,2 I rely on a grounded theory approach (Glaser, 1978; Glaser and Strauss, 1967) to examine relationships between themes in the three rounds of interviews. Rather than attempting to integrate data with pre-existing literature, grounded theory requires the researcher to avoid pre-conceived assumptions and, instead, to carefully code the data, interrogating it for patterns and enabling concepts and ideas to emerge through this process. This paper investigates what are essentially snapshots in time, people’s thoughts and feelings in a particular moment. It is important to remember that perceptions are not necessarily grounded in hard evidence. But by noting patterns in people’s insights at different moments in time, then comparing them across time, I show how *issues* change, but how structural realities of development work in Malawi remain fairly constant.

In 2010, the overwhelming discourse on AIDS I found in the early 2000s and in 2008 had been eclipsed by discussions about climate change. While many of my respondents were troubled by this new agenda, they were resigned to the shift and actively strategizing ways to benefit from climate change funding. I contrast perceptions of this shift with information gathered on a more recent trip. In June and July 2014, no single issue seemed to overshadow all others in terms of priority. But while the lack of one big issue may not necessarily be noteworthy, it is important because respondents *did not feel they could actively strategize*: in fact, there was a sense that many organizations were somewhat in limbo—waiting to see what the next “big issue” might be.

**2008–2010: A Shift from HIV/AIDS to Climate Change**

In 2008, most people I interviewed responded that HIV/AIDS was the biggest donor focus. For many, the fixation with HIV/AIDS was dissatisfying: no one claimed HIV/AIDS was not a significant problem, but they lamented the sheer amount of funds going to it, which, they felt, took money away from even more pressing issues. In 2010, however, I was somewhat taken aback when relatively few of my interviewees mentioned HIV/AIDS as a priority.3 People with whom I spoke felt donors were largely focused on climate change and that AIDS had been relegated to a lesser importance. Respondents may have noted an actual shift in global funding trends: in 2009, global donor funding for the AIDS pandemic flattened for the first time since 2002, leaving a gap of US$7.7 billion between allocated and necessary funds (Kaiser, 2010) and, likely due to the global economy after the recession of 2008, remained flat (Kaiser, 2013). Global assistance for HIV/AIDS worldwide actually declined from US$7.6 billion in 2009 to US$6.9 billion in 2010. While disbursements rose to US$7.9 billion in 2012, monies were still inadequate to address the global pandemic (UNAIDS, 2011). Yet between 2010 and 2012, rich countries pledged approximately US$30 billion for climate change adaptation, mitigation, and REDD+ (Nakhooda and Norman, 2014).

Despite changes in global funding, it is important to note that respondents’ perceptions do not necessarily align with in-country data: there was (and is) still an enormous amount of international funding for HIV/AIDS in Malawi. Resource mapping conducted by the Clinton Health Initiative (CHI) shows that AIDS funding was high, relatively stable, and distributed by need to various districts in the country (CHI, 2014). Still, it is important that respondents *believed* funding decreased and it is instructive that globally, there was a reduction in funds for the pandemic. This apparent shift is obvious when I compare priorities in 2008 with those in 2010. Though inexact, a basic “buzzword count” can be indicative of changing ideals and trends.

Table 1 indicates there was a substantial shift in the perceived priorities of donors by those working in the CSO sector. Whereas only 3 out of 31, 9.6% of all respondents, mentioned climate change as a major donor priority in 2008, 15 out of 20, 75%, mentioned climate change as the greatest priority in 2010. In contrast, in 2008, 25 out of 31, 80.6%, of my interviewees thought AIDS was the significant donor priority while only 5 out of 20, 25%, discussed AIDS as a donor priority in 2010. Though it is instructive to note the frequency with which climate change entered discussions about donor priorities, it is important to move beyond this simple count and consider *how* elites were talking about climate change.

**Table 1.**

Comparison of “buzzwords” in respondents’ interviews, 2008 and 2010.

|  | **2008** | **2010** |
| --- | --- | --- |
| **Number of respondents mentioning climate change as a donor priority (unprompted)** | 9.6% | 75% |
| (3 out of 31 respondents) | (15 out of 20 respondents) |  |
| **Number of respondents mentioning HIV/AIDS as a donor priority (unprompted)** | 80.6% | 25% |
| (25 out of 31 respondents) | (5 out of 20 respondents) |  |

**2008–2010: Climate Change Enters Development Discourse**

While in 2010 there seemed to be a general consensus in Malawi that climate change was a problem, there was tremendous uncertainty about how to approach it. Not only did respondents feel that donor interest had shifted to this “new” topic, which meant they needed to shift their agendas as well, but they also believed climate change gained importance as a development issue for both practical and political reasons. They observed that they had not yet seen much climate change programming, with the exception of reforestation initiatives: they levelled a critique against the government for failing to coordinate a national policy to guide their work, which, they felt, allowed for a lack of focus. Respondents seemed to consider climate change just another donor development priority for which CSOs (and possibly the government) needed to position themselves in order to receive critical funding. Similar to the earlier emphasis on HIV/AIDS, the focus appeared more about organizational sustainability than the experiential realities of climate change.

**Changing Issues**

Chisoni,4 director of a local ***agricultural*** CSO, said, “HIV/AIDS is not the issue as of now … But of course, maybe over the years, the attention is coming maybe too much into climate change, overshadowing the importance of HIV/AIDS.” According to Chisoni, climate change took attention away from the potentially more important issue of HIV/AIDS. It is a somewhat ironic stance, given that in 2008, most people I interviewed noted that though AIDS was a problem, it was not the biggest problem and, in fact, took focus away from other more pressing concerns. Nsanje, a consultant who works with numerous CSOs, said, “I see that donors are beginning now to think, when you say HIV/AIDS, they won’t dig as deep in their pocket as they would.” Because of a diminishing emphasis on HIV/AIDS, the once seemingly inexhaustible funds associated with the illness were thought to be slowing. While many of my respondents told me that there was still plenty of money available at the National AIDS Commission (NAC), there was less “noise” around the issue.

Christopher, a program manager at an international relief organization told me, “With the global warming and whatnot, the environment has taken center stage … HIV/AIDS has ceased to be a priority.” In 2008, CSO staff felt that they had to incorporate HIV/AIDS in their proposals and ***strategic*** plans, even if their organizations had nothing to do with HIV, or they risked losing out on competitive funding, since donors were emphatic about the need to fight AIDS. In 2010, most felt that was no longer the case: Chisoni said, “I don’t know if it’s still a donor requirement.” But with climate change having usurped AIDS’ place of primacy, I noticed a similar feeling among my respondents. George, director of grant writing at an international aid organization, said, “I think now [donors] are moving toward issues of climate change … So basically ourselves too, we have to change our focus to try to align with that paradigm shift.” Takondwa, director at a local health agency said: It sounded minimal in the beginning but now you can see that all donors and the efforts and the funds are going toward climate change. So now as CSOs we also have to see what is our role within the scenario of climate change that we’re having so that we can participate in that because that’s where the money is.

As was the case with HIV/AIDS, none of my respondents felt climate change would be a wasted issue, even if they thought other issues were more pressing. It is important to note, though, that most did not have a strong sense of interest in climate change. Instead, they recognized that in order to remain financially viable, this perceived new agenda necessitated learning to incorporate a new language into their old programming and devising ways to make climate change seem like a natural component of possibly disconnected organizational missions. Nelson, assistant director at a local AIDS organization, noted the growing attention to climate change when he said: I think we haven’t done much to date but that’s an area we think we have to. Not because there is that talk but we feel we’re also being affected greatly by climate change. We are talking of people living with HIV for example being impacted greatly by climate change than maybe those who are not infected. And as a result, we think it’s time we have to mainstream climate change activities.

Despite his assurance that the organization was not interested in shifting to climate change “because there is that talk,” were climate change funding to materialize, it would seem an opportune time to realize such a connection.

The shift to climate change and its concomitant necessitation of changing organizational missions troubled some CSO staff with whom I spoke. People were concerned that the overwhelming interest in climate change, like the overwhelming interest in HIV/AIDS that came before, diminished their ability to focus on anything off the donor radar which they saw as equally, if not more, important. Frank, executive director of a local ***agricultural*** advocacy organization, said: Before climate change, HIV/AIDS was top of the agenda. But in a way, we are also overlooking other critical issues for consideration, because if you add up the effect of climate change and HIV/AIDS, you’ll still find out that malaria still ranks highest, number one killer for under-five children. So it’s like HIV/AIDS, climate change, have actually stolen the show.

While not disputing the legitimacy of climate change, respondents were concerned that this was yet another donor agenda that failed to incorporate other vital issues. The sense that donors might be missing the point, thereby preventing Malawian organizations from pursuing the problems *they* felt most pressing, caused an understated ill will among many of my respondents, who connected these thoughts to Western power and global politics.

**Why the Change?**

Given the shift in attention to climate change, I asked respondents why they thought climate change had overtaken AIDS. Responses fell into two main categories, natural disasters related to global warming or Western guilt and power. Their responses highlighted both experiential reasons as well as more complicated hegemonic understandings, including the cyclical nature of development agendas. But the most cited reason was the preponderance of natural disasters and shifting weather patterns. Among my respondents, there was a sense that the opportunity to ignore climate change had passed. Nsanje mentioned flooding and said, “People will do something until they really have to be stopped by some disaster … I would say it’s because of the catastrophic results that we’re seeing here and there and we’re told it’s climate change.” And Esther, founder of a regional CSO, said: We are experiencing conditions that we have never experienced before … Scientifically, maybe it was far off, but it’s happened sooner than we thought. And therefore it’s action time … When we talk to communities, they are telling us about their historical experiences … There’s much less rain and they’re erratic and these diseases …

While mentions of diseases were not as common as droughts or floods, several people noted increases in illnesses. (Malawi had a widespread outbreak of measles in 2010.) Endfield et al. (2009) argue that climate change may be driving the re-emergence of various diseases and Tang et al. (2009) write disease prevalence as a result of climate change is a cause of reduced life expectancies in Africa.

Numerous people thought that changes in the beginnings and endings of rainy seasons were evidence of the effects of climate change. Chisoni said, “In the last twenty years, the frequency of drought … has increased. And much of that is being attributed to climate change.” Nsanje, Esther, and Chisoni’s quotes highlight an important part of the process of transitioning to a new development agenda—in this case, climate change: connecting personal observations with the theoretical concept. While Jasanoff (2010) points out that climate change *science* is disconnected from lived experience and observation, and McCright and Dunlap (2010) show how this detachment of meaning and experience has been wielded by those opposed to climate change science as proof it is manufactured, in 2010, framing of climate change in Malawi hinged upon viewing environmental disasters as evidence of climate change.

Beyond shifting weather patterns, respondents discussed Western power and the vagaries of aid as another reason for the focus on climate change. Najere, who has worked in the development sector for more than 20 years, said: I think every four or five years, there’s something new that is introduced that draws attention of everybody. And then somebody looks at it and says … “I think we’re misplacing our energies.” But since the majority are making reference to that and have done studies, convincing people, then this will go on.

By referencing the studies done to convince people about the legitimacy of various issues, Najere speaks to the creation of knowledge that guides Western priorities. Because of the cost inherent in research, studies are often funded by donors: the studies then help guide ***interventions***. Thus the studies, as well as the agendas themselves, are heavily influenced by the interests of foreign funding organizations and governments.

Takondwa said, “It would be like any other agenda that comes up … It goes by prioritization of what they feel is something to be addressed.” She added, “HIV/AIDS is mostly in Africa but climate change is across—it doesn’t matter where you are, you are equally affected. So you will see people more putting effort on something which they will equally be affected by.” Saying donors cared about climate change because it affects everyone, whereas AIDS is “mostly in Africa,” she indicated a belief that African lives matter when protecting them also protects Western lives. Whether her suspicions were or were not reasonable, the fact that Takondwa felt like foreign agenda-setters value African lives less, is telling. Development and aid are supposedly premised on “partnership,” but Takondwa is one of many respondents who indicated that, in her opinion, partnership was a farce and donor agendas were based solely on the whims of the West.

Western power in agenda-setting was a common theme in my interviews, but when I pushed further to determine *why* climate change might be the new agenda, respondents were quick to point out Western fear of the effects of climate change. George echoed Takondwa’s observations, saying: Climate change issues are basically issues of you guys from the north, developed countries, basically it’s their issues5… If they do more research and find out how the environment is polluted in those countries, people will be more worried and they will commit a lot of resources to those development agendas.

George believed that climate change was enjoying rapid advancement in donor prioritization, because it is not, fundamentally, an African problem. In Takondwa’s and George’s views, burgeoning awareness of the dangers of climate change in rich nations was the impetus for rising interest in climate change in Malawi. Because we in the West are fearful of the effects of rising oceans, polluted air, and the caprices of weather, we grew interested in trying to reverse the situation.

In addition to practical benefits of slowing effects of climate change, several respondents felt that the West was ramping up efforts for adaptation and mitigation projects in Malawi out of a sense of guilt. Christopher told me that [m]ost of the countries which release a lot of carbon into the atmosphere have to be seen to be doing something. Even though those countries are doing the polluting, the effects are being felt on a global scale, so they have to be seen to be responsible.

Yanus, director of a small local CSO said, “Maybe they’ve realized that Western countries have raped us for quite a lot of time. They’ve advanced their own agendas at the expense of the vulnerabilities of developing countries.” He went on to point out how at the Copenhagen summit on climate change, poor countries pushed for high emissions reductions but rich countries balked at the figures. Both Christopher and Yanus felt rich nations were focused on climate change because of a realization that poor nations had done little or nothing to create the problem.

**2008–2010: All Talk, No Action? Maybe Not**

Though the majority of respondents felt that climate change was mostly at a talking stage in 2010, with little actual work being done, I argue that even if it seemed insignificant, CSOs and the Malawi government were actively making *preparations* to ready themselves for big donor funds. Arrangements for a climate change push were reminiscent of ways both the Malawi government and CSOs positioned themselves for HIV/AIDS funding. In the fight against HIV/AIDS, the government advocated for international assistance, incorporated HIV/AIDS into its overarching development plans, and created NAC to streamline all HIV/AIDS activities and funds in the country. With regard to climate change, the Malawi government participated in global forums on climate change, such as those in Copenhagen and Cancun, as well as the Group of 77, poor and middle income countries lobbying for more international attention to problems facing developing nations. Additionally, the government created a new department related to climate change, similar to that of NAC, and altered its public priorities, highlighting climate change. CSOs, for their part, worked “mainstream” climate change into existing programs, learning to incorporate climate change as a “cross-cutting” issue, language and skills used widely to talk about HIV/AIDS programming.6

During the struggle to make generic anti-retroviral drug treatments available to poor countries, African governments and activists positioned themselves within global frameworks, using various forms of advocacy and activism, to argue for the cause (Friedman and Mottiar, 2005; Heywood, 2009). By attending international climate change conferences, the Malawi government was participating in a global field of climate change. By participating in the Group of 77, Malawi was positioning itself in another field, as a nation aware not only of the perils of climate change but also of how climate change is, in Yoweri Museveni, President of Uganda’s words, “the latest form of aggression” against African nations by wealthy Western ones (Kristof, 2007). It is fairly well accepted that poor people and nations are more vulnerable to the effects of climate change (Bartlett, 2008; Douglas et al., 2008; Meadows and Hoffman, 2003; Tang et al., 2009). In joining with other poor nations, the Malawian government signified a stake in the fight for climate justice, even if talk was mainly rhetoric. It seems plausible that Malawi’s government gleaned lessons from the former AIDS fights and, within this knowledge structure, saw the opportunity to position itself for struggles related to climate change.

In 2001, the Malawi government created NAC, a semi-autonomous agency, to streamline the process of disbursing donor money for HIV/AIDS, improving accountability and transparency in a country known for corruption. For some years, donors had confidence in the organization; the Global Fund, known for stringent reporting and accountability guidelines, funnelled millions of dollars through NAC. In 2009, President Mutharika altered national priorities, lumping HIV/AIDS in with public health and sanitation, rather than its own category, while adding climate change and environmental management as an issue (Fast Facts, 2009). Around the same time, the government changed what used to be the Department of Meteorology to the Department of Meteorology and Climate Change (DMCC). While the new DMCC is no NAC—it does not have the same structure, and whereas NAC is semi-autonomous, DMCC is a government department—the fact that the government created it, while adding climate change as a national priority, further intimated that climate change was a serious component of national development plans. It is unclear whether the government’s emphasis on climate change reflected *genuine* interest and commitment. As Nsanje said: The Met Department has been renamed Met and Climate Change Department. Again, this is pasting a name to something, you’re not sure whether it’s reflecting inner changes or the same old way of doing things and just putting old wine in a new skin … To what extent those changes reflect inner serious thoughts of government other than separating it from donor movement, donor pressure, it’s hard to tell.

Regardless of the motivation of the Malawi government and whether or not commitment to climate change mitigation was (or is) authentic, the government was *posturing* itself as dedicated to the issue. Rakner et al. (2004: 4) argue that budgeting in Malawi is performative—stakeholders (government officials, CSOs, and donors) “act” strategically as if the budget planning and formulation will actually have a bearing on the implementation and distribution of resources. Chipo, who works in the health sector, underscored this point saying: Our government, they can have priorities written down but normally they will not follow those priorities because they are also influenced by donor priorities. So if they know the money’s there, they will make extra effort to show that there’s progress in that area even though it’s not a priority area within government.

Participating in global meetings, including climate change in national priorities and modifying a government department to oversee climate change issues, *signifies* that Malawi’s government takes climate change seriously, the better to take advantage of potential funding for adaptation or mitigation efforts. Furthermore, perhaps building on the success of NAC, the government created a department that could conceivably oversee climate change funds or oversee the creation of another semi-autonomous organization through which climate change funds could reach development organizations. While the DMCC has not become a centralized point for disbursement of climate change funding, its creation was important because it served as an ***indicator*** that the government prioritizes environmental issues.

While the Malawi government was highlighting concern for climate change, my data show CSOs were also readying themselves for climate change funding, should it become available. Respondents were clear that they would shift their own agendas in order to match this new donor preference, acknowledging that they would do so to gain access to the money. Grant writing and executive staff at CSOs learned how to connect their organizational missions and agendas with HIV/AIDS even if they did not immediately seem compatible. As George told me, “We try to alter [organizational agendas] to fit what [donors] basically want.” Using the same terminology, CSO staff attempted to “mainstream” climate change into their programs, recognizing it as a “cross-cutting” issue. Funding available for the fight against HIV/AIDS prompted CSOs to find any way possible to make their organizations appealing to funders (Morfit, 2011). I believe that the institutional knowledge gained in attracting AIDS funding was used to shift missions toward climate change, in preparation for a possibility that similar tranches of funding might be forthcoming.

In addition to the work going on within CSOs, there was a growing discussion in the media of various seemingly disconnected issues and how they overlap with climate change. For instance, in the 19 January 2010 issue of *The Nation*, Grey Kasunda wrote an article entitled, “Deforestation: catalyst for gender based violence.” Deforestation means women have to walk further in their searches for cooking firewood and may come home later, resulting in beatings from their husbands. They are also vulnerable to rape while out scouring the woods. The article states cutting down trees is related to climate change and changes in rainfall, linking structural violence against women with cutting down trees and, thus, climate change.7 It is difficult to ascertain how seriously people in the sector consider these connections but, still, these linkages are critical for CSOs—they help connect seemingly disconnected organizational missions with whatever donor initiative has priority. CSOs, like the Malawi government, are ***strategic*** in (en)acting their budgets and plans: they must be inventive and creative in order to woo donors and their organization-sustaining funds.

Both the government and CSOs employed knowledge gained in attracting HIV/AIDS funding to position themselves in a global and national field of aid recipients to acquire more funding. In this way, while respondents felt little was actually happening with regard to climate change and while, in fact, few functional programs were actually in place at the time, there were significant machinations underway by the Malawi government and CSOs to ensure a place for themselves in the field of competition for climate change funding.

**2014: Limbo-Land**

In 2014, my interviews indicated the absence of one big issue. Whereas my 2008 and 2010 data showed unequivocal perceptions about donor and government interests in HIV/AIDS and climate change, respectively, there was no distinct issue of concentration in 2014. For example, good governance and human rights were noted the most, but were mentioned in only six interviews each (less than a third of all interviews in 2014). Climate change, modality of aid (donor support for government versus donor support for CSOs), and mining came up in four interviews each (just about one fifth of all interviews). Unlike 2008 and 2010, when people listed multiple priorities but where there were clear “winners” in terms of primacy (see Table 1), respondents in my most recent round of interviews did not share a common view of development priorities. But while lack of a singular agenda makes a comparison of *issues* impossible, the circumstances behind it help underscore the *process* that occurs when donors and the national government are focused on a single issue. Recent political, economic, and social events have certainly contributed to the ostensible lack of development focus.

To understand this seeming limbo-land, it is important to consider Malawi’s recent history. Between 2010 and 2014, Malawians experienced significant changes and upheavals in their economy, national government, and international donor relations. Toward the end of 2010 and into 2011, some of President Mutharika’s actions, including perceived curtailment of freedom of speech, were viewed as dictatorial, resulting in pullback from donors (BBC 2011; Smith 2012). Economic and governance problems dovetailed to weaken Malawi’s already weak economy: 2011 saw water and electricity shortages as well as serious fuel and FOREX shortages. In 2012, President Mutharika died of a heart attack and his Vice-President, Joyce Banda, took over. But while her leadership was initially lauded and donors strengthened ties with the government, in late 2013, investigators found that millions of dollars had been misused under the Banda administration, becoming a financial scandal locally termed “Cashgate.” Major donors, such as the UK and IMF, withdrew budgetary support for the Malawi government, causing many development projects to cease (Dionne, 2014). In May 2014, national elections were held and, after a hotly contested set of results, Peter wa Mutharika (the late President’s brother) became Malawi’s newest President. Malawi’s recent past, including a brief foray toward autocracy and curtailment of rights, may help explain why good governance, human rights, and modality of aid came up as donor priorities in more interviews (even if they were not in a majority of interviews) than any other issues in 2014.

Given these recent events, it is perhaps not surprising that there was a feeling of “wait and see” in the air: donors waiting to see what the national government prioritizes and how it conducts itself before re-establishing ties; government trying to devise its priorities and waiting to see who its friends are internationally; and many CSOs waiting to see what both donors and the national government might do. My 2014 interviews showed that CSO staff were deferring plans until donors or the Malawi government make clear a direction for development. Respondents were not idle, as their organizations have ongoing programs and ***strategic*** plans, but did seem to be actively anticipating when directives would come and point them toward the next funding stream(s).

Fundamentally, it is not what issue (or issues) takes precedence that is of interest but, rather, the fact that many CSO staff I spoke with felt they were currently spinning their wheels, *unable* to strategize or plan for the next big development agenda, because there was no clear development agenda. Emily, an American working in the health sector told me, “last November or December, everything just seemed to stop … and we’re still waiting.” The top-down nature of development has created an environment in which CSO staff are adept at pivoting from issue to issue, actively strategizing how to access new funding and building on knowledge they have gained over time, but in which they can not set the agenda themselves, which accords with much development literature (Escobar, 1995; Ferguson, 1990; Hunsberger, 2010; Lange and Tjomsland, 2014; Morfit, 2011). Broadly speaking, my respondents viewed the current development landscape as sluggish for several broad reasons: waiting to see what the new Malawi government would prioritize and needing government direction/leadership; the continuing strength of donor values and priorities; and shifting ties with China and “the East.”

**Government Shortcomings**

Numerous respondents spoke of the failure of government to lead the nation properly, in terms of laying out development agendas and following through on them. During our interviews, respondents indicated that the new President, Cabinet, and Parliament were completely uncertain of their plans. Isaac, a program manager at an international organization who worked in the CSO sector for over 15 years, said: Everybody’s waiting … It’s a government that is forming some of their priorities now. Even during the campaign, you didn’t really have a clear picture of what these guys are doing … Coming from an era under Banda, they are trying to demonstrate that they are trying to be efficient, effective … Doing a review, trying to impress the donors. Get them back in bed like, “Come on, guys, it’s cold in here!”

The sense that the government was busily plotting how best to recapture donors and that this maneuvering was causing delays in government planning was not uncommon. Chimwemwe, who has worked in development for more than a decade, told me, “The government is just new and they want three months to present a budget in parliament. But I know they want to take time to see what IMF will do and to see what kind of support they’ll get.” Others noted that donors, too, were waiting. Robert, a lifelong development worker said, “With the current leadership, it’s very difficult just for them [donors] to resume giving aid to the Malawi government unless they see tangible steps being taken by the administration.”

Asked how Cashgate and the distancing of donors impacted their organizations, respondents felt that, in theory, it presented opportunities for CSOs to access funds once allocated for government but in practice allowed donors more scrutiny over their work. Michael, having worked in multiple local and international CSOs for over 15 years, said, “Every time there is a serious governance issue in financial management there are doors that actually open to NGOs to get more visibility.” But while visibility is positive, he reflected that, “The only thing that you suffer is that there’s very little response when you are advocating something, [donors] will say ‘no, money was stolen’.” Violet, having worked in the CSO sector for less than two years, coming directly from a master’s program, said, “I think the Cashgate just gave the opportunity to donors to keep telling us what to do in our own country. And we really can’t say much.” Isaac agreed with Michael that there is opportunity for CSOs as a result of Cashgate but said, “It’s a different kind of opportunity. NGOs simply cannot match government in terms of capacity … An opportunity for NGOs, but a loss for Malawi because NGOs cannot plow all the fields as government can.”

Respondents viewed the administration’s newness, politicking, and cleaning up the Cashgate mess as reasons for lack of agenda-setting, but even more respondents saw lack of government plans and priorities as a systemic problem with negative outcomes for development. There was a strong sense that development agendas and priorities are heavily weighted to political party affiliation, so that each new president brings an entirely new development agenda and focus. Liwizi, who has been working in development since the mid-1990s said, “We also need to have a focused kind of strategy. Our worry, some of us, is that each government that comes brings in their own policy direction.” Robert echoed this sentiment, adding, “Planning most of the time is based on the feelings of the political party in power. So plans keep on changing. You can have good plans today, come next Friday, we have a new government, those plans are abandoned.”

Lack of centralized government planning was thus interpreted as creating problems in the CSO sector, but also for the country as a whole. Interestingly, many respondents wished for a stronger government mandate. Chipo said, “Parliament needs to pass a law saying this [a non-changing plan] is what we’ll do.” But others spoke of the need for even stronger leadership. Michael said, Sometimes I’m tempted to say—in countries like this one with the attitudes of the people, democracy is good but in my view we need a goodwill dictator. Goodwill underlined, dictator in small letters … who will say, “I think this is what will move us forward, no more questions, let’s do it.” That’s the kind of bravery that will move us forward.

Another respondent, Frances, with an international NGO said, “I don’t believe in democracy. What has democracy brought to this country? … Ask around, people will say we were much better under Banda [President, 1964–1994].” Thus even among relatively elite and highly educated Malawians, there was a desire for far greater, stronger leadership, without a corresponding feeling that non-elected Malawians could push for, or create, a new agenda.

While Malawians I spoke with seemed to have no hesitation about blaming government for its lack of planning and lack of leadership, the sense that even elite Malawians viewed themselves as powerless was also telling. For example, noting a variety of problems related to education, Liwizi, a strong-willed and politically active woman said, “Not being a leader, what can you do? You can only lament about them but you have no power to change those things. Leaders have to decide.” And Violet told me: At the end of the day, it’s up to our government. They need to take a stand … For a long time, we’ve had people willing to just take us from this point to that point but there haven’t been people who are more visionary. More significant changes that would put our country on the map. I think it’s up to the leaders, who do we put in power.

Overwhelmingly, respondents noted a dearth of leadership from government and did not generally see themselves as having any power to push for changes, outside of voting. But while my respondents showed a clear willingness to lay blame for lack of agenda-setting at the doors of parliament, they also felt that government, no less than CSOs, is caught up in an ongoing dance with the donors.

**Continuing Donor Power and the Expanding Influence of China**

Malawi’s reliance on foreign donors for approximately 40% of its national budget (Dionne, 2014) has meant that donor agendas are significant in government planning, as we saw in its methods for dealing with both HIV/AIDS and climate change. While issues may seem to come from the Malawi government, Robert questions that: “Sometimes I’m not very sure if it is the political leadership getting interested in the donors’ areas of interest or if it’s the political leaders taking the lead to attract donors’ interest.” And again, numerous respondents spoke of playing the “aid game,” harkening back to the idea of budgeting or prioritizing as a ***performance*** (Rakner et al., 2004). Gregson, who co-founded a local CSO, said: It becomes so difficult to say here you have got your own areas of interest where you may need the support, but now the person to support you is not interested in those … So now what we do is we bring in those other areas as cross-cutting … When you play around with words, this donor is happy and can bring the money to you.

While my respondents saw this process in their own organizations, they clearly saw it happening within government as well. Mary, who has worked mainly for large multilateral donors, said, “if it’s an idea a donor is really pushing, the government will just say, at least in the Malawian context, ‘Yeah, yeah, it’s fine’.”

In addition to frustration with donors’ apparent power, my 2014 interviews revealed people’s increasing awareness of the Malawi government’s growing relationships with China and “the East.” China’s rising influence and the government’s amenability to greater partnership with China (Inaugural, 2014) seemed to strike some respondents as one more reason for a lack of clear development agendas. Chipo said, “It’s difficult for Malawi to come up with its own agenda without external influence. And now we need to balance interests from the West versus interests from the East.” Many respondents noted China’s oft-cited differences with the West, particularly the notion of “soft power.” China has tended to focus on infrastructure and economic development—roads and buildings as well as exports of goods, whereas Western donors have typically focused on social and political issues. Frank, an engineer in the CSO sector, said, “When you look at China’s approach, not only in Malawi but in Africa in general, they’re good at looking at what you need and just giving without much strings, without much conditions.” While Malawians with whom I spoke certainly blame government for the lack of priorities, they also attribute the uncertainty to Malawi’s shifting position between East and West.

**Conclusions**

By contrasting the strange limbo-like quality of my most recent interviews with those that came before, I have demonstrated CSOs’ reliance on donors and government, not just for funds but for direction of their programs and activities. Power inequalities and donor-driven agendas are not novel themes in development (Englund, 2006; Escobar, 1995; Ferguson, 1990; Hunsberger, 2010; Mannell, 2012) so the perception of a donor priority change from HIV/AIDS to climate change between 2008 and 2010 is not surprising. But my data show that there is an active *process* that occurs when there is a potential new “big issue.” CSOs (and the Malawi government) engage the new issue, incorporating lessons learned and knowledge gained from past experiences or, according to some respondents, simply rearticulating existing efforts.

In 2014, when I asked what had become of climate change as a priority, John, who has expertise in ***agriculture***, told me: Mostly, they’re the very same ***interventions*** that have always been there which you [now] talk of as climate change related. Because in climate change they’re talking of mitigation … Issues of promotion of irrigation we’ve been doing are some of the coping mechanisms of this, eh, climate change … Even issues of HIV/AIDS because there was impact mitigation in HIV/AIDS. And then we said I think if somebody’s suffering, I think has AIDS or has the virus, definitely they need labor-saving technologies. And they also need a lot of food. So let’s bring in irrigation. So these very same ***interventions***, they just change terms. It’s like the same somebody, today you call him by this name, tomorrow you call him by that name.

In addition, Chipo said, “Of course, there has been a lot of support in the environmental affairs department on understanding climate change, but I haven’t really seen on the ground how they are doing it.” Climate change concerns loom large globally, as evidenced in the recent UN Climate Change Conference in Paris, and climate change related efforts are certainly ongoing in Malawi. But climate change did not seem to become an overarching priority in the way HIV/AIDS did for either CSOs or the Malawi government. The climate change funding that is available seems to focus on various connected issues, as indicated by John in the quote above, with small amounts disbursed through some CSOs and larger amounts administered by agencies like the UNDP (UNDP, 2015).

Ironically, the process by which CSOs position themselves to attract donor funds was highlighted by the perceived absence of one major issue in 2014. Reasons for the lack of clear focus include Malawi’s recent history of scandals and donor withdrawals, an observed paucity of governmental capacity to set an agenda, and the possibility of new funding streams, moving away from traditional donors. While CSOs were actively working on their ongoing programming, it is telling that respondents could not agree on one or two big issues and felt that neither donors nor government were setting an agenda, which meant CSOs, too, had to wait and see what to prioritize next.

In 2008, respondents indicated frustration that donors focused too heavily on HIV/AIDS, and in 2010, they were dissatisfied with a possible new concentration on climate change, because it meant pulling effort away from more holistic consideration of Malawi’s development needs. But in 2014, respondents were frustrated by a *lack* of donor focus and an inability or unwillingness of government to dictate an agenda, as it was believed that government, too, was waiting to see what donors would do. This is a vital point, because it indicates the entrenched strength of donor-driven development goals for Malawi. Neither CSOs nor the Malawi government can strategize or maneuver to take advantage of big donor funding when there are no clear development priorities.

Conceptualizing the process that occurs in Malawi, at both the government and organizational levels, when global development agendas shift, emphasizes the continuing skewness in power relationships between donors and those they fund, continuing to raise questions about the possibilities for just partnerships. Framing development agenda changes through the lens of an active process on the part of organizations thereby provides us with a unique glimpse into the ongoing nature of development work in Malawi.

**Notes**

Declaration of Conflicting InterestsThe author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.; FundingThe author(s) received no financial support for the research, authorship, and/or publication of this article.; 1.I consider my respondents “elites” because of their greater than average education and income levels and their proficiency with at least one European language. See Matthews (2010) for a discussion of the difficulties of assigning “elite” status to Africans as well as the difficult position African elitehood conveys.; 2.Because many CSOs are large organizations, I began by simply presenting myself at organizations with the biggest signage. Every time I spoke with folks at these CSOs, I would ask them to refer me to colleagues at other, preferably smaller, CSOs, a form of respondent-driven sampling (Heckathorn, 1997, 2002) that Cress and Snow (1996) term “onion-snowball” sampling, because each new referral expands the research layers (based on snowball sampling, Goodman, 1961). Because large international CSOs often partner with local organizations, I was directed to numerous CSOs and community-based organizations (CBOs) that I would never have discovered on my own.; 3.Usually, I would pose the following question: “From working in your organization, what do you think are the major priorities for donors and the Malawi government right now?”; 4.To protect respondents’ anonymity, I use pseudonyms throughout the paper and do not refer to specific organizations.; 5.Switching between “you guys” and “them” was not uncommon in my interviews. I think the code-switching was related to politeness and respondents’ desire to avoid making me feel like they were blaming me, a white American, by the use of “you” plural while nonetheless indicating the clear distinction they make between themselves and foreigners/donors.; 6.The concept of “mainstreaming” or bringing an issue into the “mainstream” and, thus, relating it to other issues, has happened with various funding priorities. For a discussion of gender mainstreaming, see Mannell (2012) and Warren (2012).; 7.Also, see MacGregor (2010: 131) for a link between women, violence, and climate change and Marra (2008) for a description of how water insecurity overwhelmingly affects women. Additionally, organizations such as Oxfam, too, have connected women to violence because of climate change, and linked climate change and HIV/AIDS ([*http://www.oxfam.org/en/pressroom/pressrelease/2009–06–17/climate-change-pushing-malawi-further-into-poverty-women-hit-worst*](http://www.oxfam.org/en/pressroom/pressrelease/2009–06–17/climate-change-pushing-malawi-further-into-poverty-women-hit-worst), accessed February 2012).

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[***United plans premium economy on the 787-10; E United Airlines will offer its new premium economy product on the Boeing 787-10 when the aircraft is introduced later this year, a seat map for the stretched Dreamliner shows.***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5S3H-K491-JCF2-H537-00000-00&context=1516831)

Flight International

April 13, 2018

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**Body**

United Airlines will offer its new premium economy product on the Boeing 787-10 when the aircraft is introduced later this year, a seat map for the stretched Dreamliner shows.

The Chicago-based carrier will configure the 787-10 with 318 seats, split between 48 Polaris business, 21 premium economy, 45 extra-legroom economy and 208 economy, a seat map published in the 1 May update to United's flight attendant manuals and shared with FlightGlobal shows.

LAflyr on Twitter

United plans to take delivery of its first three 787-10s this year, its latest fleet plan shows. It has firm orders for 14 of the aircraft.

The airline also released updated seat maps for its Boeing 767-300ER, 777-200 and 777-300ER aircraft with premium economy, or "Premium Plus" as it calls the product, in the update. The 767 will have 22 premium economy seats in a two-two-two configuration, and the 777-200 and 777-300ER 24 seats laid out two-four-two.

The density of the 767-300ERs in United's fleet will decrease dramatically, to 167 seats from 214, with the addition of premium economy. A seat map shows its Polaris business class will also increase to 44 seats from 30 seats.

In addition, density will decrease to 276 seats from 292 seats on the 777-200s, and to 350 seats from 366 seats on the 777-300ERs.

United declines to comment on the seat maps or plans for Premium Plus.

The airline announced plans in January to roll out a premium economy cabin. It has been mum on details except to say the product will be offered as a separate class between economy and business.

United

The seat map shows three rows of premium economy in a two-three-two configuration on the 787-10.

Competitors, including American Airlines and Delta Air Lines, have been introducing premium economy on increasing numbers of routes to the USA, leaving United at a loss for a product between extra-legroom economy seats and business class.

Boeing delivered the first 787-10 to Singapore Airlines in March, with United one of the customers scheduled to take the stretched variant from the airframer's North Charleston, South Carolina, factory this year.

The 787-10 is 11m longer than the 787-8 and has capacity for 330 passengers in a standard two-class configuration, according to Boeing. It has a range of 6,430nm.

United operates 12 787-8s and 25 787-9s, in addition to its 787-10 order, Flight Fleets Analyzer shows.

JOURNAL : Farmers Weekly

The Country Land and Business Association (CLA) has accused mobile phone network operators of abandoning the countryside after new information revealed a lack of investment in masts.

A Freedom of Information request submitted to planning authorities by the CLA showed some of the worst-served counties had not had a single new mast sited in three years.

See also: Allow phone masts or lose subsidy – threat to Welsh farmers

In Rutland, where less than 4% of premises can get 4G from all four main providers, no planning applications for masts were submitted at all between 2015-17.

The Forest of Dean and Tunbridge Wells, classed as ***rural*** areas, also failed to see any investment in new masts over the three years.

Lagging behind

Overall, across England and Wales, the data showed new mast sitings were made at a similar rate each year in both urban and ***rural*** local authorities. On average ***rural*** local authorities approved 4.5 masts a year and their urban counterparts put in 4.3 a year.

However, the CLA argues coverage in most ***rural*** areas is far lower than in cities and towns and so a faster rate of improvement is needed to close the gap.

‘Digital wilderness’

In a swingeing attack on network operators and the regulatory body Ofcom, CLA deputy president Mark Bridgeman said the countryside had been abandoned as a digital wilderness.

“This new data shows what ***rural*** communities have suspected for a long time, that the mobile industry is willing to abandon ***rural*** areas.

“Three years ago, we were told coverage would be delivered in the countryside and yet ***rural*** communities are still waiting,” Mr Bridgeman said.

“In the same period the mobile industry has got the new legal powers it wanted, on the basis it is a utility service.

“Now it must be forced to deliver the universal service a utility operator provides. We expect government and the regulator to take a tough line on this, and if Ofcom won’t then ministers must step in.”

Review remit

The CLA is now calling on the Department for Digital, Culture, Media and Sport (DCMS) to review Ofcom’s statutory remit and confirm the body should prioritise working towards universal, quality mobile coverage for consumers.

Mr Bridgeman added: “The mobile operators have no market incentive to improve coverage in these ***rural*** areas.

“It is absolutely clear the only way they will deliver the coverage the countryside needs is if they are forced to do so.

“However, rather than pushing them to achieve universal coverage for consumers, Ofcom is setting soft targets for ***rural*** coverage. As a result, ***rural*** consumers face inadequate service and lack of network choice for years to come.”

But a DCMS spokesman insisted that mobile coverage in the UK was better than ever.

"Some 91% of the UK landmass now has voice coverage, but there's more to do," said. "We have implemented major changes to planning laws and made it cheaper and easier for industry to rollout masts, but the mobile companies now need to act fast on these reforms and deliver better coverage across the UK, particularly in ***rural*** areas.

"Ofcom is also currently looking at placing new obligations on industry to drive up ***rural*** mobile coverage even further."

Mobile phone mast planning applications made between 2015-17 in areas with lowest 4G coverage

Area

Indoor 4G available from all four providers (%)

Approved applications for masts 2015-17

Rutland

3.42

0

Ribble Valley

6.37

2

Maldon

8.63

3

South Norfolk

10.64

4

Breckland

11.22

5

Melton

13.76

12

Copeland

14.13

n/a

North Norfolk

14.18

12

North Dorset

14.24

n/a

Mid Devon

14.25

5

Source: CLA FoI Request

JOURNAL : Farmers Weekly

A new cloud-based crop-monitoring platform claims to be capable of providing detailed information about yield forecasts, crop conditions and soil moisture on a field, regional or country scale using data collected from satellite images.

Earth Observing System (EOS) has designed its crop-monitoring tool for input suppliers, commodity traders and crop insurance companies, but it can also be used by large-scale farmers for keeping tabs on huge swathes of land across Europe, North America and Russia.

See also: Tech company builds clever maps to make sense of crop data

It has been developed by a team of data scientists and software engineers and allows companies to see maps showing different crop types, yield forecasts, field boundaries, vegetation indices, growing conditions and weather data. It can also automatically remove cloud cover and shadows.

It includes both historical and current observations to manage risks and evaluate crop ***performance***. This allows quick identification of a field’s ***performance*** throughout the growing season as well as high-risk areas affected by droughts, floods or hail.

JOURNAL : Farmers Weekly

Farmers have called for a new ***rural*** affairs programme to represent “true countryside matters” after the BBC’s Countryfile was criticised for its coverage on veganism and animal welfare activists.

On Sunday 8 April, the BBC programme looked into how these groups are impacting on Britain’s farming community.

Over the course of the programme, presenter Tom Heap spoke to an animal welfare activist, a vegan, a dairy farmer and a Nuffield Farming scholar.

See also: Countryfile ‘scapegoats’ farmers over hedgehog decline

Countryfile reported 1% of the adult population in Britain is now vegan, some 559,000 people, and those who have taken that decision due to animal welfare concerns often take “direct action”.

Mr Heap first spoke to Toni Shephard, executive director at Animal Equality, an organisation which campaigns to improve animal welfare standards, but also stages protests and trespasses on farms in order to film and take photos of what they find.

She said: “The greatest contribution we can give is ending cruelty to farmed animals. The best way to stop suffering for animals is not to eat them.”

Footage

During the interview, Ms Shephard said she wanted to alert people to “pigs being fattened indoors on slatted flooring” and “caged hens in windowless environments”. Animal Equality footage was also shown of animals in poor conditions.

However, this has prompted criticism from some viewers who believe the videos showed animals in countries other than the British Isles, with some pointing out writing in a foreign language, and asking why Countryfile failed to explain where they were filmed.

Members of the British Farming Forum Facebook group called the programme “anti-farming”, “Townfile” and a “disgraceful misrepresentative programme by townies for townies”.

Some stated they now only tuned into the programme to watch the weather for the week ahead segment.

Others called for the development of a new ***rural*** programme, with farmers presenting and appearing, to boost the industry’s reputation and report on “true countryside matters and obstacles”.

Impartial

But a Countryfile spokeswoman insisted the programme had dealt with an important item "in a balanced and impartial way".

"Countryfile has a long history of covering issues that matter to the farming community and the countryside," she said.

"The programme appeals to a wide audience, but we don’t compromise on the editorial integrity of our ***rural*** stories and farming journalism.”

The BBC has said the Animal Equality footage shown on the programme was filmed within the UK.

(function(d,s,id){var js,fjs=d.getElementsByTagName(s)[0];if(d.getElementById(id))return;js=d.createElement(s);js.id=id;js.src='[*https://embed.playbuzz.com/sdk.js*](https://embed.playbuzz.com/sdk.js)';fjs.parentNode.insertBefore(js,fjs);}(document,'script','playbuzz-sdk'));

Online abuse

When questioned on the morality and legality of animal activists trespassing on farms, Toni Shephard, executive director at Animal Equality denied attempting to intimidate farmers and added: “Trespass is a civil offence, not a criminal offence, and we’ve never had anyone attempt to prosecute us.”

But two farmer victims of this kind of trespass, who wished to remain anonymous, explained though they had not broken any animal welfare laws, the footage posted online prompted a barrage of abuse.

One said: “You feel like you’ve been attacked.”

The second said it had negatively affected their business and their staff, and they were now afraid to be on their own farm after dark.

Abi Reader, a dairy farmer from South Wales, has also come under attack over her job on social media. She explained: “The issue with social media is you never really know who is on the other side of the keyboard. If they have a genuine concern, we are very happy to answer that, but don’t go after people and give abuse.”

JOURNAL : Farmers Weekly

Spring fieldwork is being fitted in between the rain showers as our agronomists give advice for delayed spring drilling, weed control options and perhaps even missing out an early T0 fungicide spray.

Where spring barley is being drilled late, seed rates will have to be increased, and also nitrogen and herbicide applications adjusted to take into account the likely lower yield potential.

See also: Video: Sugar beet drilling starts as growers play catch-up

Once warmer weather appears, crops will race through their growth stage, so agronomists are urging growers to try and keep on top of fieldwork in the very busy next few weeks.

East: Marion Self

Prime ***Agriculture*** (Suffolk)

A sigh of relief as the mid-April forecast promises drier, more settled weather. As field conditions dry, wheels are turning and the heavy spring workload is underway. Expect fast growth as crops respond to warmer temperatures, recent nutrition and increasing day length.

Spring drilling has been delayed but hopefully much should be achieved in the next two weeks. In sugar beet, remember to start the post-emergence herbicide programme with combinations that are safe to the crop.

This is important in drier/warmer conditions where beet emergence is uneven and “difficult” weeds like knot grass are already growing. It’s important not to let these weeds get away.

For later-drilled spring barley there will be a lower yield expectation, so final nitrogen dose and herbicide programmes may need adjustment.

See also: Two varieties lead spring barley drilling season

T0 fungicides on winter wheats are underway and for most crops well-timed sprays (beginning of stem extension) offer disease protection, until a well-timed T1 application (emergence of leaf 3) later this month.

Despite lower early disease pressure, septoria and rust development will increase as temperatures rise. For the control of these diseases and for resistance management it is important to keep sprays robust, with tight timings between the applications.

Oilseed rape is extending, with forward crops now at yellow bud. If a planned plant growth regulator has been delayed due to heavy workloads there is still scope to apply these treatments.

As crops near yellow bud the benefits of treatment will shift from a reduction in crop height and lodging to those associated with canopy manipulation such as improved light penetration.

South: Richard Harding

Procam (Sussex)

It was beginning to feel rather surreal driving past fields at the end of March without a sprayer or tractor in sight.

Nevertheless, the weather is allowing progress to be made on the backlog of fieldwork and frustration, which has now built up in equal measure. On the lighter soils of the Downs good progress has been made with spring drilling.

Spring barley has gone into very good seedbeds and good soil moisture has allowed pre-emergence herbicides to work well. Where heavier soils are yet to dry, patience will be needed to drill into the right conditions to offset the potential yield penalty of later drilling dates.

The priority is getting the stem extension fungicides on oilseed rape crops, which are putting on rapid growth. While pollen beetle can easily be found in crops, recent AHDB work suggests pollen beetle numbers are rarely damaging.

T0 fungicides, plus plant growth regulators, have, or are about to be applied, on both winter wheat and winter barley. There is a huge variation in growth stages, depending very much on whether ground conditions have allowed early nitrogen to be applied.

Despite later T0s on winter cereals this spring, plans are in place for T1 timings, which are likely to be in the latter part of April, with the aim of targeting the emergence of leaf three. This is the critical timing for the suppression of what is likely to be a high-septoria-pressure season.

While the frost, snow, and generally colder weather has had a positive effect on yellow rust levels, it has only slowed rather than eradicated it from crops.

Varieties with low disease scores and high yield potential sites will see T1s based around the actives epoxiconazole, azoxystrobin, chlorothalonil, and the SDHI  benzovindiflupyr. This is a robust mix, particularly useful where a T0 has not been applied.

North: Mary Munro

AICC/Strutt & Parker (Perthshire)

The prolonged wintry weather is a massive headache for arable farmers, but our hearts go out to the livestock producers struggling with awful conditions for lambing and calving. A further dollop of snow at Easter really set everyone back on their heels again.

A year ago this week we were in full swing with spring sowing, spraying and fertiliser spreading. So far, most, but by no means all, the winter crops have had one dressing of fertiliser, and a few growers on lighter ground have sown some beans.

The winter crops are quietly moving on though, and in terms of growth stages are probably only a week or two behind the norm. Where they have had a boost of nitrogen they are looking well, and disease levels are minimal.

Lower leaves have dropped off, so plants are generally clean. It is a good time to evaluate the differences between varieties and plan for the risks ahead.

The oilseed rape crops barely moved in March but are just starting to extend, and the crop protection plan is unchanged – a fungicide for light leaf spot to go on when ground conditions allow.

Normally T0s would have been on wheats by now and a 3-4 week gap expected before T1. For many crops this is not going to work, and once temperatures rise the crops will shift through the growth stages quickly.

I do not see much point applying a T0 knowing that the T1 will be due a fortnight later, unless there is disease to knock out, so my inclination is to skip T0 and go for T1 at the early end of the spectrum, with all of the plant growth regulator dose.

The challenge is to time the sprays as close to the right growth stage as possible, especially with T1 and T2. The winter barley plan is unchanged: two shots of Siltra XPro, the first without chlorothalonil, the T2 with chlorothalonil to counter ramularia.

West:  Antony Wade

Hillhampton Technical Services (Hereford/Shropshire)

Looking back at my article last month, I really wish I could say we have cracked on with the backlog of fieldwork, but opportunities have been very limited, with ground conditions challenging.

The occasional dry day has been snatched to get some of the oilseed rape sprayed, but in some cases the herbicide had to be withdrawn as the buds were too far emerged.

I will still be looking to get some plant growth regulator applied at green to yellow bud either as a specific growth regulator, such as Caryx, or an azole with growth regulator activity, such as metconazole or tebuconazole.

Wheat and barley have only had their first nitrogen-sulphur first splits, so certainly barley and second and late-planted wheats will be a priority once we can travel, two dry days at the end of last week allowed some to make a start.

A few T0 recommendations for September-sown wheat were sent out pre-Easter, but 64mm of rain over that weekend have meant that these are still in the store.

I am hoping that this week offers some drier conditions so that we can get some chlorothalonil on to hold the significant septoria that is present on lower leaves. If we don’t we may be looking at going straight to a robust T1, which will probably include an SDHI.

The winter barley T0 boat has well and truly sailed so I am now planning an earlier GS31 T1 timing with disease levels low I am not concerned about this approach. But, like the oilseed rape, I am expecting a growth spurt and without any early plant growth regulator applied this is more of a concern than disease control.

Very little spring drilling has been done and, as others have commented, this will probably have an impact on the yield potential of all spring cereals and pulses. We will stick with them until the end of April, but after that it may be better to leave the seed in the shed.

JOURNAL : Farmers Weekly

The Crown Estate (CE) is negotiating with tenants of its Taunton estate in Somerset on the sale of up to 7,000 acres.

The estate, with more than 20 farms, is a mix of dairy, livestock and arable holdings including both equipped holdings and bare land lettings in the parishes of Neroche and Cheddon Fitzpaine.

The CE has a policy of selling “non-core” farms and land to restructure its ***rural*** assets, creating larger lot sizes and modern tenancies, according to its latest annual report.

See also: Is it a good or bad time to buy a let farm?

“In line with our investment strategy, the CE is considering plans for its holdings in Taunton and is currently discussing potential farm sales with tenants,” said Malcolm Burns, head of ***rural*** at the CE.

“Sales such as this play an important role in raising capital for reinvestment across our portfolio, in sectors where we have the scale and expertise to outperform the market. We will continue to work closely with our tenants and local stakeholders as plans for the estate progress.”

The CE owns about 220,000 acres of ***agricultural*** land and has total assets of £13bn, much of which is in retail and commercial property, as well as offshore wind.

The sale of ***strategic*** land sites and non-core ***rural*** land raised £209m in the year ended 31 March 2017. This included the proceeds of farm sales in Dorset and at Marlborough in Wiltshire,

JOURNAL : Farmers Weekly

A dairy farmer from Wales has cleared his name after he was accused by animal health officials of tampering with his TB tests in order to falsify results.

Hefin Owen from North Carmarthenshire has been cleared of charges relating to animal welfare breaches and administering noxious material to his own cattle.

His battle has been going on for more than two years, after Animal and Plant Health Authority (APHA) officials accused him of tampering following a TB test that found 74 reactors and 21 inconclusives.

See also: Expert advice: What happens if my herd fails a TB test?

Mr Owen, who farms with his partner Lucy, was forced to go through the ordeal of watching 30 of his cattle being shot in the farmyard.

He was then asked to keep the remaining 44 reactors on farm in isolation, rather than take them to slaughter.

Police raid

The farm was later raided by police and animal health officials, who arrested Mr Owen alleging that he had injected the animals in their neck with a substance in order to encourage a positive TB test result.

As a consequence of the accusation, the compensation payment for the animals slaughtered as reactors was stopped and his dairy farm faced financial ruin.

But after a five-day hearing at Aberystwyth Magistrates Court in the week ending 23 March, District Judge Parsons found Mr Owen not guilty of all offences.

Harrison Clark Rickerbys, the law firm representing Mr Owen, said the defence team had been able to demonstrate the complete failure of the prosecution to prove their case and fundamental flaws in their evidence.

“It has been pretty awful for the past three years and it has been a real struggle to keep going,” Mr Owen told Farmers Weekly.

“We have nearly lost the farm and have been lucky to have such a good landlord.”

Mr Owen said at the time of his arrest, APHA had already conducted tests on the 30 animals that had been culled, but had found no sign of any substance.

Money owed

Despite having his name cleared in court he is still to be paid for any of his animals.

He intends to pursue the authorities for the money owed and compensation for damages.

See also: Six-hour TB test shows promising early results

Aled Owen of Harrison Clark Rickerbys said that he was pleased for the family, adding: “This case highlights the need for early technical advice from someone who has experience of the industry.

“These are complex matters and if not prepared correctly, with identification of the right experts and appropriate strategy, then they can go wrong.

“It is also important not blindly to accept scientific evidence, but to challenge and evaluate what it purports to show and what it really demonstrates.”

A Welsh government spokesperson said: “We are aware of last week’s court ruling and are considering its outcome.”

JOURNAL : Farmers Weekly

Tight dairy cattle supplies have kept trade remarkably steady amid testing times as milk price cuts, freezing conditions and forage shortages have made for a long winter.

However, auctioneers admit trade eased slightly in the first quarter of 2018 compared with last autumn’s levels. First-quality cattle dropped £80-£100 and second-quality milkers slipped back about £150-£200.

Keen bidding has been reported for quality 30-litre heifers and cows giving 35-40 litres or more.

Supply has been hit by “the swing to beef” of 2015-16 when cheaper beef straw were used, while the demand side is being bolstered by beef prices and the values of cull cows and beef-cross calves.

 See also: Huge Dutch cow cull could be good for UK dairy prices

Auctioneers say the shortage is down to:

Low UK supply due to “swing to beef”

TB culling keeping numbers low

low EU supply – Dutch cow cull due to phosphate regulations

Weak pound hampering imports slightly

[*https://infogram.com/dairy-trade-and-markets-the-numbers-1h0n25xdkzgl4pe*](https://infogram.com/dairy-trade-and-markets-the-numbers-1h0n25xdkzgl4pe)

Beeston Castle

A range of factors are supporting a very firm trade at Beeston, where Simon Lamb, Wright Marshall, says the main driver of a firm trade is the lack of cows nationally.

Throughputs have been about 10% down at mid-month sales for the past nine months or so, with Mr Lamb saying the switch to beef straws during the dairy downturn is now being seen in the dairy rings.

“Trade at our March sale was back up to the levels seen last autumn,” he explains. “Selling cows was definitely harder work in January and February but with milk prices falling at the rate they were it was hardly surprising”.

Recently, dispersals have seen the Saxelby herd hit 3,000gns twice and bring a total of nine calls at 2,400gns or more and 127 milking cows and heifers level at £1,774.99, including heifer calves at £628.

On Tuesday (3 April) the 154-cow Spellowhill herd, Knaresborough, made £1,454, including 43 heifer calves at £507 as calls of 2,280gns, 2,200gns, 2,180gns, 2,120gns and seven 2,100gns were made.

Frome

Supplies are also tight in Somerset, where TB restrictions continue to challenge buyers and sellers alike, almost halving numbers at weekly cattle sales.

Dairy and store cattle auctioneer Trevor Rowland at Frome Livestock Auctions explains that weekly numbers at the Wednesday sale have fallen from 25 to 12-15-head in recent months.

Summarising the demand side of the market, Mr Rowland said: “Dairy trade is pretty good and has held up well considering the processors cutting prices.

“There are a lot of level profiles and people wanting to buy cows to keep up with weekly production levels and meet their quotas.”

Norton and Brooksbank

Young cows are making just as much if not more than heifers, observes Tom Brooksbank, dairy cattle auctioneer and valuer of Gloucestershire-based Norton and Brooksbank.

He has noticed a definite premium for quality, with anything calved a long time, a touch lame or carrying a faulty udder down by several hundred pounds.

“Barren cows seem to have put a bottom in the market,” he says. “People seem to be keen to buy young cows at 35-40 litres/day or more – people need the milk.

“My impression is there aren’t quite so many cows coming into the country from Europe. The competitive pound won’t be helping that job too much.”

JOURNAL : Farmers Weekly

Intense competition for British lamb has seen year-on-year values soar by up to 45% at auction markets this week, while the latest deadweight prices have hit their highest ever level.

Figures released by the AHDB show the GB deadweight old season lamb (OSL) SQQ recorded its 22nd week of consecutive growth – gaining another 7.5p, to 536.7p/kg in the week to 31 March.

The measure now stands at the highest ever level across both the new season lamb (NSL) and OSL series. The previous high was recorded in May 2013, the AHDB said.

See also: Fat lamb prices increase £10 per head in a month

Estimated slaughterings for the week stood at 231,700 head, 3% above the same week last year.

Strong ***performance***

AHDB analyst Rebecca Oborne said throughput was an especially strong ***performance*** considering the Easter weekend.

“Reports suggested some abattoirs still worked a full kill week despite the bank holidays,” Ms Oborne added.

AHDB figures for GB liveweight OSL standard quality quotation also rose sharply by 7.68p week-on-week, to 240.07p/kg standing at 61.77p above year earlier levels up to 31 March.

The trend has continued through the past week with prices up to 251.42p/kg by Wednesday 4 April, 26.07p above week earlier levels and 10p above the previous day.

Soaring prices

The soaring prices have been seen across the country, according to Livestock Auctioneers Association executive secretary Chris Dodds.

“Competition between buyers at livestock markets is intense and we have seen them driving up the price by 60-70p/kg year on year,” Mr Dodds said.

He suggested that was due to strong demand for British lamb combined with a lower supply after the harsh winter and spring weather.

“The demand has been driven by retailers switching to British. That is especially good news given the uncertainty over Brexit,” Mr Dodds said.

“Relatively high global prices and a weaker sterling have also made imports less attractive,” he added.

Buoyant market

The buoyant market showed no signs of abating, he said, with old season supply dwindling and a slow changeover to new caused by losses and poor growth rates in harsh weather.

In the south east of England auctioneer Elwyn Davies said Ashford market in Kent had seen 35-55kg hoggets average £112 a head. That is 45% higher than the same price a year ago when the average was £77 a head for the same weight.

“We are optimistic that the buoyant market will continue because demand is high both for exports and the home market,” Mr Davies said.

“I can’t see that changing any time soon because the supply of NSL is going to be slow.

“Fewer people produce early lamb in the south because input costs are so high that it doesn’t make sense to push them hard,” Mr Davies suggested.

Strong demand

At the opposite end of the country Jonny Williams, senior livestock procurement officer for farmer marketing group Farm Stock Scotland, said price rises had been similar to those at Ashford.

“We are seeing the highest levels for many years driven by a strong demand for Scotch lamb.”

“I don’t see that changing before the Royal Highland Show [at the end of June] because NSL supplies have been hit so hard,” said Mr Williams.

“There have been big losses of stock in the severe weather so that will hold back supply,” Mr Williams added.

The situation was repeated in North Wales and the Welsh borders.

Livestock Auctioneers Association chairman John Brereton who sells at St Asaph and Oswestry markets said demand for lamb was strong across all weight ranges and breeds.

“[On Thursday 5 April] St Asaphs old season lamb had hit 285p/kg while new season had gone beyond the £3/kg mark,” Mr Brereton said.

“Competition between buyers at the markets even for the heavy weigh ranges has been intense and fuelled further by an excellent export trade.

“I am optimistic this buoyant trade will not slow down,” Mr Brereton added.

JOURNAL : Farmers Weekly

The government has called for views on proposals to improve animal welfare in transit which include a ban on live exports for slaughter post Brexit.

In the consultation document launched by Defra secretary Michael Gove, the government says it would prefer animals to be slaughtered close to the point of production.

And it adds a trade in meat and meat products is more desirable than the long-distance transport of animals specifically for slaughter.

The consultation is based on an online survey that outlines a range of areas including transport journey times for sheep, pigs, cattle, poultry, goats and horses.

It also calls for views on the suitability of different transport modes and welfare issues relating to the export such as final destination and purpose.

Launching the consultation, Mr Gove said all animals deserved respect and care at every stage of their lives.

“This call for evidence begins to deliver on our manifesto commitment which aims to control the export of live animals for slaughter once we leave the EU,” Mr Gove said.

“We have some of the highest animal welfare standards in the world which we are strengthening by raising maximum sentences for animal cruelty to five years and introducing mandatory CCTV in abattoirs.

“With all options being considered, I am keen to hear from industry, the devolved authorities and charities on all possible options on this vital issue,” he added.

Defra also announced the consultation would be supported by a Farm Animal Welfare Committee review into the existing welfare standards and further research work carried out by universities and colleges in Scotland.

See also: MPs urged to ban live animal exports for slaughter

The government consultation was welcomed by vets.

British Veterinary Association president John Fishwick said: “We believe that production animals should not be transported long distances to the abattoir but should be slaughtered as near to the point of production as possible.

“Animals should be transported on the hook, as meat, not on the hoof, as live animals,” Mr Fishwick said.

“It is vital that we maintain the UK’s current high standards of animal welfare post-Brexit and seek opportunities to improve them. We look forward to contributing to this call and seeing the results once the evidence has been collected,”

Opposition expected

But some in the livestock sector could use the consultation to contribute strong opposition to an export ban.

Speaking in January this year, the Ulster Farmers’ Union (UFU) said banning live exports would be “completely unworkable” for the farming industry.

The live export of cattle and sheep forms an integral part of the Northern Ireland livestock sector, injecting more than £70m/year into local farm businesses, the union said.

“To prohibit or heavily restrict live exports will badly damage primary production in Northern Ireland,” said UFU president Barclay Bell.

“It will be detrimental to all hopes of having a holistic local livestock sector that can deliver for the economy, environment and ***rural*** communities.”

Have your say

The online survey for responses is available on Defra’s website. The consultation document is also available as a PDF. The closing date for response is 22 May.

Enquiries and responses should be emailed to [*animalwelfare.consultations@defra.gsi.gov.uk*](mailto:animalwelfare.consultations@defra.gsi.gov.uk) or sent by post to the Animal Welfare Team, Area 5B, Nobel House, 17 Smith Square, London SW1P 3JR

JOURNAL : Farmers Weekly

The row over the use of homeopathic treatments for livestock and pets has been reignited after Defra said it has no evidence that homeopathy is a risk to animal welfare.

Farm minister George Eustice was asked a parliamentary question by David Tredinnick MP (Conservative, Bosworth) about whether Defra has any evidence to show that homeopathic vets were a risk to animal welfare.

In response, Mr Eusice confirmed that Defra does not have any evidence.

See also: Effectiveness of homeopathy for livestock unproven, review warns

However, the minister added that it should be noted that homeopathic treatments are not subject to the same level of detailed efficacy and safety tests as “conventional” medicines.

Scientific principles

Peter Gregory, veterinary dean of the Faculty of Homeopathy, said the minister’s answer drives “a coach and horses” through the stance taken by the Royal College of Veterinary Surgeons (RCVS).

RCVS released a position statement in November 2017 that said homeopathy was not based on “sound scientific principles” and in order to protect animal welfare it regarded such treatments as being complementary, rather than an alternative to conventional treatments.

“The argument that homeopathy endangers animal health is spurious, unsubstantiated and wrong,” said Mr Gregory.

“In light of the secretary of state’s statement, I call on the Royal College to look again at its position on the use of complementary medicines in veterinary practice.”

Efficacy issues

In response, RCVS said it remains the college’s position that while there is no evidence that homeopathic medicines and treatments are harmful in and of themselves, there is also no recognised evidence base regarding their efficacy and that homeopathy is not based on sound scientific principles.

“As per our statement of 3 November 2017, we believe that the risk to animal health and welfare does not come directly from the use of homeopathic medicines or treatments but from their use preventing or delaying the use of medicines or treatments that do have an evidence base and are based on sound scientific principles.

“For these reasons we would reiterate that while homeopathic products can be used, it should be on a complementary basis to conventional medicines and not as an alternative.”

More than 18,000 people have signed an online petition in support of veterinary homeopathy since the RCVS published its position statement.

The British Association of Homeopathic Veterinary Surgeons has organised a demonstration that will take place in London on 16 April.

JOURNAL : Farmers Weekly

No cultivations have been carried out for the past three-and-a-half years at a Wiltshire farming business, since the decision was taken by the father-and-son team of George and Patric Hosier to move to direct drilling.

During that time, there has been a reduction in the use of crop inputs and significant savings in time and fuel use across the 450ha of crops – with further efficiencies anticipated as the system matures and soils improve.

With the focus shifting to building soil biology, the rotation has been extended and cover crops have been integrated, with the farm’s existing cattle and sheep enterprises being used to graze the majority of them.

See also: Top tips from two US no-till and cover crop veterans

Spring crops have always featured, with spring barley being a mainstay in the rotation, but now they are drilled “on the green”, with glyphosate used to destroy the preceding multispecies cover crop the day before they go in.

Soil resilience

Already, the varied soil types farmed by PT Hosier & Son at Wexcombe, near Marlborough are more resilient and able to cope with unpredictable weather, while minimal soil disturbance means the blackgrass burden is becoming more manageable.

“Our soils are holding together well and infiltration rates have improved, so there’s less risk of run-off,” says George.

“We have also seen big improvements in blackgrass control in some situations, with two crops being produced without the help of any grassweed herbicides.”

Both of those were later drilled and were in fields coming out of grass, he reveals. “In other situations, we haven’t been able to reduce weed populations as much, so we will be making more use of grass leys on our calcareous soil types to help.”

Drill choice

Six years ago, when the Hosiers were considering the purchase of a new drill, they were keen to reduce the amount of ploughing taking place, by doing more minimal tillage and extending the time between ploughing from three to six years.

“We were ploughing to help with blackgrass control, which was time consuming and costly,” he recalls.

The farm’s previous tine drill was unable to cope with chopped straw, so where ploughing hadn’t taken place all the straw had to be buried first – resulting in four passes before drilling could commence.

“We needed to change, to restructure our soils and bring our establishment costs down. Finding one system to suit all of our requirements wasn’t easy, especially as we also didn’t want to use 300hp to pull whichever system we chose.”

No-till advantage

At the time, two Nuffield scholarships on no-till farming were creating interest, so Mr Hosier went to have a look at the results from some early adopters.

“Everything I saw on their farms proved that no-till could work,” he adds.

“We went ahead and had a trial 30ha area of spring barley direct drilled by Primewest using Cross Slot technology in February 2014, with half going into a mustard cover crop and the remainder into stubble.”

That experience encouraged him to order a Cross Slot drill, which didn’t arrive until the following February. In the meantime, he had half of his winter wheat contract drilled in September 2014.

“We drilled two fields next to each other, so we could compare the old and new systems. It rained so heavily a few days later that we experienced considerable soil run-off from the conventionally drilled area. The new drill proved itself before it arrived.”

On-farm use

Since then, he has been using the drill across all of the spring and winter crops grown, as well as to establish new grass leys.

To date, spring cropping has proved to be more challenging than winter, while cover crop destruction and crop nutrition requires further fine-tuning.

A modification to the drill has given Mr Hosier the ability to apply liquid fertiliser with the seed at drilling. “It has helped our spring crops get away quickly, as without any soil disturbance you don’t get mineralisation of nitrogen occurring.”

He also admits to learning to drill spring crops when the ground conditions are suitable, rather than waiting for a certain soil temperature.

“Having been through a tricky time in years two and three, with the expected yield dip, our crops are looking good his year.”

Slugs were the biggest issue in those first two years, he acknowledges. “Two things have helped. The rotation has been extended, so that we’re now only growing oilseed rape once every 10 years, and we purchased a stripper header to help with residue management.”

Stripper header

To avoid leaving harbours for slugs and prevent chopped straw lying unevenly and forming clumps when wet, the stripper header is used for the wheat, barley and pea harvest so that straw is left standing across the fields.

With far less plant material going through the combine, the chaff is much easier to spread across the whole width and the bulk of the residue is distributed evenly.

“The stripper header has had a huge benefit on time and diesel – we were doing 200 drum hours per season before, now we are down to 139 drum hours.”

There are some losses at harvest with it, but they’re not significantly more than using a normal header, notes George.

“There are certain weather conditions where we wouldn’t use it and our oilseed rape and bean crops can’t go through it. We also use some straw on the farm for our cattle and sheep enterprises.”

[*https://infogram.com/fuel-consumption-1hxj48r7krrq6vg*](https://infogram.com/fuel-consumption-1hxj48r7krrq6vg)

Crop inputs

Some of the most immediate benefits from direct drilling have been the reduction in crop inputs, reports George Hosier.

No insecticide or seed treatment has been used on the farm for the last two years, as well as no bagged P and K.

“We are going to look at nitrogen next,” he reveals. “The system mobilises soil biology and recycles nutrients, so we might be able to reduce our nitrogen by 20%.”

Fungicides are also in his sights. While he hasn’t made any alterations to his fungicide programme so far, he would like to test things out next year in a first wheat after peas, which followed three years of grass.

Another benefit of the change to direct drilling is the farm’s slimmed down machinery fleet. “The drill was expensive,” admits George. “But it has allowed us to sell other machinery. We now operate with just a sprayer, a combine, a set of rolls, a top dresser and our drill.”

JOURNAL : Farmers Weekly

A Northumberland farmer who was fined £19,000 last year for polluting a watercourse has been fined again for failing to fix the problem.

John Laing, 54, of New Heaton Farm in Cornhill-on-Tweed has been ordered to pay £2,855 in fines and costs for failing to fix the source of the pollution in a protected watercourse.

Mr Laing appeared at Berwick-upon-Tweed Magistrates’ Court on Thursday (5 April), having previously admitted contempt of court.

See also: Ways to reduce the risks of water pollution

The court heard that, in January 2017, Mr Laing was ordered by Newcastle Magistrates’ Court to repair a silo storage unit by 30 June 2017, to prevent silage leaking into a tributary that flows into the River Till.

Mr Laing needed to carry out specific works to capture and prevent any effluent from escaping the silo, and provide written certification from a chartered engineer that the works had been completed to the required standards.

While Mr Laing had enlisted the services of a builder, work had not started before the June 2017 deadline. Visits by Environment Agency (EA) officers in August and September 2017 revealed that some work had begun, but not as agreed and to a poor standard.

Assurances

In mitigation, Mr Laing said he had relied on the assurances of a builder as to the quality of the remedial work and was no longer using the storage facility himself.

Neil Paisley, senior ***agriculture*** officer at the EA, said action would be taken against anyone who failed to follow environmental laws, and added: “John Laing has repeatedly shown a disregard for the law and a disregard for the environment.

“Pollution of any watercourse is a serious offence because of the devastating impact it can have on fish, wildlife and ecosystems.”

If anyone spots a potential pollution issue they can report it to the EA’s free 24-hour incident hotline on 0800 80 70 60.

JOURNAL : Farmers Weekly

After mentioning in my last article I felt we were not ready for the upcoming season, the delayed spring has allowed us to play catch up.

Machines are now being prepared to make sure they are ready to go when conditions allow.

We have only managed one day of field work so far, which allowed us to get double top applied to 50% of the oilseed rape, with an application of terconazole applied to the forward rapeseed.

See also: Top tips from two US no-till and cover crop veterans

I am now desperate to get a first application of nitrogen on to the hybrid barley and some mowing grass (and the rest of the autumn sown crops come to think about it).

The plan for nitrogen application splits seems to be changing all the time, but at the moment we are moving towards doing less passes with higher rates.

Cover crop trial

Lambing is now finished and calving is heading towards completion at a rapid pace.

Getting ewes and lambs out has been a slow process. The delayed grass growth and the wet conditions on the cover crops have meant managing turned out ewes and lambs has been a juggling act.

I feel the experiment of using a short-term grass ley as a cover crop has been a success. We have had several grazings; it has held the sheep up well, kept them clean and looks to have left the soil in a good condition to drill straight into.

It is tempting to leave one field in and take a cut of silage off to get a return from the investment in the seed.

The Health and Harmony report is definitely worth a read. It is particularly relevant to the generation near the start of their ***agricultural*** careers, as this will potentially shape the farming policy for our working lives.

Jack Hopkins is the assistant farm manager on a 730ha estate in north Herefordshire on predominantly silty clay loam soils. Cropping includes wheat, barley, oilseed rape, spring oats and peas, plus grassland that supports a flock of 1,000 ewes and 25 pedigree Hereford cattle.

JOURNAL : Farmers Weekly

The prime minister paid a visit to Northern Ireland last month as part of her "one year before Brexit" tour of the UK.

Interestingly, she chose to meet with farmers here exclusively. Does this mean she values the importance of home-produced food, or is this just wishful thinking on my part?

The media noted that she didn't visit a border farm. Was that because she doesn't regard it as a problem or because there isn't a suitable solution yet?

See also: Brexit plan ‘threatens to undermine food production’

I farm right on the border and cross it on an almost daily basis. Occasionally I also rent land in Donegal.

The border here stretches for 320 miles, sometimes splitting farms and there are numerous minor roads across it.

Only one solution

Any sort of "hard border" would be impossible to police, as both parts of Ireland discovered throughout the Troubles, so a deal will have to be done.

The obvious solution is some sort of free trade deal between the EU and the UK. Free trade means no tariffs; no tariffs means no border checks required – problem solved!

It really is the only workable solution and is without doubt in the best interests of both sides.

The sticking point seems to be the insistence of the EU that the UK stays in the Customs Union, even though the EU has various trade deals with other countries who are not in it.

Whatever the outcome, my family survived 30 years of the Troubles farming on the border. I think we will survive a border with the EU!

Meanwhile, the weather has dried up somewhat so spring field work and calving continues.

News that two Irish farmers have been killed recently by cows is a sombre reminder of the dangers involved, particularly when working alone.

I am very mindful of this in the shed late at night on my own and hope I have enough safety precautions in place, but animals still have to be tended to when calving.

Robert Moore farms on the Molenan Estate in Northern Ireland, where his family have farmed for more than 200 years. He switched to arable production in the late 1990s, away from beef and sheep. He still has a small suckler herd on non-suitable arable land.

JOURNAL : Farmers Weekly

I can only imagine every other column in this week is full of the miserable realities of a wet spring.

Unfortunately, in our low-cost extensive lambing system, the difficulties are becoming very apparent.

We rely on grass cover having rested lambing paddocks over the winter and the ability to drive a truck and trailer over the fields to check on stock during lambing.

Non-existent grass growth has meant we have been running silage to sheep.

Using a small eBay-purchased trailer (£160 – I love a bargain), we can manage five silage bales a trip – I have spent long days on the tractor dreaming of a 65K gearbox and 28ft trailer.

Bad move

I remember smugly writing how we had kept a number of older girls for another year. Yeah, not one of my smartest moves.

See also: Farmers advised to manage grass shortage

They have suffered a lot despite throwing silage, oats and mineral buckets at them, and have had some Twin Lamb Disease.

Despite calcium and glucose injections, and drenches, recovery rates have not been great. I must admit to feeling like the world’s worst sheep farmer at times.

Lambing paddocks are spread over 10 miles. Not being able to drive on any fields is going to affect our lambing system considerably.

Cunning plan

The current plan is to put the quad in a horsebox and drive it to each field, check the field, grab any problems and cart back to the horsebox, reload the quad and drive to next field. We are also putting pens in each field for lambs with minor issues.

Jo has been a hero in all this. I even managed to take the kids to McDonald's one afternoon while she checked sheep, although I had to pull a pair of rotten lambs before I left.

Taking three under-fives for lunch on a bank holiday Monday is a new level of hell – don’t ever try it.

Worse still, during each bite of my burger, I can smell rotten lamb. Thanks to Twitter for suggesting diluted vinegar – I am off to Tesco in the morning.

Rob and Jo Hodgkins run 1,500 ewes across 485ha of grass and have 566ha of arable in Hertfordshire, producing lambs for Tesco and breeding sheep through Kaiapoi Romneys. Subsidy-free farming means sheep must be functional, lamb outdoors and produce lambs on forage alone.

JOURNAL : Farmers Weekly

I have tried to write this piece about five times without starting with the weather, but it’s impossible.

The prolonged cold and wet spring is providing as much a mental test as it is a practical one managing the stock and grazing.

At time of writing (4 April), the main frustration now is grass growth, having finished our first round of grazing.

Relying on silage

Regrowth is there, and the farm looks a healthy colour of green wanting to grow, but we just don’t have the grass covers we need to fully feed cows on grass alone, so we will continue to fill the gap with silage.

See also: 9 steps to getting a spring reseed right

We thought we’d have loads of surplus silage this year. However, there will be precious little left by the time spring does its thing. Calving is virtually done, with cows left to calve into double digits.

Most heifer calves are grouped into batches of 40 and feeding on the fifty-teat trailed feeder.

We would normally have the majority out on grass by now, but have only managed to get one group out to date, and while they are coming along well, we’re in no rush to get carried away.

Calving to breeding

Calves are gradually weaned onto once-a-day feeding, with intakes getting up to about 900g of powder/day. Attention is turning from calving to breeding, with serving being less than a month away.

This will start with the team metri-checking the cows for any metritis or dirty cows and pre-mating tail paints will be applied three weeks before the planned start of mating.

We will also use once-a-day milking to help with cycling, with us targeting any low-condition cows and non-cycling cows. As an industry we will get through these latest challenges and will hopefully, where needed, help each other through it.

Working together has never been more important, with increasing threats from outside – a proposed trade deal with Australia that seems happy to open the doors to hormone-treated beef, or wildlife groups featuring on Countryfile blaming declining hedgehog numbers on "industrial farming" practices, to name just two things in two days.

Johnjo Roberts converted his family’s 250ha beef and sheep farm on Anglesey to an 800-head spring-block calving dairy in 2014. Maximising grazed grass and good milk solids are priorities.

JOURNAL : Farmers Weekly

Cambridgeshire grain co-op Fengrain made a pre-tax loss of about £2.5m for the year ending 31 July 2017.

Turnover for the year rose by almost 24% to £125m.

The latest results reflect a year of significant investment in additional storage and setting up a new trading operation based in Kent, said managing director Rob Munro.

They also coincided with a significant downturn in the fortunes of ***agricultural*** merchanting, evidenced by the number of companies exiting the sector, said Mr Munro.

See also: BPS - expert advice on applying in 2018

“The investments are part of a long-term strategy, which is delivering positively in the 2017 season. While the deficit is regrettable, the business is now well placed to deliver value to its members going forward,” he said.

The results mark the co-op’s second loss in 12 years, following a pre-tax loss of loss of £496,956 in the year to 31 July 2016.

Fengrain invested £1.85m in grain storage facilities at Great Ryburgh, Norfolk In a joint venture with Crisp Malting Group near Fakenham, to provide 10,000t of malting barley storage. This was completed in November 2016.

The Kent-based south-eastern grain operation was announced at the end of 2015 and began

trading in January 2016, based near Canterbury.

Fengrain has a total of 120,000t of storage and markets grain for about 900 members in the Eastern Counties, trading more than 850,000t of grain and oilseeds a year.

JOURNAL : Farmers Weekly

Farmers buying and selling land need to be prepared for increased security checks due to new regulations over money laundering, warns the Central Association of ***Agricultural*** Valuers (CAAV).

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into effect on 26 June 2017 and apply throughout the UK.

This has resulted in a tighter regime of identity checking for property transactions in a bid to reduce the opportunities for criminal organisations to launder money or finance terrorist activity.

See also: Buying farmland abroad: Prices, benefits and risks

Kate Russell, policy and technical adviser at the CAAV, says this means the requirements relating to selling and buying property have become a lot tougher.

She explains: “They [agents] now have to identify money laundering risks for the purchase or sale of houses, land, farms and commercial property. This involves checking identities, confirming the source of funds and reporting any suspicious activity to the authorities.”

What to expect

Security requirements will vary depending on the way farmers purchase property. If buying through private treaty, identification will be needed before an offer is accepted.

If buying through an auction, registration and identification will be needed before bidding begins. If acquiring land by tender, buyers will have to confirm their ID as part of the tender process and before an offer is accepted.

If the buyer or seller is a trust, charity or a limited company, information on the “beneficial owners” – those who own or benefit from the organisation, including trustees, beneficiaries, shareholders or directors – will be required.

Typically, ***agricultural*** sales rank fairly low in terms of risk for fraud and money laundering, Ms Russell explained, but even if you have known a land agent for years, your identification will still need to be checked and a risk assessment for the transaction will need to take place.

HMRC is carrying out inspections of agents and other professional advisers so businesses need to be able to prove they are carrying out customer due diligence checks.

Ms Russell advises ensuring all documents are in order to reduce time and hassle during the process: “It is a legal requirement to provide the necessary documentary evidence – so please be understanding and be prepared.”

JOURNAL : Farmers Weekly

The escalating fodder crisis on both sides of the Irish Sea is threatening supplies for UK farmers as they struggle to feed their stock.

Irish co-operative Dairygold is importing 2,500t of hay and haylage from the UK to distribute at cost to its members amid reports that a third of Irish farms are within days of running out of fodder.

See also: Sit tight and wait for better weather, urge farm advisers

Pressure is now being applied to the Irish government to extend the fodder transport subsidy scheme launched in January to cover imports as well as domestic supplies.

These latest developments in Ireland’s ongoing fodder shortage is causing concern among Welsh farmers who are also running out of feed.

It has prompted one union to suggest a similar subsidy scheme might be needed in Wales.

Sympathetic

The Farmers’ Union of Wales said that, while it was sympathetic to the situation in Ireland, there were implications for fodder prices and supply for its own members.

Pembrokeshire dairy farmer Dai Miles, the union’s milk and dairy committee chairman, said the removal of fodder from the UK market would add to existing pressures.

“We fully sympathise with Irish farmers regarding the pressures they are under, but with prices already extremely high in the UK and pressures mounting in parts of Wales, the impact of the Irish schemes for our members is naturally a concern.

“Above all else, farmers in Wales need to see a dramatic improvement in the weather. Otherwise, we will have to urgently consider schemes similar to those operating in Ireland.”

The Welsh government would not be drawn on this, instead highlighting the monitoring measures it had put in place after the 2013 blizzards.

“This allows us to respond quickly when government action is necessary,” said a spokesman.

Tight supplies

Some merchants report their fodder stocks are very low, but for those that still have supplies, barley straw is retailing at between £140-£150/t delivered and round bale silage at £35-£45/bale.

The supply situation is so acute that some merchants are importing wheat straw from Spain and France to supply their customers, says Brian Peacock, of Thirsk-based grower and merchant Peacocks.

Mr Peacock said his company was having to limit sales to regular customers.

“In 30 years of trading, the situation had never been so acute. It is taking its toll on farmers, it is really getting people down.”

Powys upland beef and sheep farmer John Yeomans has been forced to buy additional feed because of delayed turnout, recently paying £55/t delivered for maize silage.

While he was not critical of the Irish fodder schemes, he said there would be ongoing repercussions from the slow spring.

“We have just spent £900 on silage, but we won’t get that £900 back in livestock sales.

“I don’t necessarily think transport subsidies are the answer. If we had fair and consistent prices for our stock we wouldn’t need subsidising.”

7 tips for responding to a late spring

Don’t wait until you have run out of feed to act, plan ahead

Work out feed demand, grass cover and silage stocks to understand the scale of the feed shortage while assessing the impact sub-normal soil and air temperatures is having on grass growth

Consider options for extending fodder supplies, perhaps adding straw and concentrates where silage supplies are running low

Prepare a feed plan – a nutritionist can help you work out what mix of feeds can be used to supplement existing resources

Consider grazing silage ground where grass supply is very tight or where silage ground is the only dry ground

Consider selling stock near to finishing to ease feed pressure

If there is pressure on cashflow, ask your bank manager to authorise a temporary or informal extension to the farm overdraft facility

JOURNAL : Farmers Weekly

Free hire of machinery to target weeds directly is being offered to famers in the River Dee area of Wales from this month.

Weed wipers, which target weeds but leave underlying crops unaffected, are available for hire for up to three days for farmers in the River Dee drinking water safeguard zone.

United Utilities and The Welsh Dee Trust are offering a range of models, including the Blaney Quad-X, the Logic CTF250, and the tractor-mounted Logic CTM600W.

The trailed machines also come with their own dedicated trailer.

See also: Free weed wiper hire offer goes live this month

Dee catchment adviser Gareth Foulkes said: “Livestock selectively graze, avoiding weeds such as docks, nettles, thistles and soft rush, which then grow taller than the pasture.

“Weed wipers can target these weeds by setting the weed wiper height.”

As the chemical is only applied specifically to the weeds, this reduces treatment cost, Mr Foulkes added. Weed wipers do not produce any spray drift, improving operator safety and meaning weeds can be treated when it would usually be too windy.

They can be used on grass, cereal, root and horticultural crops to get rid of a variety of weeds including rush, thistles, docks, nettles and volunteer weeds.

United Utilities suggests farmers using the equipment apply the herbicide glyphosate, which is considered to be less harmful to the environment than selective herbicides such as MCPA, 2,4-D and Mecoprop.

These selective weedkillers have been detected through routine water quality monitoring in the Dee catchment, and though the levels have been too low to cause environmental or health risks, they increase the cost of treating raw water.

‘Excellent advice’

Huw Beech, of Plas yn Ial Farm, took up the offer last year and said he was “astounded” by the results.

“I had an eight acre field next to the river with 60% rush cover. I treated it in May and it had less than 1% rush by August. Excellent advice and top tips from the farmer who held and co-ordinated the loan of the weed wiper,” he said.

Famers should contact their local catchment adviser to find out if they’re eligible for the offer, which runs until 31 October 2018.

Quest for cleaner water

United Utilities says the company is dedicated to working with farmers to help them save money while improving land and water quality.

Last June the water company launched a “reverse auction” and offered to pay farmers in north-west England to grow cover crops in a bid to prevent nitrates leaking into the groundwater during the winter months.

United Utilities is also offering free advice and help for farmers applying for Countryside Stewardship grants, and hopes farm infrastructure improvement will help protect groundwater.

JOURNAL : Farmers Weekly

Milk production increased by 2.8% on the previous year to 12,402m litres in the year to 31 March. This is the second highest level since the 1980s.

Britain produced 349m more litres of milk compared with 2016-17, despite the terrible weather that hampered production at the end of the season, according to AHDB Dairy.

See also: Dairy market experts at odds over spring milk prices

An estimated 19m litres of milk went uncollected in just a four-day period at the end of February this year with further wet and cold weather disrupting turnout and delaying spring across the country.

The levy board said a change in the weather would be the crucial factor for the start of this milk year.

[*https://infogram.com/gb-milk-production-1hnp27xzkymy6gq*](https://infogram.com/gb-milk-production-1hnp27xzkymy6gq)

“Fields can recover quickly if the weather changes for the better soon. However, feed supplies are likely to be dwindling and the next few weeks could potentially force a farmer’s hand – turnout on to unsuitable ground or purchase more feed,” said an AHDB Dairy spokesman.

Conditions across the Irish Sea were as bad if not worse according to AHDB, increasing the necessity for good field management and adding to fears of a fodder shortage as the demand for imported forage increased.

Global dairy prices

The cold weather helped to hold EU dairy wholesale markets firm in March, with butter the only commodity seeing a tangible increase of 6.5% to 4,816/ (£4,193/t), adding a 0.01/litre (0.087p/litre) to the value of milk.

The rise was likely a result of buyers looking to secure forward trade driving demand upwards, as well as the beginning of the asparagus season.

EU skim milk powder (SMP) continued its descent to rock-bottom levels, dropping by 4% to 1,331/t (£1,159/t) 28.4% below its level 12 months ago.

[*https://infogram.com/global-commodity-prices-1h984wxpjykd6p3*](https://infogram.com/global-commodity-prices-1h984wxpjykd6p3)

Strong global demand continued to incentivise higher US milk production, resulting in a 12.7% increase in dairy export volumes in the first two months of 2018 to 366,071/t, according to Italian dairy analyst CLAL.it.

American wholesale prices for butter, SMP and whole milk powder (WMP) are lower than in the EU and Oceania, increasing the competitiveness of US dairy products.

The increased outward vision of the US dairy industry will to nothing to allay fears of cheap imports being included as part of a UK/US trade deal post Brexit.

Looking forward

The forward market ***performance*** equivalent (FMPE), an AHDB Dairy market ***indicator*** of the relationship between supply and demand to determine projected milk prices, dropped slightly in March as a result of the rock-bottom price of SMP.

The levy board added that futures pricing was more stable than spot markets which have been affected by an upturn in demand.

These factors meant a slight lowering of the index, but it remained positive for July 2018’s FMPE at 31.61 eurocents/litre (27.5p/litre), down from the 32.06 eurocents/litre (27.9p/litre) forecast for June.

Rabobank quarterly report

Dutch bank Rabobank predicted less pressure on farmgate prices than originally expected in the second quarter of 2018 as the drought in New Zealand and increased imports from China insulated prices.

The bank did forecast more downward pressure on farmgate returns from milk during the Northern Hemisphere’s peak production months through spring.

However, poor weather in the EU and Australia would limit any downward movement to prices and the risk of drought in Argentina could further restrain global supplies.

Rabobank predicted slower global supply growth following the spring as a result of lower farmgate prices, leading to a firming of commodity prices for the remainder of 2018.

JOURNAL : Farmers Weekly

Anyone wanting to help shape the future of farm support in the UK post Brexit should speak up now, or risk their views being overshadowed by certain “vested interests”, Defra secretary Michael Gove has warned.

Addressing a farm policy workshop, co-hosted by Defra and green lobby group Sustain in London on Tuesday (10 April), Mr Gove stressed the importance of taking part in the ongoing Health and Harmony consultation.

See also: NFU Scotland’s post-Brexit farm support proposals

Numbers were important in shaping policy, he stressed, referring to the recent consultation on trading ivory, which had attracted tens of thousands of responses.

“The fact there were so many people who responded and said ‘act now’ meant it was possible for us to say to some other people in government that we can’t delay any longer.”

The result was “a more targeted, more precise and more effective” ivory trade ban.

Leaving the EU created a similar opportunity to devise a new ***agricultural*** policy.

The Defra secretary said he wanted an outcome that “reflects what the majority of people in this country want”, including higher environmental standards, healthier food and better animal welfare.

‘Vested interests’

“The more you speak and join in, the less likely it is that the result of any consultation will be shaped by vested interests who have either the money, or the connections, or the power to imprint their agenda on the public,” said Mr Gove.

Asked who he had in mind, the Defra secretary denied he was referring to certain farming organisations.

“I did not have anyone in mind,” he said. “But I specifically wanted to ensure that the audience here, some of whom farm, some of whom have interest in public health or come at these issues from a variety of angles, feel that their views are valued.

“Sometimes people assume that the most powerful voices in any consultation will be those who have paid lobbyists. It is the quality of the argument that counts.”

Capping plans

Mr Gove was also challenged on his plan to start limiting payments to larger farmers from 2020, as a means of reallocating funds towards environmental management schemes and other public goods.

“My argument is that BPS should be capped, but there shouldn’t be any cap on the amount that someone receives for generating public goods,” he said.

“So if you are a major landowner, and you’re producing public benefits, including environmental benefits, then you should be paid for the production of those benefits.

“But it is very difficult to defend simply paying people on the basis of hectares they have in productive ***agricultural*** use.”

Have your say

Farmers can make their voices heard by attending one of a number of regional meetings being organised by the NFU – details can be found on the NFU’s website.

Alternatively, email your views to the NFU’s Brexit team at [*Brexit@nfu.org.uk*](mailto:Brexit@nfu.org.uk) by 27 April, or email Defra at [*agricultureconsultation@defra.gsi.gov.uk*](mailto:agricultureconsultation@defra.gsi.gov.uk)

JOURNAL : Farmers Weekly

Record old season lamb prices are likely to benefit early producers of the 2018 lamb crop as domestic supplies are forecast to remain tight and imports flat.

The AHDB has revised its forecast lamb rear rate down 3% for this season compared with 2017. This follows farmers and fallen stock collectors reporting higher mortality rates caused by weeks of rain and cold weather.

A spokesman for nationwide deadstock collector Robinson Mitchell said that there had been a sharp increase in the number of ewes and lambs it had been receiving, with producers in Cumbria hardest hit by losses double the rate of last year.

See also: Markets report tighter home hogg supplies

AHDB red meat analyst Rebecca Oborne said there are likely to be 600,000 fewer lambs forward for sale in 2018 because of lower lamb rearing rates, but the decline has been moderated by the fact the national sheep flock has been increasing in size.

Despite farmgate prices rising across the EU, she said that the import value a tonne was still less competitive for exporters such as New Zealand and Australia.

Other markets such as China and North America are more attractive, meaning the likelihood of higher EU imports is small.

Record-breaking prices

Sales of prime hoggets soared beyond all expectations again this week with livestock markets reporting values in excess of 300p/kg on average and topping out at more than 360p/kg amid mounting concerns over product availability until significant numbers of new season lambs come forward.

[*https://infogram.com/old-season-lamb-numbers-1h9j6qmxr5954gz*](https://infogram.com/old-season-lamb-numbers-1h9j6qmxr5954gz)

Stocks are now dwindling after increased throughput earlier in the year, with 57,338 lambs sold live in the week ending 7 April, compared with 74,323 in the comparable week in 2017.

However, David Siddle, Andersons Northern farm business consultant, warned that producers eyeing up a flock expansion to capitalise should remain cautious.

“Don’t get too carried away at a few hoggets making £5.30/kg [deadweight],” he said, explaining that while early lambing flocks would benefit from the strong domestic demand, the majority of the sheep sector is still heavily reliant on the export trade.

Margins are already being eroded this season because of rising production costs, with farmers forced into spending more on feed to support ewes through the extreme cold and wet winter weather.

Mr Siddle estimates that many producers in his area will have already had to feed ewes up to 20% more than the previous year.

Sheep feed prices and consumption increasing

Sheep feed production has shown a sharp increase on the year as growers responded to harsh weather by upping feed rates for in-lamb ewes.

The most recent figures from the AHDB, which run until the end of February, show animal feed production was up by 6.6% for sheep compared with February 2017.

Adam May, ***agricultural*** commercial manager at Mole Valley Farmers said ewe feed consumption had increased by 15-18% on average across all rations compared with last year when the weather was kinder.

He said prices for growers who had not fixed into a contract were up about 5-8% on the year, with lamb creep by a similar amount.

JOURNAL : Farmers Weekly

All-year-round calving systems can be very profitable but, if not optimised, users may benefit from the efficiencies and focus of switching to autumn block calving, believes AHDB Dairy.

Currently, 81% of UK dairies are all-year-round calving and only 8% characterised as autumn-block calving. Those considering the switch and those already practising autumn-block calving are advised not to chase yields.

See also: How to budget for the switch to autumn calving

Instead, they are being encouraged to breed and manage for fertility and quality forage production to maintain a tight calving block.

Read the advice on what to consider in your buisness, an autumn block calving Q&A with dairy consultants and a case study on one farmer who made the switch to block calving.

9 things to consider

Expert Q&A

Case study

9 things to consider before autumn block calving

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Q&A on switching to autumn block calving:

Farmers Weekly asks Richard Davies of AHDB Dairy, dairy consultant Tony Evans of the Andersons Centre and Will Jones of Kite Consulting some key questions.

How will I manage calf rearing?

RD: If you are weaning at 12 weeks old it may be time to look at weaning at 10 or eight weeks because you will need space for all your calves to be on milk. (See point 7)

Farms have successfully built temporary calf pens with straw, bought polytunnels or calf igloos to rear batches of 10-12 calves for £1,500-£1,800/igloo.

Pressure can be completely taken off by having heifers reared on contract on a neighbouring farm, selling younger, increasing calf growth rates to wean younger, or having heifers contract reared until a shed is erected.

Red Tractor stocking rates are for 1.5m² per calf (50-84kg) then 1.8m² per calf (85-140kg) and then 2.4m²/calf (140-200kg). All stock must be able to lie down simultaneously, ruminate, rise, turn and stretch without difficulty.

Will I have to get more staff?

RD: Staffing will increase at calving but some farms will find that current staff levels are sufficient as the batch system brings efficiencies, although some farms get in an extra worker for three months calf rearing. (See point 6)

Specialising may help, for example have designated calf rearers and a grassland manager, herd manager and someone trusted with machinery. (See point 8)

How quickly should I get in the block?

TE: It can be done in one year but some manipulate calving dates, doing it in three to five years. The quicker the better as this means you are getting any cost-saving and lifestyle benefits sooner. Short-term pain for long-term gain should be the mindset.

Sell and buy back is the simplest option, but you need to identify correct replacements from as few sources as possible to reduce the biosecurity risk.

What will manipulating calving dates cost me in milk?

TE: If a hypothetical farm has 240 cows on a level calving pattern and it needs to leave cows open for an average of 120 days on two-thirds of the cows = 160 cows at a typical yield loss of 1,100 litres this would cost £51,040 at 29p/litre.

It can be important to keep cows milking rather than drying them off. If cows get fat they could lose their vigour to breed.

What is the cost of leaving cows open?

WJ: If we assume 25% of the herd already fits a three-month block from a true AYR calving herd, the remaining 75% will need to have lactations extended by up to nine months in order to fall back into the front of the block.

Using the figure of £4 loss for each additional day open the average cow will be extended by 4.5 months or 135 days – so the average cost per extended lactation is £540 or £54,000 per 100 cows.

What cows do I need for block calving?

TE: Farms with Holstein-Friesians may have to use Friesian bulls to breed more fertile replacements that will hold body condition better. However, some fertile Holstein families will manage it. Attention must be paid to condition and transition. (See point 9)

Many farms that have made the switch have used crossbred or Friesian genetics from Ireland on the EBI (economic breeding index) or the New Zealand breeding worth index. Your options are more open with autumn than they are for spring calving.

Autumn calving targets

Calving periods must be no longer than 12 weeks

6,500-7,500 litres/lactation. Fertility must come first, do not chase yield

12ME silage. Quality forage will be essential when breeding all your herd inside at peak lactation in the autumn/winter

Case study: Hendrie Brothers, Kilmarnock, Ayrshire

Farm facts

900-cows across three different farms

Purroch Farm is autumn calving since 2009 with 4ha of beet, 20ha of wheat

Millands and Netherlands (added in 2012) both spring-block calving

Managing 884ha including 100ha rented

22-point Dairymaster swingover parlour with ADF clusters

Since switching from AYR calving to ABC the Hendries at Purroch Farm have cut concentrate by 40% and quadrupled milk from forage (MFF) to 3,500 litres.

They focused efforts on improving grass utilisation and silage quality and are now targeting 4,000 litres from forage, feeding a TMR combining homegrown beet and crimped wheat.

At spring turnout, the farm sees a 1.5-llitre a cow/day production lift, explains Wallace Hendrie, who farms with brother James, Uncle Robert and father Jimmy near Hurlford, Kilmarnock. Wallace got the confidence to switch to block calving through his Nuffield scholarship and work with the Nuffield Dairy Group.

Cutting feed from 2.5t a cow at 6,500 litres to 1.5t a cow at 6,000 litres has left the Hendries better off overall, cutting feed costs from 8p/litre to 5p/litre.

As cattle dealers who were able to simultaneously start a spring-calving unit on neighbouring Millands Farm, the Hendries were ideally suited to make the switch as they could roll cows between calving blocks.

Purroch, the farm with the heaviest land, was already feeding a total-mixed ration and could house cows from calving in August, which took pressure off pasture when conditions are wet, explains Wallace.

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Making the switch

The calving pattern was achieved by selling cows that didn’t fit either the spring system at Millands or the autumn system (12-week block from 1 August) at Purroch and rolling cows around between the two farms as necessary.

Experienced spring calver Tom Rawson was employed as a consultant. He told the Hendries that paddock grazing would grow 28% more grass so they would need 28% more cows, Therefore they have increased the herd from 220 to 300 cows.

Extra calf rearing space was made by reconfiguring pens. Calves were previously in single pens until weaning, but are now batch housed from 1-2 weeks old in groups of 12.

The Hendries also switched processor from First Milk to Muller on a liquid contract as this allowed them to be nearer to processing plants in their region and increased their milk price. Autumn-block cows average 4.32% fat and 3.5% protein.

Increasing milk from forage

Calcium lime and calcium ammonium nitrate helped grassland productivity

Soil pH lifted from 5.7 to an average of 6.2 and aiming for 6.5 before reseeding

Moved to paddock grazing in 3-4.5 ha fields

Entering paddocks at 2,800-3,000kgDM/ha and leaving at 1,500kg

Field sizes mean 1-1.5 days in each paddock

Added 1.2km of tracks and resurfaced tracks to get cows to pasture

JOURNAL : Farmers Weekly

Vivergo Fuels has reopened its Saltend plant near Hull.

The plant, which runs exclusively on UK-grown wheat, has been shut down for four months as a result of weak ethanol prices and a lack of policy certainty.

A firm wheat market had already factored in the re-opening, said traders.

The plant’s usual catchment area is short of wheat and prices rose this week by £3/t-£4/t in most areas, reflecting the tight market and putting spot feed wheat at £136/t-£154/t ex-farm.

While central southern England and the South West saw little or no price movement, values in Kent and East Sussex rose by £3/t, to £136/t, possibly reflecting that the price gap has grown so wide compared with the north-east of England it may be worth moving grain by boat to supply Vivergo.

Renewable Transport Fuel Obligation

The resumption of production at the plant follows the passing of the Renewable Transport Fuel Obligation (RTFO) through Parliament in March.

See also: Compulsory purchase threat grows alongside talk of development land tax

This comes into effect this month and increases the use of renewable fuels in transport from 4.75% to a target of 9.75% by 2020, a move welcomed by the company.

However it has warned the next step, the introduction of E10 fuel in the UK, must come soon. E10 is a blend of 10% renewable bioethanol with petrol, for which environmental benefits are claimed.

“We are pleased to see the RTFO pass through Parliament,” said Mark Chesworth, managing director of Vivergo Fuels.

“This step, combined with the completion of maintenance work, has prompted us to recommence production after being offline over the winter.

“However, there is much still to do if we are to sustain production and maintain this significant industry in the UK.”

E10 benefit

He called for the rapid introduction of E10 for environmental reasons, saying it would provide an immediate impact on transport emissions to the benefit of the environment and public health.

“E10 represents the fastest and most cost-effective solution to decarbonise transport, which is currently the highest emitting sector of greenhouse gases in the UK,” he said.

The construction of Vivergo’s £350m plant was predicated on the UK government’s commitment to the Renewable Energy Directive enacted through to transport fuel to the RTFO, and anticipated the UK market would be twice what it is today by now, said Mr Chesworth.

“Government inertia in developing legislation on this situation has further undermined confidence in renewables investment not least the further development of alternative new technologies.”

The introduction of E10 would also provide greater stability for jobs and skills, both at the plant and in its supply chain, he said.

The Vivergo plant is the UK’s largest and Europe’s second largest producer of bioethanol, a renewable transport fuel which is blended with petrol.

The £350m plant can produce up to 420m litres of bioethanol from 1.1m tonnes of feed wheat, sourced from nearly 900 farms.

It is also the country’s largest single production site for animal feed, supplying 500,000t of high protein feed to more than 800 farms across the UK.

Vivergo Fuels is a joint venture between AB Sugar and DuPont, with ANB Sugar the majority shareholder.

**Load-Date:** April 13, 2018

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1. 1Employment in the informal sector includes all jobs in private enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners (Hassmanns, 1993, p. 3). [↑](#footnote-ref-2)
2. 2Department: ***Rural*** Development and Land Reform, South Africa, “Implementation Evaluation of the Comprehensive ***Rural*** Development Programme,” (5 September 2013). [↑](#footnote-ref-3)
3. 3[*www.thembisilehani.gov.za*](http://www.thembisilehani.gov.za) (accessed 30 November 2016). [↑](#footnote-ref-4)
4. 4The other four are the Batlokoa Traditional Council in Free State Province, and the Rharhabe Royal Kingdom, the Jalamba Traditional Council, and the Mhlontlo Local Municipality in the Eastern Cape Province. [↑](#footnote-ref-5)
5. 5Not her real name. [↑](#footnote-ref-6)
6. 1Financial and fiscal incentives (such as reduced interest rates on business loans, tax exemptions and holidays) have commonly been used to incentivise SMEs. The SME institutional support framework has been strengthened over time. A major development in the SME institutional environment came in 2008 with the creation of a full-fledged Ministry of Business, Enterprise and Cooperatives to give a new impetus to the SME sector. SEHDA was duly replaced by the Small and Medium Enterprises Development Authority (SMEDA) in 2009. SMEDA provides core support services to small and medium sized enterprises, particularly entrepreneurship development, business facilitation, counselling and mentoring services. It further implements a registration scheme for SMEs; facilitates access to industrial space and finance; organises and encourages participation of SMEs in fairs and provides incubator facilities for SMEs. The National Women Entrepreneurs Council also works in the same direction and encourages women to become economically independent and helps them when they face difficulties. More recently, in 2015, “MyBiz”, a dedicated office operating under the aegis of SMEDA was established to provide one-stop-shop services, grouping under one roof, support services and facilities to help small and medium entrepreneurs start and grow their business. [↑](#footnote-ref-7)
7. 2The mother tongue → local language of the country. [↑](#footnote-ref-8)